



**STRENGTHENING BANK SUPERVISION
IN BOSNIA-HERZEGOVINA – PHASE III**

**FINAL REPORT
for the CONTRACT END
As of 31 July 2005**

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CTO John Seong, Alternate CTO Dobrila Vukmanovic**

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Presented by:

Emerging Markets Group of BearingPoint, Inc.



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Executive Summary

The banking sector has been referred to as the shining star of economic reform in Bosnia and Herzegovina. It clearly exhibits the greatest change and improvement of any sector in BiH. This is largely due to the programs of the United States Agency for International Development, and in particular, this program “*Strengthening Bank Supervision and Deposit Insurance (BSP)*” implemented by BearingPoint (*formerly KPMG Consulting*).

From the beginning, BearingPoint’ advisors have worked closely with the two banking agencies, the Federation Banking Agency (FBA) and the Banking Agency of Republika Srpska (BA-RS), and in cooperation with others to:

- create a legal and regulatory framework for sound banking,
- progressively strengthen banking standards,
- develop a competent and professional banking supervision capacity, and
- cleanse the system of its worst banks.

This led to increased confidence in the changing banking system and created the opportunity for growth and the entry of strong foreign banks as shown in:

- the reduction in number of banks, from 72 at YE-98 to 33 at YE-04,
- a sharp increase in citizens deposits, from .5 bil. KM at YE-00 to 2.4 bil. KM at YE-04,
- total deposits increasing from 2.1 bil. KM at YE-00 to 6.9 bil. KM at YE-04,
- a sharp increase in loans, from 1.7 bil. KM at YE-00 to 5.5 bil. KM at YE-04, and
- foreign-owned capital now exceeding 70% of total capital.

USAID and BearingPoint began the technical assistance in mid-1996 while BiH was still suffering from almost four years of war that had just ended. We have worked continuously since that time through various contracting vehicles and task orders building the basic bank supervision structures and expertise within the two entities. The key objectives from the beginning followed the theme of “*developing competent and independent banking supervision capacity in accordance with the Basle Banking Committee’s Core Principles for Effective Banking Supervision*” and “*promoting a sound, competitive, market oriented banking system*”.

As accomplishments occurred in the initial Task Orders or new challenges occurred, adjustments were made to:

- strengthen the legal protection for the supervision agencies, officials and employees,
- enhance the capacity of the banking supervisors to take corrective actions and to intervene in banks with the appropriate supervisory actions,
- increase the banking supervisors’ institutional capacity and sustainability,
- develop the supervisory tools and skills to monitor and supervise the banking system in whole or its individual banks,
- assist the development of the Deposit Insurance Agency,

- develop laws, regulations and examination procedures on Anti-Money Laundering and Combating the Financing of Terrorism, and
- harmonize efforts of the banking agencies with an objective of consolidating banking supervision at the state level or under the Central Bank.

These objectives were met through the development and implementation of a full range of tools and techniques that enabled the banking supervisors to regulate and supervise all Federation and Republika Srpska banking institutions. A full range of supervisory responses was also developed to allow them to supervise banks ranging from those fundamentally sound with only minor issues, to troubled banks where some form of official intervention may be required, and to problem banks that may require closure and liquidation.

The Banking Agencies in Bosnia Herzegovina, unlike in many other transition countries, have taken decisive actions to enhance banking standards, to initiate enforcement actions where warranted and to eliminate problem institutions. It is noteworthy that the banking system has been reformed without the government incurring costs to prop up or rehabilitate the banks.

BSP advisors frequently participated in bank examinations for in-bank training objectives, initially in leading roles and transitioning to advisory roles. BSP advisors also assisted on a number of bank interventions in a similar manner. Even though the objective was to build the overall capacity of the Banking Agencies, the level of problems in the banking system sometimes required the need to focus substantial additional efforts in resolving these institutions and in cleansing the system. In some instances, the technical assistance exceeded the original contracted effort. In such cases, the Task Order was modified to authorize the extended effort.

One such modification occurred in 1997 when USAID provided additional funding for BSP advisors to provide considerable assistance to FBA in the examination of banks as the Agency was just getting organized, hiring new employees and beginning its responsibilities. This accelerated the training effort and the accomplishment of the initial examinations of banks. And, it enabled FBA to be to tackle the multitude of problems developing in the banking system quicker, thereby facilitating the cleansing and reform effort so badly needed for recovery. Had this modification not occurred, FBA might have been drowned before it could tackle the banking problems and corruption swirling about.

Another modification occurred in two steps in 2001-02 to provide technical assistance to the FBA to assist the Office of the High Representative (OHR) – Provisional Administrator in the resolution of Hercegovacka Bank. The primary reason for OHR’s intervention in this bank was that it was a key player in a conspiracy to segregate part of the country into a third political entity in violation of the Dayton Peace Agreement. Only the OHR had the authority and enforcement resources to intervene and stop the movement. This modification provided resources considered necessary to assist the FBA in resolving a problem institution where pervasive insider relationships, political influence and fraudulent actions required expert understanding of the complex interrelationships

between HB and its subsidiaries and included tasks where the FBA had not yet developed depth and expertise.

We believe that the technical assistance Objectives were met as demonstrated by the following:

- BSP advisors have worked with the agencies since the beginning to continually strengthen and update the legal framework taking into account the changes in the banking sector environment. One goal was to ensure that the laws and regulations were fully harmonized between the two agencies to create a “level playing field” for banks operating throughout the Bosnia-Herzegovina economic space. Strong efforts were made to focus the legal framework on: Basle Banking Committee guidelines, the European Union Directives, and International Best Practices. Specifically, our advisor team worked with the agencies in the following areas developing:
 - Several amendments to the Laws on the Banking Agencies to strengthen or clarify the sections pertaining to legal protection for the banking agencies and authorities on bank intervention and resolution;
 - Major amendments to further improve the Law on Banks in both entities, including changes to harmonize with other new laws, and substantial strengthening changes in many areas such as qualifying capital, investments and insider relationships and liabilities;
 - Regulations to implement the legal framework;
 - Laws and regulations related to Anti-Money Laundering and Combating the Financing of Terrorism; and
 - Full harmonization of Laws and Regulations in both entities.

We often solicited the support of OHR and others in order to accomplish these actions.

Additionally, the draft a new comprehensive banking law was completed in July 2005 including all the objectives and recommendations above in a better-organized and clearer package. IMF is presently reviewing this draft. It is anticipated that this draft will be put forth for full review sometime before the end of this year.

- One of the key items during this period of performance was to promote the institutional development of the bank regulatory authorities in both entities and, to the extent possible, at State level. RS government officials have resisted the transfer of authority from the Entity to the State level. IMF has included a written agreement in its July draft of the Standby Letter of Credit that the Parliaments will pass a resolution on this by September 30, 2005.

Our advisory team focused on harmonizing the processes, procedures and approach of both Agencies. Earlier efforts had included the initiation of a performance management and examiner accreditation program. Work had been deferred in these two areas as demands for time were focused on the resolution of several severe problem bank situations. A draft Policy

on Training and Development was completed in June 2005 and included these two items. It is also linked with the approved position of Policy Research and Development Department. And, these are included in the draft plan for consolidation of banking supervision under the Central Bank.

- The advisory team has worked in both agencies to strengthen the bank regulatory authorities' capacity to regulate and monitor the banking system and individual banks. Emphasis over the more recent periods has been focused on enhancing the offsite supervision function and analysts' skills. Offsite monitoring and analysis have been important in supporting and prioritizing the on-site examination process and in providing a continuous review of banks between examinations. Advisors have provided substantial classroom and on the job training from basic to more advanced analysis techniques, most recently focusing on evaluation of the level and trends, and differentiating between form and substance. Offsite analysts from both agencies have developed considerable expertise and are properly detecting developing concerns.
- Substantial efforts were devoted to assist the bank regulatory authorities establish supervisory policies and procedures to deal with problem banks. Several intervened banks have been resolved with full payment of all deposits in cash or by transfer to another bank. This illustrates the competence and capability developed in the supervision, intervention and resolution processes. It also bodes well for sustainability of the recently established deposit insurance program.

Over the past few years, the closing of the most problematic banks helped to change the image of the banking system and increased the level of confidence as reflected in the growth of citizens' savings which started growing slowly, but has been especially strong since the Euro conversion in late-2001. Also as a result of changing and cleansing of the system, strong well-known foreign owned banks entered and are making a significant beneficial impact on banking and the economy.

The FBA has intervened in 22 banks and BA-RS has intervened in 6 banks. Resident advisors and short-term experts provided close and active assistance on the early interventions and transitioned to providing advice as requested on the recent banks. Some intervened banks served as learning opportunities due to the intensive efforts required in their resolution. Several "lessons learned" have resulted in changes in laws, regulations and supervision procedures.

In addition to the accomplishments and activities carried out by our advisory team in accordance with the Task Orders, our resident advisors also participated in other major initiatives related to Financial Sector Reform. Their participation, with concurrence from USAID, in various interagency and multi-institutional working groups has been beneficial in the development and is contributing to a stronger banking system to facilitate a more vibrant economy with banks that can be trusted to return depositors funds when requested.



In addition to letters and recognition by the banking agencies and deposit insurance, we note that BearingPoint Advisor Dale Wilson received two awards from the banking industry. The first award was in May 2005 from the *BANKE Magazine* that annually awards the “*Golden BAM*” to the best performing banks in specified categories. A “*Special Golden BAM*” award was given to Advisor Wilson for “*extraordinary contributions to banking supervision and deposit insurance*”. The second award was in June 2005 by *Prizm Magazine*. Its annual award is for the best bank and insurance company, and to the best managers. A special award was given to Advisor Wilson for “*contributions to the banking sector*”.

For additional information we refer you to the body of this Final Report identifying both the Accomplishments of the current contract and highlights those from prior contracts.

I. MAJOR ACCOMPLISHMENTS DURING CONTRACT TERM

The *Strengthening Banking Supervision and Deposit Insurance Project* continued to focus on major functional areas of legal and regulatory framework, resolution of problem banks, anti-money-laundering, preventing the financing of terrorism and strengthening deposit insurance. Particular focus was given to developing a comprehensive new Law on Banks and a Policy on Training and Development, including Examiner Accreditation. These were accomplished through intensive technical assistance, including hands-on work, classroom and on-the-job training. Other related areas where support was given include bank privatization, new banking activities and deposit insurance.

Consolidation of the two banking agencies under the umbrella of the Central Bank is the area where considerable efforts were given but the key objectives were not realized. This was due to the resistance of RS government officials to the transfer of authorities from the entity level to the state. Several other major reform efforts have been similarly blocked. Meanwhile, the two banking agencies have continued to develop a relationship of cooperation and acting in unison for banking supervision and in preparation for their eventual merger.

This section summarizes the accomplishment of our advisory team during the period March 2003 through July 2005. As a result of the technical assistance the FBA and BA-RS have benefited in the following:

- A harmonized legal regulatory framework that allows for a competitive banking system while providing the necessary safeguards to protect depositors funds (*Plus, a comprehensive new law was drafted that incorporates the latest in Basle guidelines, EU Banking Directives and international best standards*).
- A strong core of examiners has been developed that can supervise the current banking system based on the level of risk in the banks operations.
- Highly competent staffs in licensing, enforcement, intervention and resolution.
- A supervision system that allows the Agencies to regulate and monitor the banking system and individual banks.
- Strong results on Anti-Money Laundering and Combating the Financing of Terrorism.
- An internal capacity within the FBA for Policy Research and Development, including an understanding of ongoing identification and management of risks in changing conditions.
- A Policy for Training and Development, including an Examiner Accreditation process, has been developed and is under review.

Note: Detailed Report of USAID Task Order and Accomplishments in Attachments.

A. Legal Framework

The major achievement in this area is the draft of a new, vastly superior Law on Banks to be proposed when certain obstacles are resolved. This required intensive efforts and the resources of a BearingPoint legal advisor on an intermittent basis over an extended period.

BSP advisors worked closely in a small working group to draft a comprehensive new law on banks that includes major new provisions for supervision and reporting on a consolidated basis, corporate governance, consumer disclosure, prompt corrective action, judicial review and legal protection. The proposed draft also contains many enhancements to existing provisions and more clarity, and is compatible with the latest in Basle Banking Committee guidelines, EU Banking Directives and international best practices. This will be a major advancement of banking law in BiH if enacted substantially as drafted.

A large working group Chaired by a Vice Governor of CBBH was named in September 2004 to draft a new banking law at the state level and to begin by reviewing the preliminary work by a small unofficial working group consisting of FBA Deputy Director Brkic, BSP Advisor Wilson, UST Advisor-Attorney Schwartz and OHR Attorney Boonen. (*Note: Mr. Brkic represented both banking agencies and maintained contact with them on key issues.*) The Chair indicated that its objective was for the smaller working group to develop and present a draft that could be accepted by the larger group without substantial change or discussion.

The RS Ministry of Finance advised the Chair in December 2004 that no RS representative would participate as this was not authorized by the RS Assembly. The Federation Minister of Finance advised that its representatives should not proceed without the RS representatives. The new state level law has strong support in the State and Federation governments.

The small working group continued and completed the comprehensive draft in July 2005 that will reside with FBA Deputy Brkic until the problem is resolved. The draft was furnished IMF for their review. They indicated strong interest in the legal improvements.

Other improvements in this area include clarification of legal protection in existing laws and the role of banking supervisors. OHR has provided interpretative letters explaining the provisions of law, amendments and language used.

Note: The Table of Contents for the new draft law is included in Attachments.

B. Institutional Capacity

The major accomplishment in this area during this contract period was the completion in June 2005 of the Policy on Training and Development. The initial reactions of officials of the Agencies were very favorable. Translation was completed in July and the Policy is in review.

Training plans and activities were designed from the beginning of technical assistance to the banking agencies to lead to this Policy on Training and Development, including an Accreditation Process. Initial guidance was provided to help develop the basic framework for Performance Management and Examiner Accreditation Programs.

Although completion and adoption of the Policy was delayed on the prospect of merging the two agencies and to focus on the resolution of problem banks, key portions were put into practice. The Annual Work Plans included a statement on the need for on-going training provided by experts, in-country seminars and external seminars. The Plans also allotted one week per quarter for formal staff training and suggested the make up of examination teams be structured to spread the experience and to provide ongoing training.

Advisors arranged for two examiners and the senior project associate to participate in a comprehensive “Train-the-Trainer” seminar presented by another USAID project. These persons then presented a tailored “Train-the-Trainer” seminar for the two agencies. Advisors and associate frequently assisted officials to develop presentations for internal or external meetings and seminars.

Advisors assisted officials to develop a general plan for internal training and established relationships for external training and seminars to continue the training and development of staff competencies for sustainability after the advisors are gone.

Also, the FBA became a member of the Association of Banking Supervisors of Central and Eastern Europe and established contacts with other banking supervisors and sources of training. FBA has petitioned BSCEE to allow representatives from BA-RS to attend as part of FBA’s membership (only one supervisory agency membership per country).

FBA has approved a position “Policy Research and Development” so that the Agencies can remain abreast of changing risks and banking supervision techniques. This also includes planning for the development and training of supervision staff and planning for the changes in procedures in view of those changing activities and risks. This position has not been filled pending the decision on merger of the two agencies but FBA’s Deputy Director is performing this function. This position is carried forward in the plan to merge the two banking agencies under the Central Bank.

Note: A listing of training provided is included in Attachments.

Anti-Money Laundering and Combating the Financing of Terrorism

This is an area of major improvement and exemplary results that are now reflected in significant improvement in banks' performance and compliance with the law and regulations.

Both agencies formed special units to focus on this serious problem and examiners from the two agencies have developed unified supervision procedures. These specialists operate separately on Targeted Examinations and with Onsite Examiners on Full-Scope Examinations. They have initiated joint examinations of banks that have operations in both entities. This is building expertise and focuses the efforts while facilitating an increase in knowledge for all examiners.

As recognition of their progress in this area, FBA was asked to provide training on investigating bank records for the Federation Special Investigative Unit (FOSS) in April 2003. Later, it provided training in conjunction with ICITEP to the Financial Intelligence Department of the new State Investigation and Protection Agency (SIPA). It also participated in a working group to develop investigation procedures for that Department. The Deputy Head of SIPA commented in April 2005 at a Financial Crimes Seminar on the progress evident in banks' compliance as the result of the effectiveness of the banking agencies efforts.

BSP's role in this was that it conducted training on "*Financial Crimes and Money Laundering*" in 1998 and "*Money Laundering*" in 2002, provided guidance on developing examination procedures and provided "Train-the-Trainer" training. BSP Senior Project Advisor also assisted the examiners provide the special training to FOSS in 2003 and assisted the Special Department for Anti-Money Laundering develop short targeted training courses for banks.

BSP advisors actively participated in the two phases of OHR led working group on AML. The first produced a booklet summarizing the situation in banks, the obstacles and recommendations. The second addressed those recommendations and implemented those within its control. OHR expanded the results of this working group to its larger objectives including the state level SIPA (and FID) institution and new state Law.

Deposit Insurance

BSP Advisor Waldrop provided guidelines and training for DIA staff to develop Payout procedures. She returned later to advise on the draft procedures and provide additional training. The draft procedures were used in September 2004 in a "mock failing bank workshop". The revised procedures were then sent to the Managing Board for approval.

One of our objectives was to assist the DIA staff in developing confidence in their ability to develop policies and procedures without total dependency on outside advisors. We did this by assisting and guiding them through the process without making the decisions for them. We also assured them that if they have an insured payout event in the future, they have local resources

available in the form of banking agency staff, provisional administrators and liquidators with experience in paying out deposit claims.

Problem Bank Resolution

BSP continued to provide assistance on the Liquidation of BH Bank – Sarajevo, and the Provisional Administrations of Hercegovacka Bank – Mostar and Privredna Bank of Srpska Sarajevo. These banks represented unusual and complicated collapses due to insider abuse and misuse of the banks for personal, political and criminal reasons. “*Lessons learned*” played a strong part in many amendments and changes to laws and regulations, and especially in the procedures used in examinations, interventions, enforcement actions and bank resolutions.

Summary

Overall our “*Strengthening Banking Supervision and Deposit Insurance Project*” has been very successful in achieving its primary objectives. The Agencies now have the basic tools to supervise their current banking system and in several areas, they have taken ownership and leadership in the design and development of the supervisory function. The banking system has been substantially reformed and is leading the way towards a more vibrant market oriented economy. Citizens have gained confidence in their banking system and its supervision.

II. HISTORICAL HIGHLIGHTS OF THE TECHNICAL ASSISTANCE

A. Banking Sector: Two Banking Systems and One Economic Space

The past nine years have provided for major changes in the economic development of the banking system in Bosnia and Herzegovina. In order to fully understand the current banking system structure, however, we must recall the banking conditions that were inherited from the Socialist regime dating prior to the civil war of the 1990's. Some of the residual problems addressed in the banking system during this period had their roots in an era where State ownership and control did not require safe and sound banking practices or good corporate governance of the individual institutions. The Banking system can be segregated into three periods:

Historical Period	<i>Before the war (Pre-1992)</i>	<i>During the war (1992 – 1995)</i>	<i>Following the war (1996 - forward)</i>
Banking System Characteristics	<p>Weak banking system</p> <ul style="list-style-type: none"> ➤ State banks dominated ➤ State banks burdened by large debts due to foreign creditors for on-lending to state-owned enterprises ➤ Ownership shifting from State to state-owned-enterprises ➤ Largest borrowers and depositors became the primary owners ➤ Capital was often illiquid, consisting of fixed assets ➤ Some large branches converted to separate banks ➤ Private banks permitted with very low capital requirements. ➤ Private capital often existed because of the bank's own loans ➤ Most private banks facilitated the owner's needs ➤ Citizens and private business had little access to bank loans 	<p>Fragmented banking system</p> <ul style="list-style-type: none"> ➤ Branches in different ethnic areas from HQ broke away, formed new banks ➤ Most banks followed the old patterns of operation and relationships ➤ Owners were the largest borrowers and their loans were non-performing ➤ Banks had little liquidity and could not make new loans ➤ Three different currencies were used in the three ethnic areas ➤ Foreign currency deposits in State banks had been transferred to Belgrade ➤ Hyper-inflation destroyed domestic currency savings ➤ Lending ability evaporated with the currencies ➤ Private banks varied a lot in quality of management, condition and operation 	<p>Influx of donor funds provided opportunities and risks</p> <ul style="list-style-type: none"> ➤ Banks quickly moved to attract the new activities and funds ➤ Banks did not have funding for loans, so they focused on fee-based activities ➤ Some banks provided better and faster service than others, and were billed as the likely stars of the future in a market-oriented banking system ➤ Some bankers saw the influx of funds as an opportunity to build the bank, economy and community ➤ Unscrupulous owners saw fresh money as funding for related businesses and investments, i.e., they used other people's monies for their own purposes ➤ Many banks did not have competent officials, systems or corporate governance ➤ Many private banks became volatile as they mismanaged the new funds and tried to conceal their actions as long as possible

The war ended with the signing of the Dayton Peace Accords - General Framework Agreement for Peace (GFAP) in November 1995. The agreement recognized the state of Bosnia and Herzegovina, made up of two entities, the Federation of Bosnia-Herzegovina (mostly Croat and Bosniac ethnicity) and Republika Srpska (mostly Serb). The international community and Bosnian leaders tried to jump-start the economy while building a workable governmental framework.

The complicated structure of governments put much political power at the entity level, leaving a weak State government. Although the entities are roughly equal in geographic size, the Federation contained about 60% of the population and proved to be much stronger economically, in part because of Sarajevo, the capital city. The international community’s initial focus was in Sarajevo, then extended to other areas. The Federation also includes Mostar, which has historically had significant resources and wealth and Tuzla, an area of industry. The influx of international people, humanitarian aid and donor funds meant that lots of money began flowing into the country.

Ownership structure has also been a major factor in reform and performance differentiation between the two banking systems as illustrated in the following comparisons. Slow growth began in the private banks and then exploded in the newly established, well-known foreign-owned banks during conversion to the Euro as the anchor currency for the KM. State banks remained in limbo, even those technically privatized but not materially changed.

Number & Ownership Structure of Banks

	YE-1998			NOW – July 31, 2005		
	State	Private	Total	State	Private	Total
Federation	11	44	55	7*	17	24
RS	12	6	18	0	9	9
Total Banks			72			33

**Note:* 2 are development banks and do not take citizens’ deposits; 4 are in Provisional Administration and the remaining bank and representatives of its former parent in Serbia (in bankruptcy) are negotiating the remaining unsettled issues. These banks are not a material part of the commercial banking system.

The privatization of state banks was delayed in both entities as government officials feared a backlash to bank closings and the loss of jobs. Some government officials also felt they had to retain some control over the state banks and their destiny. The reluctance of government officials to enforce deadlines for privatization left the banks waiting in limbo while the banking system reformed and developed. Privatization laws were enacted but deadlines generally postponed.

The delay in privatization had a more adverse impact in the RS due to its private banks being very small and generally without capital. The Federation banking system was much larger and contained a lot more private banks. Some of the private banks began growing and marginalizing the state banks awaiting privatization. New savings deposits began increasing in the Federation, indicating increasing citizens’ confidence in a few private banks.

The entrance of large well-known foreign owned banks signaled the beginning of significant structural reform and changes in the banking sector. Mostly, they acquired the growing private banks. The domestic system lacked capital due to economic weakness and lacked management expertise for a market-oriented economy due to the previous central planning system.

Many of the new entrants had foreign owners with banks in neighboring countries and were filling in the economic territory across Central and Eastern Europe and facilitating cross-border business of their clients. Less well-known foreign banks have not fared well and one in the Federation was liquidated due to its inability to attract adequate business. Deposit growth that began slowly in a few banks, increased sharply during the currency conversion.

Federation banking system selected data showing rapid growth: KM (000,000)

	<u>YE-98</u>	<u>YE-1999</u>	<u>YE-2000</u>	<u>YE-2001</u>	<u>YE-2002</u>	<u>YE-2003</u>	<u>YE-2004</u>
Number of Banks	55	44	38	34	29	27	24
Total Deposits	1,185	1,569	1,763	2,900	3,528	4,293	5,602
Citizens Deposits	332	388	462	1,334	1,482	1,737	2,173
Total Loans	1,214	1,260	1,308	1,727	2,691	3,450	4,425
Net Profit (Losses)	(5)	(69)	(43)	(27)	17	46	47

***Note:** Profitability: Significant structural changes occurred affecting total operating results. Heavy losses were reported as the system was cleansed of the worst banks. In 2001, 25 banks had Net Profits totaling 33 million KM and 7 banks had Net Losses totaling 60 million KM. In the year 2002, 20 banks had NP 40 million and 8 banks had a Net Loss of 22 million.

Republika Srpska is smaller, with a difficult political position in some areas, including the entity government often being uncooperative with the Office of High Representative and international donors. The RS further suffered a major economic setback during the conflict in Kosovo and Serbia, as Serbia was their principal trading partner. Rapid inflation of the currency in use then (*Yugo Dinar*) was also a significant factor in the RS during that conflict.

Many new deposits have gone to the new well-known foreign-owned banks while the much of the old business remained with the former government banks. New RS customers (mostly citizens) have deposited over KM 160 million or 12% of total RS deposits at branches of three well-known foreign-owned banks headquartered in the Federation.

Republika Srpska banking system selected data --KM (000,000)

	<u>YE-1998</u>	<u>YE-1999</u>	<u>YE-2000</u>	<u>YE-2001</u>	<u>YE-2002</u>	<u>YE-2003</u>	<u>YE-2004</u>
Number of Banks	18	17	15	15	11	10	9
Total Deposits	250	269	331	423	630	950	1,310
Citizens Deposits	24	30	54	107	146	227	374
Total Loans	260	295	344	377	523	728	1,033
Net Profits (Losses)		8	(3.2)	(3.3)	(29)*	(18)*	11

* **Note:** Profitability: The RS Banking System realized small losses on a low volume of activity. The 2002 loss reported resulted mostly from recognition of significant losses in one bank being acquired in privatization. And, the 2003 loss was mostly attributed to losses in a recently privatized bank on a guaranty to a state-owned refinery.

Implementing legal and regulatory reform, progressively strengthening banking standards cleansing the banking system of its worst banks and developing strong, effective banking supervision laid the groundwork for reform. Other important factors that spurred changes in the banking system in the period 2000 through 2004 included:

- Entry of well-known foreign banks with strong reputations: These banks were generally well received and trusted. Growth concentrated in a few well-known foreign owned banks with three banks holding over 60% of citizens' deposits.
- Conversion of the anchor currency: The conversion of the Deutsche Mark (former anchor currency for KM) and other hard currencies to the Euro in late-2001 prompted a sharp increase in bank funds, especially citizens' savings deposits. The conversion was a stimulus for growth, for which the groundwork had been laid by banking reforms that increased confidence in the system. New deposits provided increased funding for loans, leading to rapid growth in loans to citizens and private business beginning in late 2001 and has continued strong. Some slowing was indicated in early-2005 to a 20-25% growth rate. See *Graph on Growth in Attachments*.
- Reform of the payments transfer system: The prior payments bureau, ZPP, centrally controlled the money flows within the former Yugoslavia and then within each independent successor state. As a result of the war, Bosnia had three separate payment bureaus each using a separate currency. The three payment bureaus did not interact directly on inter-entity transactions. This system stifled business operations and growth, while not preventing gray market activities. The payments function was transferred to commercial banks that immediately noted an increase in bank funds, fee income and much better information on transactions and balances. The elimination on 1/5/01 removed a key obstacle to a market-oriented economy.
- Deposit Insurance initiated in February 2001: Although only 4 banks qualified at that time, this has been a great step in building confidence in banks. Currently, 22 banks participate, 15 in the Federation and 7 in the RS. This is very positive progress as banks were required to join the insurance system by August 2003 or develop an approved plan to qualify by YE-2005 in order to retain their license. Overall, the deposit insurance benefits smaller domestic owned banks in competition with larger banks.

The banking system in Bosnia-Herzegovina will continue to evolve and consolidate. Several mergers and acquisitions are in process that will reduce the number of commercial banks and further consolidate banking. Projections are that four to six banks will dominate the commercial banking market with several smaller unique, niche or owner-sponsored banks for special purposes.

B. Banking Supervision: Building the Basic Regulatory and Supervisory System

The development of bank supervision in Bosnia-Herzegovina has been closely intertwined with and contributing to the evolution of the banking system. Although progress has been made year-on-year, there have been periods of rapid changes followed by others where implementation and internalization of processes was more gradual. Recognizing the accomplishments of USAID's current Bank Supervision Project must also acknowledge the intensive efforts of previous contracts' activities. The following section describes the accomplishments and challenges faced by our team during the entire nine years tenure of the Technical Assistance.

Before the Bank Supervision Project

During the war years (1992-1995) three banking authorities were established along ethnic divisions. This resulted in banks licensed by one of three different authorities located in Sarajevo (National Bank - BiH), Mostar (Ministry of Finance) and Banja Luka (National Bank - RS). These regulatory authorities, however, had limited supervision authority and capability under these circumstances.

According to the Dayton Peace Accord in 1995, two banking agencies were to be created, one in each entity. The two National Banks were to continue operating until they were replaced by a new Central Bank operating on Currency Board principles. The new Central Bank was established in 1997 and was to have an IMF approved international banker as its Governor for the first six years or until August 2003. That date was extended by agreement between the BiH governments and IMF to YE-2004, when a Bosnian Vice Governor was named as Governor.

The Central Bank has maintained a stable currency and enjoys high public confidence. It has also handled payments transfers in the commercial banking system since 2001. The Central Bank, however, cannot expand the money supply beyond its hard currency reserves, nor provide liquidity to the banking system, or act as a lender of last resort to banks or lend money to the government. While these restrictions were initially perceived to be a handicap to the banking system, they have been a real positive that has resulted in a stable currency, low inflation and a barrier to pressures to rescue, rehabilitate and prop up weak banks.

USAID contracted BearingPoint in January 1996 to perform Diagnostic Reviews of a sample of banks in the Federation of Bosnia-Herzegovina. The objective was to gather information about the banking system, the financial condition of existing banks, their management and lending competencies for participation in an on-lending and bank development program being developed by USAID. A team of 10 people conducted the assignment in 4 weeks. The team reviewed 18 banks through 1 to 3 days onsite visits and developed a report on the banking system and for the individual banks.

USAID officials designed an on-lending program to provide assistance to banks' customers and the economy while banks earned fees for their services and improved their lending expertise in new types of lending based on market principles. The program included components for classroom training in credit and in-bank training through the on-lending process. Another contractor implemented the program in June 1996.

The new entities governments enacted weak laws from the old laws with quick, band-aid like changes so the government could begin functioning. Expert teams were then formed with representatives from the three ethnic areas, Ministries of Finance and international donors.

These Expert teams began working on a number of laws including:

- Law on Banks (entity level)
- Law on Banking Agency (entity level)
- Laws on Privatization and Opening Balance Sheets (entity level)
- Law on Central Bank (state level)

The new Laws established the working framework to reactivate the banking system in Bosnia-Herzegovina. However, much work had to be done to implement the new laws and establish the new regulatory entities. The state level Central Bank law was enacted in 1997 and the entity laws were enacted in 1998.

Initial Technical Assistance Steps in the Federation and Expansion into the RS

Three BearingPoint' Advisors arrived in July 1996 to implement the technical assistance program, "*Strengthening Bank Supervision*", under contract with USAID. Advisors Wilson and Berney were resident advisors and Senior Policy Advisor Cooke for 3 weeks for start-up guidance and periodically to monitor progress. The timing of the project's start had been delayed for several weeks awaiting enactment of a new law in June 1996 establishing the Federation Banking Agency (FBA). FBA had to be built new and separate from the National Bank in Sarajevo and the Ministry of Finance in Mostar, and separate from a similar banking supervisor in Republika Srpska.

Advisors met with the recently named FBA Director. There was no Deputy, Managing Board or examiners. The FBA was in its pre-formation stage, i.e., no staff, no office, no equipment and no budget (except for 50,000 marks committed by the government for initial start-up expenses). The Director and resident advisor met with USAID and The World Bank who entered into an agreement for USAID to continue its technical assistance for an extended period and The World Bank to shift its planned technical assistance funding to provide capital (computers, furniture, autos, etc.) and operating expenses (salaries, lease, etc.). This funding continued to YE-1998 when the FBA became self-financing through fees and assessments.

The government named a Deputy Director and Managing Board in August 1996. The Deputy became full-time in October after closing out his duties at the National Bank. Another person from

the National Bank arrived shortly afterwards to head up Bank Supervision and Licensing. And, three examiners from the National Bank were transferred to FBA by agreement beginning the first of November 1996. Advertisements were placed for additional examiners and other staff.

The new laws had been hastily modified from old laws and enacted in response to the requests of IMF, World Bank, USAID and others offering assistance. Advisors began their work by focusing on the legal framework, interim regulations, policies, procedures and organizational actions needed to build a completely new, competent bank supervision agency.

The initiation of technical assistance in Republika Srpska lagged behind the Federation due primarily to political obstacles. USAID decided not to wait for the law establishing a new bank supervision agency. After several attempts, advisors were able to meet and reach agreement with officials of the National Bank - RS to perform diagnostic reviews of RS banks in mid-1997. Greg Taber arrived and set up an office in the RS October 1997 as the resident advisor. Technical assistance followed a similar plan to that in the Federation, with a mix of classroom training supplemented by advisor-led examinations and in-bank training. These efforts were far along by the time the Banking Agency - RS was legally established in May 1998.

Unlike the FBA that was built as a new agency, the Banking Agency – RS inherited a large number of personnel (*also some funding*) from the former National Bank. This situation presented different training challenges initially, required an assessment of existing capabilities and shifting of responsibilities. The staff was later supplemented with persons having applicable professional experience, but who also needed training.

Also unlike the FBA, the top officials and Managing Board members of BA-RS were replaced frequently. Advisors first worked with the Deputy Governor of the National Bank of RS, then with three different Directors of BA-RS. The present Director has been in “Acting” status for almost four years, and is frequently threatened with loss of job. This lack of support and continuity has hampered the development of supervision expertise, competence and consistency.

Advisors managed to keep the technical assistance progressing by focusing on the functional aspects, maintaining constructive working relationships with the supervision staff and adjusting to the changing officials. The political interruptions and three temporary travel bans also required adjustments and flexibility in the work plan to avoid adverse impacts.

The Building Blocks of Bank Supervision

The period 1997 through 2001 provided the resident advisory team, and a complement of banking regulatory, accounting, and supervision experts, the opportunity to develop the basic legal framework, institutional capacity and supervisory processes within both agencies. Each agency was faced with important challenges during this period that also made them develop depth and expertise differently.

BSP Advisors conducted an evaluation of the banking agencies' performance in relation to the *Basle Core Principles for Effective Banking Supervision* and a *Banking Supervisory Assessment Matrix* (BSAM) in September and October 2001 to evaluate the progress being made and to determine adjustments needed in the technical assistance strategy and priorities. All areas showed improvement from the earlier BSAM in November 1996. It was very negative in so many areas as to provide limited value. The October 2001 BSAM provided a good overview of the status and the needed focus going forward as adjustments were being considered in technical assistance strategies. (*Summary of Evaluation of Core Principles and BSAM included in Attachments.*)

➤ **Legal framework**

A review by advisors identified serious flaws in The Law establishing the FBA in June 1996, as noted in these examples:

- FBA could not manage, supervise or rehabilitate problem banks - this posed a serious dilemma, i.e., what to do with problem banks?
- FBA was stated to be temporary until new the Central Bank was established -- how could FBA attract qualified staff?
- FBA had no legal protection for performing its duties
- FBA did not have an adequate source of funding identified

During most of 1997, our experts worked with FBA officials and government representatives to address the weaknesses in the initial law. Meanwhile, the new Law establishing the Banking Agency of Republika Srpska was passed in March 1998, the Managing Board was appointed in April and the Director and Deputy Director were appointed in May. The founding law for the BA-RS included most of the changes needed in the FBA Law, but specifically stated that BA-RS officials were responsible for damages and could be sued and prosecuted while performing their authorized duties. This seriously threatened the overall authority and effectiveness of the new Agency.

Most of the problems in the Federation Law on Banking Agency, except legal protection, were corrected by amendments in July 1998. The amendments also provided authority to take administrative enforcement actions and to intervene in banks not in compliance with the new laws or not operating in a safe and sound manner.

Like the Law on Banking Agency, the Laws on Banks were also in need of revision and a significantly improved Federation Law was enacted in October 1998 with a transition period to April 1999. New regulations were issued to replace the interim regulations. A new RS Law on Banks was enacted in July 1999 and closely followed the Federation content. The new laws and regulations in the Federation and RS in 1998 and 1999, respectively, were major steps forward in developing a sound legal framework for banking supervision. OHR enacted amendments providing the legal protection needed by the Agencies.

Major amendments were developed in 2001-02 to further improve the Law on Banks in both entities. However, these changes were mostly reactive and defensive in order to address existing problems and did not look forward to needs of the future. Additional efforts continued on implementing regulations to support the supervisory processes being instituted by the Agencies and to harmonize the regulatory framework of the two Agencies. OHR enacted additional amendments to address specific deficiencies related to certain banks in which they had interest.

Advisor Wilson and FBA Deputy Director Brkic began accumulating side-memos in 2003 of additions and improvements desired in the Law on Banks when the opportunity arose again to make such changes. The IMF also listed changes it felt were needed and Senior Banking Attorney Gegenheimer made recommendations. Work intensified in early-2004 as the compilation of changes and additions grew and the possibility of a new state level Law on Banks appeared increasingly more likely. The draft of a new, comprehensive Law on Banks was completed in July 2005. This draft is a substantial improvement and appears to be a first-class star in Central and Eastern Europe. The draft now resides with Mr. Brkic for the opportunity that is expected in the near future. The draft was furnished to IMF for review.

Throughout our technical assistance project, strong efforts were made to focus the legal framework on: the Basle Banking Committee guidelines, the European Union Directives and International Best Practices. Resistance occurred with some local bankers who contacted their representatives in parliament to limit the changes and restrictions.

➤ **Institutional Capacity: Basic Examination Skills and Training**

One of the key Tasks in the first contract with USAID was the examination of the 2 largest state owned banks in the Federation (Privredna Bank, Sarajevo and Union Bank, Sarajevo). Advisors worked with FBA officials to plan the examinations with the key objectives being a determination of the financial condition of the banks, their projected viability and needed actions, plus basic on-the-job training for the examiners and officials.

Ten U.S. banking and supervision experts were involved in the examination of the two banks in November and December 1996, along with the only three FBA examiners and their supervisor. Brief targeted training sessions were held during the two examinations to discuss actions and plans. The examinations provided examples that were tied into future training and development.

The examination plan was designed to become the basic examination procedures and report format for use in future examinations. The reports presented the banks' balance sheets in accordance with the draft Laws on Bank Privatization and Opening Balance Sheet. This included three columns showing the balance sheets divided into Active, Neutral and Passive categories as the government planned to carve-out certain pre-war assets and liabilities, primarily the on-lending credits to state enterprises and the claims for frozen deposits due against the NB in Belgrade. Other losses and adjustments were shown against capital.

The Director was impressed by the examinations performed but concerned that FBA’s new examiners would get bogged down in problems in the banks and inhibit their development and respect by bankers. He met with the USAID Mission Director and presented his concerns for FBA’s ability to address the problems fast enough and with adequate expertise. The Director asked for USAID Experts to lead the examinations of all or most of the banks in the Federation. He felt that this would create a good baseline for future examinations and be excellent training.

BSP advisors were asked to prepare three scenarios of additional assistance in view of the request balanced with projected cost. USAID approved the following plan.

Period 1	Period 2	Period 3
<ul style="list-style-type: none"> ➤ 2 weeks classroom training ➤ 3 bank examination teams, 2 banks each <ul style="list-style-type: none"> ○ 9 US experts – 3 per bank ○ 3 FBA examiners – per bank 	<ul style="list-style-type: none"> ➤ 2 weeks classroom training ➤ 3 bank examination teams, 2 banks each <ul style="list-style-type: none"> ○ 6 US experts – 2 per bank ○ 3 – 4 FBA examiners 	<ul style="list-style-type: none"> ➤ 2 weeks classroom training ➤ 3 bank examinations teams, 2 banks each <ul style="list-style-type: none"> ○ 3-4 US experts – 1 per bank ○ 3 – 4 FBA examiners

The U.S. Experts reinforced the classroom training with in-bank training during the examinations and with focused group discussions during and after the examinations (*show and tell*). Additionally, the lead instructor for the classroom training rotated in the examinations to ensure consistency of the in-bank training to the classroom training.

This intensive training and examination program covered 6 months, March through August 1997. One of the key objectives was to transition the FBA examiners from assisting as trainees in the beginning to leading roles at the end of the series of examinations. Conversely, the U.S. Experts transitioned from leading the examinations in the beginning to acting in an advisory role at the end of the examinations. This intense mixture of classroom and in-bank training worked well and moved the examiners through this phase of basic training quickly.

A formal training program had been developed in late 1996 to build a strong base of examiner core knowledge and skills. It was planned to start as soon as possible after the two examinations in order to build basic examination concepts and techniques that would be coupled with follow-on OJT through year 1998, and later to phase in more advanced and specialty training. This plan was altered as needed to meet the needs of the individual Agencies, as in the illustration above.

Several people were employed at FBA and began working in February and March 1997. The staff had a mixture of banking, enterprise accounting, and National Bank and Financial Police backgrounds. The first classroom training was in March 1997. All the Supervisory staff of FBA attended, including the Director, Deputy and Chief Counsel.

Advisors provided extensive and progressive classroom training from 1997 through 1999, and targeted training afterwards to continue the progression of skill development to meet increasing challenges and changing risks. Comprehensive in-bank training complemented the classroom training. Examiner turnover was almost non-existent; so the need for repeat training courses was limited. We delivered modified introduction and intermediate courses for newer staff.

Meanwhile, USAID had requested BearingPoint Group to expand the technical assistance program to Republika Srpska. An agreement to perform Diagnostic Reviews of the RS banks was agreed with officials at the National Bank of RS. U.S. Experts and examiners from the NB-RS jointly began the reviews in July 1997.

Advisors began classroom training in the RS Banking Agency in late 1997 with an objective of catching up with FBA and then conducting joint training. Advisors provided the first joint training for the two agencies in March 1998 and began harmonizing the technical assistance to the two agencies facilitating the development of their interactions and cooperation.

The technical assistance in the RS continued in the same manner as in the Federation, and produced similar albeit delayed results in supervision capabilities.

Seven visiting advisors examined two RS banks in November 1997, including one of the largest banks, with assistance from local examiners from the National Bank. During May-July 1998, seven visiting advisors examined five banks, including the other two largest, and resident advisors led the examination of one additional bank in August. In 1999 and 2000, the number of visiting advisors was reduced for the five examinations conducted with most of their effort focused on in-bank training and examination procedures. Subsequent assists were with local examiners conducting the examinations and advisors focused on unusual or difficult aspects.

Training and development in the two agencies generally followed the training plan initiated in late-1996 through to the completion of the Policy on Training and Development in June 2005. This includes guidance on employment, training, evaluation and Accreditation of Examiners and Analysts. Additionally, the FBA established a position for Policy Research and Development with the function presently performed by the Deputy Director. This position contains a training specialist function that is linked with the Policy on Training and Development. These functions are also to be transferred in the merger plan under the Central Bank.

BSP obtained a total of 64 textbooks for each agency in 1998 and 2000 to provide additional reference sources. These are University level major author books on banking, accounting, auditing, finance, etc., some of which had been translated into the Serbo-Croat language.

In addition, the project translated numerous documents for supervision staff to use for learning and reference. This includes documents from the Basel Banking Committee, U.S. and other banking regulators, international organizations, etc. (*Major documents listed in Attachments.*)

➤ **Supervisory Processes**

A major area in which BearingPoint advisors achieved high results in addition to developing basic bank examination skills was the comprehensive process to deal with problem banks and to cleanse the system of the most problematic banks. Examiners and officials were trained in risk identification, enforcement, communication and resolution of problems. This included procedures for bank intervention and resolution from planning the take-over through temporary management, deposit payout, selling, merging and liquidating. These processes were mostly developed in concert with the FBA, as the private banks in the Federation were the active and volatile banks needing intervention during the 1999 – 2001 period.

It is evident that the core bank examination skills were achieved by the two Agencies. The need for fine-tuning and focusing on a more pro-active supervision basis was evident at the end of 2001. This transition was a key focus of contracts since then in order to prepare the Agencies for the exit of the USAID technical assistance.

➤ **Problem Banks Resolution**

The first banks closed resulted in political threats for “destroying banks instead of rehabilitating them” and charges by the Financial Police against Agency Officials as being responsible for the depositors’ losses and the jobs lost. Agency officials continue to be harassed by lawsuits and threats over some banks closed, however they have built respect from many for the positive outcome of several intervened banks and the strengthening of the banking system. Initially, the law did not clearly authorize the banking agencies to take broad actions, and several amendments to laws were required to facilitate intervention and resolution with the legal protection needed for carrying out their responsibilities. OHR, USAID and the international community had to provide considerable political support to enable the banking agencies to move forward in cleansing the banking system.

Some intervened banks were very difficult due to their complicated structure of related companies, the resistance and obstacles caused by owners and management, and the slow, ineffective legal and judicial process. *Examples:*

○ **BH Bank –Sarajevo:**

BH Bank was a very significant intervention. Examiners stayed in the bank from late 1998 until the bank was placed under Provisional Administration in June 1999. Efforts to re-capitalize and rehabilitate it failed as the owners had lent the bank’s funds to related companies, all being illiquid. The international community lost considerable operating and humanitarian funds. USAID authorized the project to put considerable effort into determining what when wrong, and how to recover the funds to pay depositors, document the wrongdoings and guilty parties, and change the system to avoid recurrence.

BH Bank became a “lessons learned” project as it moved from problem bank status to Provisional Administration and on to Liquidation. Many problems occurred that prevented positive results, including the destruction of records and database. The owners prevented the discovery of facts and resolution while claiming to help. Most of the Intervention and Resolution procedures were initially developed during this effort and refined later.

BH Bank illustrated many problems in banking, corporate governance, management competence, information systems, debt collection, judicial process, political relationships and fraud. Some of these problems existed in other banks, but to a lesser degree. FBA examiners provided several documented referrals for prosecution (*which had some limited success and a beneficial impact as many thought that BH Bank’s owners were politically connected and untouchable*).

After being critical at first, several representatives of the international community became actively involved in the resolution effort and efforts to make changes, including later forming a major creditors’ support group for FBA and the Liquidator. Citizens with deposits up to 5,000 KM were fully repaid and 46% of the deposits over 5,000 KM and of legal entities were repaid. An additional 15-20% is projected by early 2006. BSP continued advisory support through the end of the 2005 contract.

○ **Commercial Bank – Tuzla:**

FBA officials now point to the intervention of Commercial Bank – Tuzla in August 2000 as their turning point in supervision, enforcement, intervention and resolution. The bank had the largest total amount of citizens’ savings accounts, over 18% of the total in Federation banks. This made the outcome especially important to the future of the banking system and the banking agency.

Orders issued by the FBA did not stop the unsafe and unsound practices as management disputed and resisted the Orders, but illiquidity stopped the bank’s pyramiding-type operation and problem loans with capitalized interest and rollover debt caused massive losses. Two BSP advisors assisted during the examinations while the bank was in problem status. Four BSP advisors advised on the intervention. Resolution of the bank took several months. The bank was sold under a Purchase and Assumption agreement with all citizens’ savings deposits and 85% of legal entities’ deposits transferred to the acquiring bank. A number of lessons were learned and confidence grew at FBA. Future interventions became easier to plan and execute.

○ **Hercegovacka Bank – Mostar (HB)**

Hercegovacka Bank (HB) was intervened by the Office of High Representative in April 2001. It also served as a special learning opportunity due to the complex nature of the bank, its related activities and how it masked its deficiencies and wrongdoings. It was intervened, as it was the central part of a political effort to form a “third entity” in violation of the Dayton Peace Accords. It illustrated serious problems similar to BH Bank and other problem banks though concentrated and to the extreme. It hid its wrongdoings under a veil of outward progress and success while diverting the use of funds originated in another country for war reparations assistance. And, over

40% of its deposits were government funds. HB has also provided “lessons learned” that have helped cause changes in laws, regulations and supervision procedures.

At the time initial assistance was provided by USAID by contract in October 2001, HB consisted of a tangled structure of interlocking subsidiaries, many with outside minority shareholdings. A number of subsidiaries held stakes in each other, and interlocking shareholdings existed at second- and third-tier subsidiaries. In an effort to streamline the corporate structure, and untangle the corporate ownership to permit resolution, a number of subsidiaries were sold, merged or unwound.

The Task Order was modified in July 2002 to add a provision of technical assistance to the FBA in its role of supporting the resolution of HB. By September 30, 2002, advisors were ready to begin the process of taking HB to market. As OHR prerequisites to allow the sale to begin were not completed by that date, USAID decided to delay further assistance until these prerequisites were met. Some of OHR’s key objectives were to prosecute those violating the law, stop the corrupt political activities and to enhance the “Rule of Law” concept. Therefore, pressing the resolution and sale of the bank were postponed for the higher priorities, i.e., records and witnesses needed for prosecution. However, significant achievements were made in the four key tangible results cited in the Modification:

- Resolution of the loan portfolio – Our advisors guided and assisted the PA in developing a resolution strategy for the loans in the commercial and citizens loan portfolios. Over 80% of the original portfolio amounts (KM 68 million) were collected or restructured through voluntary or legal collection efforts.
- Disposition of subsidiaries and affiliates – Experts assisted in the review of the various operating subsidiaries and affiliates of HB to establish a reasonable strategy for its sale or liquidation. Six units were sold or dissolved; others were designated for the buyer’s option of purchase alone or in a package with the bank.
- Repayment of depositors’ funds – Advisors assisted the process to collect loans and convert other assets for funds repay depositors. The PA-HB repaid or escrowed funds to pay all deposits up to KM 5,000 and has sufficient funds to repay a substantial amount of other depositors (over 50%), while awaiting the final sale/liquidation of the major assets. The PA-HB made a determination to delay this distribution until the completion of the “tender” process to allow a purchaser to have the chance to retain depositors as customers.
- Final Liquidation of HB Bank – Advisors prepared the necessary marketing and database to allow the PA-HB to “tender the bank”. The winning bidder consortium has gone through several internal restructurings and now has an agreement on long-term funding for the purchase.

➤ **Bank Licensing**

One of the critical elements for a sound-banking environment is the bank licensing process. This process should be clearly understood and transparent to the industry while at the same time assuring that the supervisor has sufficient information to prevent the entry of undesirable participants into the banking arena. Advisors led the development of comprehensive procedures for licensing and corporate applications in 1998 through 2000, and then transitioned to an advisory and consultation role as the competency of the agencies improved. The efforts in this area, have established a process to evaluate all entrants and new activities in a standardized manner that is expeditious while at the same time comprehensive.

Licensing officials now update the comprehensive procedures as changes occur in the law or related activities, as shown by the FBA officials updating the procedures in October 2002 following the numerous changes in law. They asked the resident advisor to review the procedures before they presented to the Managing Board for approval.

The BA-RS regulation on bank licensing became effective in February 2000 and was revised after the recent changes in law and adopted by the Managing Board in March 2003.

It should be noted that this is an example where FBA has developed more capacity and proficiency due to a greater need (*i.e., more activities in this area*) and more resources (*its overall funding is much greater and it receives more fees from the higher number of activities*).

➤ **Bank Reporting and Offsite Supervision**

One of the Principles for Effective Banking Supervision requires that the banking supervisors have a means of collecting, reviewing and analyzing prudential reports and statistical returns from banks on a solo and a consolidated basis. This requires both adequate information to be submitted by the individual institutions and also the timely analysis of the information by the bank supervisor. During the period 1998 through 2000, significant work was done to transition the bank's reporting and accounting records to become compliant with International Accounting Standards (IAS). This task required significant training of both the staff and the banking sector representatives on the application of IAS concepts and standards. Additionally, the advisors worked closely with Agency officials to develop standardized mandatory report formats to be submitted to the Agencies.

In order to address specific reporting requirements the advisors worked with officials of both agencies to issue Decisions on Reporting and Forms. These Decisions stipulated the format and content of the monthly balance sheet and supporting schedules related to loans, deposits, and off-balance sheet items. And, they set forth the requirements for quarterly Income Statement, Cash Flow, Capital, Asset Classification, Risk Concentrations, and Maturity Structure of Assets and Liabilities. Additionally, several other reports related to a daily liquidity and a semi-monthly foreign currency positions are also identified. Time deadlines for each of the above reports were also established. The above Decisions were complemented with other Decisions related to

prudential standards and regulatory limits address the specific accounting treatment to be used, the formats to be submitted, and the submission deadline for the required information.

The next step initiated by our advisory team was to assist the Agencies in the creation of a system to gather all the information and prepare ongoing analysis for individual banks and the system as a whole. Work in this regard encompassed the creation of an automated database in each Agency and also trained the staff on individual bank analysis skills. Both agencies prepare system and individual bank analysis each quarter. Some analysis is performed on a more frequent basis as needed. The work on these items started under earlier contracts and continued through 2004.

➤ **Payment System Reform**

During the period 1998 through 2000 bank supervision advisors worked with other USAID and international donors in the dissolution of the payment bureaus and the transfer of the payment clearing mechanism to the commercial banks. BE Advisor Dan Berney was involved in the initial study while he and other short term advisors worked with the Agencies to assure that banks were ready to take on the new activity. Our advisors worked with the Agencies in establishing the ratings (Low, Medium and High Risk) that would be assigned to each commercial bank and that at the same time would clearly establish the level of transactions that they would be allowed to perform. Advisors provided initial training to the Agencies' staff and also participated in the evaluation of the individual commercial banks. The success of the payment system reform was evident when the banks took over these activities on 1/5/2001 with no disruption to the overall system.

**Summary of Key Accomplishments for All Contracts
“Strengthening Bank Supervision Program” – 1996 to 2005**

- Legal and Regulatory Framework
A sound legal basis has been developed to facilitate market-oriented banking and effective banking supervision. And, a draft of a new, comprehensive Law on Banks was completed in July 2005 that encompasses the latest of Basle Banking Committee guidelines, EU Banking Directives and international best practices.
- Development of core examination skills
Examiners in both agencies have a good understanding of basic examination skills and their roles for safe and sound banking.
- Policy on Training and Development
Includes employment, training and promotion guidelines, and an accreditation process, completed in June 2005.
- Policy Research and Development
Position approved in FBA to ensure that new and changing risks or developments are properly identified, addressed and that supervision staff and procedures are properly prepared.
- Problem bank supervision
Both agencies are developing competency. FBA examiners have a high level of expertise in problem bank examinations, including effectively addressing the cause of the problems, communication of corrective actions and strategies for follow-on supervision. BA-RS examiners have developed good expertise in problem bank examinations and corrective measures.
- Bank Intervention – Takeover
High expertise in FBA, moderate in BA-RS. FBA examiners and officials have a high level of expertise from 22 bank takeovers covering a wide array of problems. Comprehensive processes are in place to cover take-over through resolution. BA-RS examiners are developing good expertise as shown in 6 bank takeovers.
- Bank Resolution and Liquidation
High expertise in FBA, minimum in BA-RS. FBA officials (including Dept. for Banks Under Administration) and appointed agents have developed considerable expertise in provisional administration, sales by purchase and assumption, mergers, deposit pay-outs and other actions in resolution. Most of the experience of BA-RS officials has been in resolving by sending to Bankruptcy Court.

- Bank Reporting, Offsite Supervision Database and Analysis
Bank reports meet IAS in almost all respects, and are similar to U.S. FFIEC Reports. Minor changes in computation of Core Capital to meet Basle Standards was made in 2003. FBA database is fully automated on hard-wired mainframe with strong built-in security but not easily useable for specialized analysis, requiring manual input to PC programs for some analysis. BA-RS database is mostly automated on PCs. Both agencies Analysts have developed a high level of expertise in detecting and analyzing concerns and trends in reports.
- Referrals of Suspected Criminal Violations
Several FBA examiners have developed a high level of expertise in detecting and documenting administrative and suspected criminal violations for referral. They have a high success rate on referrals to the Federal Violations Committee. BA-RS has developed some expertise in investigating suspicious transactions but has limited experience in making referrals.
- Payments System Reform
Payments transfers are handled by the commercial banks and the Central Bank. Advisors were actively involved in the successful conversion of payments transactions from the defunct Payments Bureaus to the commercial banking system. Advisors also assisted in the development and implementation of examination procedures and approval process for bank participation.
- Deposit Insurance Program
Deposit insurance is now a reality for the banking system, with 22 banks participating. Advisors participated in the concept development and initial laws, then amendments and establishment of the Federation Deposit Insurance Agency. Advisors participated in the development of the new law consolidating deposit insurance at the state level.
- Deposit Insurance Management Capacity
DIA has procedures in place to make depositor payouts in an insured event. Additionally, DIA gained the confidence and ability to address problems and issues during the development of the payout procedures.
- Legal Protection for Banking Supervision
Legal protection is now in the law for both agencies. Advisors worked with USAID, Central Bank, World Bank, IMF, UST, OHR, MOF representatives and FBA/BA-RS officials to get amendments and OHR decrees in place. This has been a slow, grinding process as police, prosecution and judicial officials misunderstand this issue and oppose such protection for the banking agencies.

- Coordination with Central Bank
A positive relationship exists. Connecting the Agencies to the CBBH remains under consideration to ensure greater protection of independence, sustainability, competence and funding. The CBBH Governor will meet with RS-MOF on September 1, 2005 to discuss need to consolidate banking supervision under the Central Bank.
- Bank Privatization
Substantially all of the banking system is under private ownership. Five Federation commercial banks remain in government ownership. Government delays in privatization resulted in these state-owned banks being marginalized by the entry of well-known foreign banks. Citizens have virtually all of their deposits in privately owned banks, mostly foreign owned. All RS banks have been privatized.
- Banking Sector Coordination Group
Advisor initiated discussions in 1998 to get this ad hoc group formed in response to critical issues and threats that required a quick and unified response. Members included representatives of USAID, The World Bank, IMF, OHR, EU and CBBH Governor. This Group acted on several occasions in 1998-2002, but has not needed to act in the past two years as regular processes have developed sufficiently.
- Anti-Money Laundering and Combating the Financing of Terrorism
BSP provided training to the staffs of the banking agencies, assistance on law, regulations and procedures, assisted FBA examiners provide training to other enforcement agencies. BSP actively participated in two OHR led working groups, produced surveys, analyses and recommendations and assisted in the development of a state-level law. BSP also assisted FBA officials in cooperation with the U.S. Embassy to identify and block assets of persons assisting the financing of terrorists activities.

III. ISSUES PENDING AND AREAS NEEDING ATTENTION

It is important to recognize that the bank supervision process requires continuing changes and adjustments to reflect the current and prospective banking environment of each country. The bank supervision cycle should move from a reactive to a pro-active approach as the cleansing and reforming of the system is completed. However, the economic environment, political considerations and the ability of the supervisor to implement the needed changes often determine the speed of that change. At times, this is hampered by cumbersome legal structures and political interference.

The two bank supervision agencies have made consistent and ongoing progress in establishing competent and independent regulatory structures in Bosnia-Herzegovina. Year on year, steps and milestones have been achieved that have tested the Agencies independence and qualifications. The achievements are many as previously stated, however, there are some additional challenges that both the FBA and the BA-RS will face in the upcoming years that require additional attention.

The two major obstacles to sustainability:

- 1) inadequate funding for the RS agency
 - 2) the political threat to both agencies at the entity level
- 1) USAID provided short-term funding support to the BA-RS by purchasing one floor of its new building for use by the Deposit Insurance Agency. This provided time for the longer-term sustainability issue to be addressed. The principal cause of the deficiency in funding is the small size of the RS banking system, and the fact that banking consolidation results in some RS banks being merged into larger banks in the Federation. This will shift fees and assessments to the benefit of the FBA who will also become the primary supervisor of the larger banks. Note that total funding is adequate for the agencies on a combined basis.
- 2) The consolidation of banks that operate throughout the country needs to be countered by one consolidated supervisor that can more efficiently and effectively supervise those banks. As many of these banks are foreign owned and have banking affiliates in neighboring countries, one banking supervisor can provide better communication with the home country supervisor. Also, the agencies being located at the entity level has resulted in frequent attacks and political attempts to influence their decisions and performance.

The solution for both obstacles to sustainability, independence, competence and professionalism is to change the location of banking supervision to the state level or to the Central Bank. This has been under consideration for some time. Banking supervision had to reside at the entity level for political reasons initially. However, the obstacles noted and the rapid consolidation of banking into one, open financial space covering the whole of Bosnia and Herzegovina requires that bank supervision be similarly adjusted. Much effort and progress was made towards this objective but strong resistance persists in the RS government to the shift of authority to the state level.

Role of the Central Bank in Banking Supervision

The Central Bank's role in bank supervision has been very modest in relation to the two banking agencies and has been limited to minor efforts to coordinate and harmonize banking practices. However, the laws on the Central Bank and two banking agencies also refer to cooperation on licensing and supervision, reporting requirements, etc.

Most individuals in banking and supervision generally agree that placing bank supervision under the umbrella of the Central Bank would enhance the independence, authority, efficiency and effectiveness of bank supervision¹. The CBBH Governor formed two working groups in 2001 to accomplish this goal, i.e., a strategic working group to focus on the organizational structure and needed legal framework, and a technical working group to address the operational issues.

After a number of starts and stops for a variety of mostly political reasons, proposed amendments to the Central Bank Law consolidating supervision under the Central Bank were accepted by officials in the Federation and State governments, but rejected by RS officials. At the time, the RS officials were in a contentious stand-off with OHR and International Community on reform of some high priority issues, e.g., police, army, taxes, etc., and progress on all reform issues stopped.

The July 2005 IMF Standby draft Letter of Credit contains an agreement that the Parliaments of each entity will address this issue by September 30, 2005. The CBBH Governor plans meetings in early-September with the Ministers of Finance of both entities to discuss this issue.

Consolidating bank supervision into one body offers the potential for more efficiency and effectiveness, financial sustainability (especially for the RS), compliance with EU standards and the maintenance of competency in the rapidly changing banking system. Being under the umbrella of the Central Bank can provide more independence from political interference.

Pro-active Approach to New Risk Areas

Both Agencies have spent the past few years focused on problem bank resolutions and interventions, and only recently begun to focus supervision onto "good bank" supervision, i.e., strong banks in active competition offering new and varied products. The changing banking system and the lessons learned from intervened banks also point to a need to begin consolidated supervision and to expand supervision capacity in related, non-bank financial activities, e.g., insurance, investment banking and securities.

¹ An Occasional Paper by Professor Goodhart for Financial Stability Institute of BIS indicated that placing bank supervision under the Central Bank seemed to be the most effective structure in developing and emerging economies while an independent agency seemed the preferred structure in the most developed economies. Experience in Bosnia-Herzegovina supports that conclusion and the described problems that can occur with a separate independent agency in a developing country.

IV. CONCLUSION: Banking System and Banking Supervision

After a difficult preparatory period and many stresses for the newly developing banking agencies, the banking system is rapidly being reformed, restructured and strengthened to function in a developing market-oriented economy. The changes and growth have been remarkable since the major cleansing period of 1999 – 2001.

Banking supervision advisors focused on getting a satisfactory legal framework in place to enable the implementation of sound supervision practices and processes that could take the necessary corrective actions to enforce sound banking. These processes had to be tailored to the local situation and harmonized with the legal framework to be effective and ongoing. Training began with the basics and evolved to emphasize processes to identify and remedy the deteriorating problems in many banks. This included intervention to take over management control and resolution by selling, merging, liquidating and bankruptcy when other administrative enforcement actions did not produce satisfactory results.

Banking supervision steadily developed and contributed to a stronger banking system to facilitate a more vibrant economy with banks that can be trusted to return depositors funds when requested. The cleansing of the system by removing the worst banks and progressively raising the standards provided an attractive bank market resulting in the entry of strong, well-known foreign owned banks.

Much progress has been made and it is evident in the dramatic restructuring and growth of the banking system without incurring costs for the government. But, there are some problems that must be addressed to ensure continuation of the progress and to meet the new challenges.

Primary attention now needs to be focused on achieving the proper relocation of the banking supervision function to ensure independence from political interference and sustainability. If banking supervision can maintain its independence, it is competent and will make the changes and adjustments needed to function efficiently and effectively in the changing environment. And, it is capable to adapt and prepare for the new risks and challenges of the changing banking system and economic activity.



ATTACHMENTS

(Attachment)

SUMMARY of Task Order Accomplishments a/o 7/31/05

Original Task Order dated March 1, 2003

This task order continues in many areas of the prior contract with particular emphasis in the following areas under **Statement Of Work Headings in CAPS:**

(Notes:

- **BSP** = Bank Supervision Project)
- **CBBH** = Central Bank of Bosnia and Herzegovina
- **FBA** = Federation Banking Agency
- **BA-RS** = Banking Agency of Republika Srpska
- **DIA** = Deposit Insurance Agency

I. INSTITUTIONAL DEVELOPMENT

I-a. *Facilitate the consolidation of bank supervision into the CBBH or an independent state level agency.* > Ongoing effort

Met	Partial	Not Met
	X	

- **Political resistance delayed the consolidation of banking agencies. Amendments were passed by the Presidency and sent to Parliament, then stalled by RS government opposition.**
- **The completion of the common database awaits consolidation approval.**
- **Bank regulatory reports are completed and harmonized.**

I-b. *Improved communication amongst staff within the banking agencies and with the Central Bank.*

Met	Partial	Not Met
	X	

I-c. *Develop supervisory tools through policies, procedures and training to ensure more effective supervision of banks and their subsidiaries/affiliates.*

Met	Partial	Not Met
X		

- **Significant progress in enhancing draft law and by training.**
- **The two Agencies have jointly adapted unified examination procedures from recommendations by BE Advisors.**

I-d. Strengthen the supervisory capacity of senior management and field supervisors to provide for a safe and sound financial sector in Bosnia by anticipating challenges, especially in new markets, products and risk areas.

Met	Partial	Not Met
X		

- **Accomplished in training; position “Policy Research and Development” approved, internal development process under review.**

I-e. Develop an improved ‘early warning’ capability that better integrates various indicators of a bank’s condition so that the banking agency can address potential issues earlier.

Met	Partial	Not Met
X		

- **Offsite Analysis performs Early Warning Analysis but improved software and inputs awaits completion of common database (after merger of agencies).**

I-f. Expand the banking agencies abilities to other related financial sectors. Three such sectors are insurance, investment banking and investment or money management funds. As banks expand into other lines of business, the banking agencies will need to keep abreast of these developments, and to build up in-house expertise to identify the kinds of risks that these lines of business can cause depositors.

Met	Partial	Not Met
X		

I-g. *Develop supervisory capacity to recognize and identify the inherent risk (capital, asset quality, earnings, liquidity, risk management and internal controls) at the consolidated level, as well as individual subsidiaries and/or affiliates level.*

Met	Partial	Not Met
X		

- **Largely met; See 1-c.**

II. REGULATIONS

Recommend regulatory changes to facilitate improved bank supervision. As supervisory activities expand, current regulations will need to be revised and enhanced, and new regulations created to incorporate the necessary components for an effective and efficient legal, regulatory and judicial framework.

Met	Partial	Not Met
X		

- **A comprehensive draft state level banking law was developed and is held by FBA for submission when a new law is authorized. Official working group placed on hold pending resolution of RS government opposition. Comprehensive new Regulations will be required following adoption of the Law.**

III. LEGAL FRAMEWORK

III-a. *Improve the legal protection for bank agency staff (management and supervisors) so they are not at risk of personal liability when carrying out their official functions.*

Met	Partial	Not Met
X		

- **Enhancements were effected by drafting interpretations that were used by Office of High Representative to support the Law as Amended. More enhancements were drafted for consolidation of two agencies under Central Bank. Additional recommendations and intervention by OHR due to court ruling.**

III-b. *Influence the courts to demonstrate appropriate judicial deference to the expertise of the banking supervisor as is common in most western economies.*

Met	Partial	Not Met
X		

Significant progress made in several actions, but a setback occurred in a ruling of the Constitutional Court of the Federation of BiH. This is now being addressed by recommended changes to laws. Advisor also made presentations at Seminars for Judges, Prosecutors, Police, etc.

III-c. Work on regulatory changes, on an as needed basis, that might involve non-bank financial institutions, e.g., micro-finance organizations or savings and loan institutions.

Met	Partial	Not Met
	X	

- **Several discussions with Director of LIP and Deputy Director of FBA (a proposed new law would put supervision under banking agencies).**
- **Provided translation of report by FSBAT on MCOs and savings potentials.**

IV. INTEGRATED SUPERVISION

NOTE: The wording of Task Order is more towards Integration of Supervision Agencies than Integrated Supervision of Financial Institutions as normally used to include supervision of non-bank financial institutions.

IV-a. Encourage and facilitate cooperation and integration of functions, to the greatest extent possible, between the RS and Federation banking agencies.

Met	Partial	Not Met
X		

- **Examination procedures have been unified and joint examinations initiated on banks having offices in both entities.**

IV-b. Work with the Central Bank to better integrate the bank supervision functions between both entities, possibly creating one combined agency at the state level.

Met	Partial	Not Met
X		

- **Two agencies coordinated their activities and conducted selected joint examinations.**

- See also, I-a on Consolidation of bank supervision under CBBH.

V. DEPOSIT INSURANCE

V-a. *Encourage and facilitate cooperation between the bank supervision agencies and the BiH Deposit Insurance Agency.*

Met	Partial	Not Met
X		

- Excellent cooperation exists between banking agencies and deposit insurance.

V-b. *Strengthen the links and capacities of the Bank Supervision Agencies, the Central Bank and the Deposit Insurance Agency. Ultimately, this may lead to the integration of all or some of these functions into one unit.*

Met	Partial	Not Met
X		

V-c. *Strengthen the capacity of the Deposit Insurance Agency to protect the Insurance Fund and ensure the maximum recovery of funds paid out for insured deposits.*

Met	Partial	Not Met
X		

- **TA training on payout procedures presented in March-April 2004.**
- **Follow-on TA on payout procedures and sustainability delivered in September-October 2004.**

VI. PROBLEM BANKS

VI-A. *Facilitate the timely and effective resolution/liquidation of problem institutions, particularly ones taken over by the banking agencies.*

Met	Partial	Not Met
X		

- **Two banking agencies will jointly revise and adapt a unified set of procedures from those delivered by Advisors after new Law is adopted. The proposed new draft Law includes provisions for prompt corrective action, judicial review and enhancements in resolution process.**

VI-b. Ongoing refinement of the legal/regulatory framework to ensure the banking agencies and Deposit Insurance Agency have appropriate authority in problem bank resolution and liquidation.

Met	Partial	Not Met
X		

- **Largely accomplished and the proposed new draft Law includes enhanced provisions.**

VII. ANTI-MONEY LAUNDERING and COMBATING THE FINANCING OF TERRORISM

Implement the recommendations of the anti-money laundering working group and assist the agency in combating money laundering as the sector and agency evolve.

Met	Partial	Not Met
X		

- **In addition to substantial progress by the Agencies, *and largely as a result*, the level of compliance has sharply improved in banks. Additionally, the proposed new Law includes clearer provisions. FBA has established a good working relationship with the Financial Intelligence Unit of the new State Investigative and Protection Agency. FBA assisted on the training and procedure development work for FIU.**

(Attachment)

USAID Task Order Requirements & Benchmarks (Detailed)

Original Task Order dated March 1, 2003

This task order continues in many areas of the prior contract with particular emphasis in the following areas under **Statement Of Work Headings in CAPS:**

Notes:

- *Measurable Goals* are listed at the end of each listing of work.
- *Achievements* follow *Measurable Goals*.

I. INSTITUTIONAL DEVELOPMENT

I-a. Facilitate the consolidation of bank supervision into the CBBH or an independent state level agency. > Ongoing effort

- 1) Participate in working groups to achieve consolidation into an effective, independent and sustainable unit.
- 2) Initiate actions in support of this objective.
- 3) Work with others on legal changes to Laws on CBBH, Banks and Banking Agencies. Bring expert attorney to develop draft of legal framework in conjunction with others.
- 4) Actively participate with others on Organizational Changes needed to accomplish objectives.
- 5) Provide TDY to assist with Human Resources issues, including Change Management, and continuation of efforts on Examiner Accreditation, Performance Evaluation, etc.
- 6) Provide Expert on IT, Consolidation Database and software to upgrade usability of data for analysis.

Measurable Goals:

- Two banking agencies will be consolidated and operating as one with two locations (*requires multi-party agreement and commitment*).
- Laws and Organizational Changes will be substantially accomplished.
- Human Resource initiatives on Examiner Accreditation and Performance Evaluation will be in operation.

- Consolidated database and upgraded software will be in operation for FBA, BA-RS, DIA and CBBH.
- Plans will be initiated to streamline the reporting process.

Level of Achievement.

Consolidating Bank Supervision Agencies:

Partial. Stalled again by breakup in RS government and breakdown over police reform.

Achievement delayed due to some political opposition (mostly RS) to movement of entity government bodies or agencies to state level.

General:

- There were many discussions on the merits of consolidating the two banking agencies and possible structural organizations. The most recent proposal by the CBBH Governor was refined from earlier discussions. It proposed consolidating banking supervision under the CBBH functionally separated from other departments of CBBH. The Chief Bank Supervisor would report to a separate Board focused on bank supervision. A Management Committee is proposed for ongoing operational issues.

Notable Specific Actions during contract period:

- August 14, 2003: BSP Advisor Wilson and Associate Tuzovic met with CBBH Governor Peter Nicholl to discuss Consolidation, Legal Protection, Common Database and other issues. He agreed to initiate action on Consolidation in the near future.

Mr. Nicholl indicated concern for needed legal protection in practice as well as law and said he planned to meet with an official of OHR to discuss this concern before moving forward on consolidating bank supervision under the Central Bank. He agreed with our plan to bring an attorney in October to make recommendations on legal changes in these areas.

- September 15, 2003: BSP Advisors Wilson and Taber, Associate Tuzovic, USAID CTO Meyer and Associate Zivojnovic met with CBBH Governor Nicholl to reinforce the cooperation and support for these efforts. He stated that he was preparing a proposal to present to his Managing Board.
- October 9, 2003: Governor Nicholl presented his proposal to the CBBH Managing Board. An objection was raised based on the need for an agreement by the RS Prime Minister before proceeding. This represented political opposition to moving government bodies from entity to state level.
RESULT: Initiative delayed until after holidays.
NOTE: Because of the delay in agreement on the proposal, BSP attorney focused on the legal changes needed for “Supervision on a Consolidated Basis” of bank related activities.

- November-December 2003: Governor Nicholl brought Professor Goodhart to Sarajevo for a brief presentation on the structural location of bank supervision. He is well known for expertise on bank supervision issues.
- CBBH Vice-Governor Kozaric (future Governor) wrote an article on why bank supervision should be in the Central Bank.
- Various aspects of this issue were discussed at each of the Bank Supervision Coordination Meetings. Governor Nicholl noted that most government officials generally agreed with the proposal but a few thought resistance was building in the RS due to other major initiatives involving the entities losing authority to state. Governor Nicholl said he would press again after the Holidays.
- The Directors of the two banking agencies and a representative of CBBH attended a World Bank Seminar on “Aligning Bank Supervision Structure” in Washington, D.C. A summary news item was published in the CBBH newsletter.
- Discussions of strategy and planned actions on consolidation issues were held at meetings on January 26, February 3rd, 11th and 20th. Governor met with key RS officials and reported that they now appeared to support or accept this action.
- A legal working group was formed composed of three attorneys, i.e., one each from the banking agencies and central bank. The charge was to determine what changes were needed that would make a minimal change to the Law on CBBH.
- May 2004: The Draft of a new Law on Banking Supervision was reviewed and deficiencies noted, and divergence from the agreed upon Working Paper.
- June 2004: A decision was made to incorporate the substance of the draft proposal and several recommendations as amendments into a new section of the Law on CBBH. The stated goal was to complete the draft amendments in July and to put it into the legislative process as soon as government and parliament return to session in September.
- August 2004: Several drafts of amendments were developed and discussed, but confusion and disagreements recurred between representatives of the banking agencies and CBBH. Participants were divided on the objectives and proper manner of organization, governance, accountability and separation of roles.
BSP Advisors met with IMF on banking supervision issues, organization structure, governance and roles of bodies to achieve efficient and effective banking supervision. The IMF Report on banking supervision provided an excellent outline of these issues and logic for the recommendations.

- Late-September 2004: Key Officials met and reached agreement on the Amendments. However, the Governing Board of CBBH made significant changes and sent directly to the Presidency. The two Directors of the Banking Agencies followed with their desired changes. The Amendments were returned by the Presidency for reconsideration.
- November 17, 2004: The three-member Presidency agreed on the Law on Amendments and forwarded to Parliament, recommending Urgent Procedures. The Law was initially placed on Parliament's Agenda for December 16th and projected for passage by both Houses by December 21st. [NOTE: a crisis occurred in government following Removals and Administrative Actions by the High Representative on December 16th, followed by the resignations of some RS Officials.]
- Current situation: RS government was reconstituted and focused on the highest priorities until a breakdown occurred with the international community over police reform. Most reform efforts are now in limbo. Consolidating bank supervision under CBBH is not on the agenda at this time. The RS government is resisting the movement of entity authorities to the state level. Projection: possible progress in 3Q-2005. Action is needed during 2005, as 2006 is an election year.
- July 2005: IMF and officials of the State, Federation and RS governments agreed on inclusion of a statement in the Standby Letter of Credit that the parliaments will pass a resolution by 9/30/05 regarding merging the banking agencies under CBBH.
- July 2005: Governor Kovaric and Advisor Nicholl plan meetings with the MOFs of both entities in early-September to specifically discuss merging the banking agencies under CBBH. Advisor Nicholl will attempt to get the consolidation effort activated in September.

Common Bank Report Database for Shared-Use:

Progress now stalled, awaiting merger of two agencies for legal reasons:

- July-August 2003: Project advisors participated in brief diagnostics of the four IT systems in use at the two banking agencies, deposit insurance and Central Bank. This was performed to provide a base of information for the FSVC volunteers expected in October to perform an in-depth analysis and design for a common database to be implemented by World Learning.
- October 2003: BSP employed the local IT Specialist performing the initial diagnostics as an advisor to assist in the database consolidation. Senior Project Associate Tuzovic was assigned to coordinate these efforts.
- November 2003: FSVC volunteers presented recommendations for developing the common database. These were accepted by the banking agencies. One FSVC volunteer remained for one week to assist in developing plans to go forward. Interim efforts were to work out details on the Action Plan and potential obstacles. BSP translated the Final Report to ensure full understanding by Agency officials.

- A Project Control Committee was named but did not function. And, a request for Project Control training for members of the Committee (and a few others that will be involved in the Agency Consolidation noted above) was not approved.
- BSP contacted USAID-DC about bank analysis software developed by USAID contract that is believed suitable for needs here. They suggested a conference call for further discussion when the database appears nearer to ready. Follow-up contacts have been made to another installation in process.
- June 2004: Two agencies discussed plans for incorporating the RS banks into the database. One obstacle is the required Cyrillic language for RS banks. Proposed remedy is to incorporate RS banks using Roman/Latin letters and then make all bank reports (F-BiH & RS) available in choice of Cyrillic or Roman.
- July 2004: Deputy Brkic demonstrated the progress being made on his computer, how he can access bank data for comparison of trends, performance, groups, etc. However, some de-bugging is required before being fully operational and user friendly.
- Current: Completion of putting the RS banks on same database with Federation awaits approval of merging the two Agencies together under CBBH.

Bank Report Review:

Completed.

- June 2003: Advisor Mohler outlined plans for modification of some bank reporting formats for IT, harmonization or conformity with international accounting standards (IAS). The two Offsite Departments agreed to begin reviewing and harmonizing the bank reports with a goal of completing before Ms. Mohler's return in September.
- October 2003: The report review and harmonization was mostly accomplished with only a few issues unresolved due to differences in accounting/reporting standards of local law. A new state law on accounting and auditing is in process and should alleviate this problem.

I-b. Improved communication amongst staff within the banking agencies and with the Central Bank.

- 1) Active participation in bank supervision coordination meetings.
>Ongoing effort.
- 2) Encourage the establishment of more specific avenues of communication and reporting beyond present coordination meetings.

>Ongoing effort.

- 3) Invite CBBH representatives related to banking and coordination of bank supervision to training for bank supervision agencies (e.g., Overall Conclusions and Bank Ratings in June-03).
>June-03 and Ongoing.

Measurable Goals:

- Plans will be initiated to develop an internal communication process for policies, procedures and other issues that is numbered and tracked. Initially, this may be paper-based but the goal will be to use the website or electronic network.

Achievement:

Partial. Good communication exists between the agencies but no formal process.

- May 2003: Project Advisors attended the Bank Supervision Coordination Meeting on May 22nd. Consolidation of bank supervision was one of the agenda topics. Several participants indicated a need to study the possibilities and reach a decision on the structural location and needed legal changes.
- June 2003: CBBH representatives were invited to participate in the June 6th Training Workshop but had prior commitments.
- July 2003: Project Advisors participated in a Coordination Meeting July 9th. Key topics included: Consolidation of bank supervision, money laundering issues, foreign exchange and reserve requirement changes, deposit insurance, signing of cooperation agreement with National Bank of Croatia, etc.
- October 2003: A Training Seminar was held in Banja Luka for 46 participants. This included both banking agencies, deposit insurance and CBBH.
- Advisor Wilson attended all periodic Coordination Meetings for Bank Supervision and CBBH. (*Advisor Taber attended through November before leaving project.*)
- July 2004: Examiners from the two banking agencies began a joint examination of a bank with principal offices in Mostar and Banja Luka. This is to provide more efficient and effective supervision, and to build the capacities and consistency of the examining staffs.
- April 2005: Agencies agreed to expand efforts on joint examinations.

I-c. Develop supervisory tools through policies, procedures and training to ensure more effective supervision of banks and their subsidiaries/affiliates.

Training:

Note: Training will consist of a mix of seminars/workshops, on-the-job training (OJT), and other methods to complement their learning effort, build consistency and balanced for greatest effectiveness and efficiency. The project will likely not achieve all proposed training items, but will adjust scheduling and resource commitment in response to Agency priorities in recognition of changing needs and staff availability. Additionally, some of the proposed training will be covered through guided self-study, other providers and external sources. Agency staff will be included as (apprentice) instructors as appropriate to build internal capacity. Seminar and workshop related reference materials will be prepared in English & local languages.

- 1) "*Overall Conclusions and Bank Ratings*". Revise text and case studies to current and projected banking situation in BiH to emphasize the changing risks, additional considerations for developing conclusions and ratings. Include "ownership" issues, potential impact positive and negative. Contrast different performance results between banks in same market and causes of difference. Use Analysis Form implemented in Off-site training in 2002. Emphasize forms and methods that can improve efficiency. Introduce corporate and bond ratings by Rating Services (Moody's, Fitch, S&P) and uses/impact. >June-03, for all BS staff, and representatives of DIA & CBBH.
- 2) Provide OJT/workshop in Analysis for Off-site determinations of Bank Ratings coupled with Targeted Onsite examinations. Build on training in 2002 and to complement training above. >June-03, for Off-site and newer Onsite staff, and reps. DIA & CBBH.
- 3) Provide training on the potential impacts of affiliates/subsidiaries on bank and need to consider the risk as part of effective supervision. Introduce by examples in case studies used in "*Overall Conclusions and Bank Ratings*" in June-03. Provide more specific training at later seminar/workshop, likely combined with related training issues.
- 4) Locate outside seminars for limited number of staff to attend to increase their specialty training; provide support for sharing such knowledge by internal briefing of associates. Example: Bank Supervisors Central and Eastern Europe, Basle/Toronto Centre, National Bank of Poland, etc. >Ongoing.
- 5) Accounting issues/International Accounting Standards (IAS), especially on mergers, goodwill and acquisition expenses. Ongoing as issues surface, brief workshops in conjunction with Offsite Analysis training and by outside seminars. OJT follow-up pertaining to most relevant standards, case study approach with examples brought by participants, focus on application of standards and key issues within each, and inadequate implemented standards in banking system. >June-03, ongoing, ad hoc, include with other training efforts.

- 6) Fundamentals seminar(s) - Courses (previously developed and presented) for newer examiners: proposed subjects include accounting, credit, liquidity, internal control and internal/ external audit, and repeat of “*Ethics & Professional Conduct*”. Recognizing that newer staff members have some field experience, combine introduction and intermediate courses in most instances. Include agencies staff as participating instructors on repeat courses.
>Q4-03 through Q2-04 depending on staff availability and other priorities.
- 7) On-site examinations manual. Drafts are partially completed. BA-RS has numerous recommendations from use in examinations. FBA has used partially but not developed specific list of recommendations. TDY with interaction with supervisory personnel could substantially complete. Advisors will emphasize need for a joint working group of examiners to complete and get approval.
>Q4-03 and Q1-04.

Measurable Goals:

- Most training topics listed will be achieved through a mix of methods.
- Onsite Examination Procedures based on CAMELS will be in use for guidance or reference.
- Project will provide training and reference materials that bank supervision can use in continuing its learning and development efforts, including study guides and contacts with external education sources.

Achievement:

Substantially Accomplished.

- April 2003: BSP assisted FBA prepare and deliver four days of training to another government agency (FOSS) on financial crime, money laundering and investigations in banks. Six FBA officials/examiners participated as instructors with facilitation by BSP Senior Project Associate.
After presenting the legal framework, theory and description of problem, they presented case studies to illustrate how to investigate and document. The training of others also helps FBA develop internal training capacity and confidence.
- June 2003: TDY Advisor provided guidance to Off-site Analysts in using their procedures efficiently to develop bank ratings.
- June 2003: BSP delivered the Training Workshop “*Overall Conclusions and Bank Ratings*”. It was modified from the course delivered January 2000 to increase emphasis on: management evaluation, contrast of management systems, bank failure versus satisfactory performance and causes, ownership issues, changes and new products, accounting issues and an introduction to ratings by Rating Services (Moody's, Fitch, S&P).

Numerous case studies and handouts were presented to support or reinforce the training. Participants included: BA-RS (13), FBA (14) and DIA (3). Advisors Mohler, Taber and Wilson were lead instructors, and FBA Examiner Kotoric presented Bank Ratings based on CAMELS and the agency regulation on bank ratings. Most participants made presentations of case study group conclusions.

- Jan-04: Onsite examiners from the two banking agencies met in Neum, BiH for eight days to jointly adapt examination procedures to be used for risk assessment on banks based on the “CAMEL” model. “S” for “*Market Sensitivity*” was discussed but the procedures deferred for later drafting. In addition, drafts of procedures for Anti-Money Laundering and Combating the Financing of Terrorism and examining Payments Systems were developed. The examination procedures will be used in a joint-agency examination beginning in late February and a final draft presented to the Managing Boards in March-April.
- BSP Senior Project Associate assisted the Department for Anti-Money Laundering in preparation of one-day training seminars for bank staff.
- BSP has assisted Officials and Examiners prepare for several external seminars: e.g., Basle II – Capital Accords, Consolidated Supervision, Crisis Management and Advanced Credit Analysis, and BSCEE conference topics on best organization structures for effective banking supervision and optimal provisioning on a forward-looking basis.
- BSP translated documents to assist the officials and staff better understand important topics, e.g., selected papers on “*Basle II – Capital Accords*”, “*Building an Effective Framework for Bank Supervision - Prudential Regulation and Banking Supervision*”, *Executive Summary of USAID Report on “Micro-Credit Organization and Savings Mobilization”*. Some documents were shared with CBBH.
- June 2004: BSP began translating FFIEC Examination Procedures for Information Systems for the Agencies in view of the changes and increasing risk in that area. The need for additional knowledge in this area surfaced during meeting of Advisor with the heads of Onsite, Offsite and Licensing departments. FSVC has indicated they will present OJT to selected supervision staff in mid-05 using the translated procedures.
- June 2005: The Head of Onsite Supervision requested assistance with information and procedures for the “S” for Market Sensitivity (CAMELS). This was organized and presented for translation, with guidance on how to develop the procedures.

I-d. Strengthen the supervisory capacity of senior management and field supervisors to provide for a safe and sound financial sector in Bosnia by anticipating challenges, especially in new markets, products and risk areas.

Training:

- 1) Provide seminar on new products in general and determining and managing risks. Include presentations on specific new products expected and how to evaluate risk.
- 2) Case study and/or workshop presentations by professional staff of examples they have found. (Note: 8 RS banks have established Investment Departments with no apparent institutional capacity.)
>Plan Q4-03 through Q2-04 and ongoing search for external seminars.
- 3) “*Securities, Managing Investments Risk*”(new). All professional staff. Key focus on banks’ likely role in market and potential risks. This subject also relates to consolidated supervision issues. Securities Commission professional staff should be invited to help with mutual understanding of roles and issues. Further development of the action plan and timing on this area is needed.
>Project early 2004 (Q1-Q2).
- 4) Locate outside seminars on new products, investments and associated risks for limited number of staff to attend, develop specialist roles and to be resource to others on return. Development of specialist skills should be in addition to general examiner competency that must be maintained by rotation of assignments and full training.
>Ongoing effort.

Achievement:

Substantially Accomplished.

- June 2003: Advisor Mohler followed up with reinforcement discussions with Off-site management personnel and developed agendas for proposed workshops in critical accounting and financial issues that concern the banking agencies. One was delivered in October 2003 (*next*). The other is planned for 2004.
- October 2003: BSP delivered a training seminar: “*Financial Instruments and Markets: New Products and Associated Risks*” to 46 persons from the two Banking Agencies, the Deposit Insurance Agency and CBBH. This included emerging issues requested by the Agencies. Some banks have had activity in potentially high-risk financial instruments and more are expected to follow. The Agenda addressed current issues and introduced likely new market instruments with emphasis on methods for evaluating banks’ risk management.

Lead instructor Mohler worked with Agency personnel in the design of the workshop and delivered much of the material. TDY instructor, Susan Ballinger, who has extensive experience in capital and money markets in major commercial banks and in emerging

market countries, assisted and delivered an important block on foreign exchange. Advisor Taber also assisted on several subjects including subordinated debt and present value models. He presented the participants with an automated model for computing present value estimates. A senior RS Banking Agency examiner presented an important case study, based on an actual supervisory situation. It stimulated much discussion.

Human Resources and Development:

- 1) Restart joint-working group on Examiner Evaluations, Examiner Training and Development, and Accreditation for Examiners. Coordinate in conjunction with developing Human Resources and a Performance Management process within consolidated bank supervision in CBBH or state level agency.
>Q3-03 through Q2-04, in coordination with consolidation.
- 2) Assist in establishment and training for the “Development Office” to build research, detection and identification capabilities for new risks and threats, develop counter-measures to manage risks and develop staff expertise to meet the changing challenges. This includes managing internal training and development of supervisory staff competencies to meet the challenges. *(Action Plan for this area needs to be developed in conjunction with next item above in consolidation. A proposed statement of duties and responsibilities has been drafted.)*
- 3) Provide additional training to Senior Project Associate in this area; focus more of her time on managing the Human Resources and Training initiatives and assisting with the overall effort in this area.
>Begin Q2-03.
- 4) Associate will develop and implement a process for managing the training and development of new supervision staff. This process will be designed to build into the overall development and training process leading to Examiner Accreditation (and Analyst Certification). This process will be developed as an integral part of bank supervision with the ability to link into future development of Human Resources function. >Initiate Q2-03, Ongoing.

Measurable Goals:

- Processes for Examiner Accreditation and Performance Evaluation will be in operation that builds a culture of professional development and institution building.
- New “Development Office” will be established or in the process of establishment.
- A Training and Development Process for new examiners will be initiated that can be sustained and built upon.

Achievement:
Substantially Accomplished.

The training and development process was done over an extended period, but completion of the whole process was delayed pending the Agencies' merger under CBBH and problem bank priorities. With the merger uncertain, the Policy on Training and Development, Accreditation Process, Evaluations and Certification was completed in June 2005.

This process will be linked to the Policy Research and Development Office that will include a Training Specialist.

- A proposed statement of duties and responsibilities for a "Policy Research and Development Office" was drafted. The FBA's Managing Board approved the position but it was not filled until the decision is made on structure of agencies consolidation. One official (Deputy Director) has assumed this role in the interim and is the presumed designate for the position in the merger plan.
- BSP has worked with the Official on an ongoing basis developing policies and information useful as the position is developed (e.g., Basle Capital initiatives and implementation preparation, policy positions on the new banking law, etc.).
- As noted above, BSP provided support to locate outside training and in preparation to attend such training or as instructors.

I-e. Develop an improved 'early warning' capability that better integrates various indicators of a bank's condition so that the banking agency can address potential issues earlier.

- 1) Work with appropriate parties to develop a strategic plan for a consolidated database that is shared by Bank Supervision, Deposit Insurance Agency and CBBH. (*Need Expert to evaluate present database capabilities, make recommendations and initiate a Steering Group in developing the plan. Involve: Representatives of 2 Agencies, CBBH, DIA & IT from each, and Expert. This is a part of the attached Action Plan on Consolidation.*)
>Estimate beginning September 2003.
- 2) Work with appropriate parties to reduce the number of separate forms submitted by banks and to ensure that the needed information is received. (*This will involve reviewing the need and uses of forms, the frequency of reporting, consolidating some forms and eliminating others. Involve: 2 Agencies, CBBH, DIA and 2-3 representatives of commercial banks via Bankers Assoc. See attachment.*)
>Begin Q1-04.
- 3) Off-site analysis. Joint training in off-site workshop, to ensure compatibility and accord in standards of analysis; with IT, development of more sophisticated tools and more automated MIS, including such features as edit checks and other comparable populations for peer comparison.
>Include in June-03 and in conjunction with consolidation.

Measurable Goals:

- Databases will be consolidated and operating.
- Early Warning System will be improved and more efficient.
- Offsite Analysis will be more effective in surveillance and risk management, and provide more efficiency in scheduling and prioritizing the use of human resources.

Achievement:

Substantially Accomplished on activities other than Common Data Base as noted above:

- June & September 2003: Advisor Mohler implemented a plan for reviewing the bank reports and initiating changes to harmonize the reports between agencies, reduce duplications, streamline reporting, improve compliance with IAS, etc. before consolidation of the database. Comments on Common Database under I-a apply.
- Advisor Mohler provided guidance through workshops and OJT on efficient use of data for analysis and detecting deviations or “red flags” to raise questions or indicate concerns. A simplified analysis form was developed to focus on key ratios. This form was used in other workshop training.

I-f. Expand the banking agencies abilities to other related financial sectors. Three such sectors are insurance, investment banking and investment or money management funds. As banks expand into other lines of business, the banking agencies will need to keep abreast of these developments, and to build up in-house expertise to identify the kinds of risks that these lines of business can cause depositors.

- 1) Provide training on Bank Investments as part of Funds Management and Liquidity. Include information and training on Market Risks, including price, FX, Interest Rate Risk, Swaps & Forwards, etc.
>Plan Q4-03 or Q1-04.
- 2) Provide training on investment management by banks for clients (securities trading, management of PIFs, brokerages, brokerage, stock exchange, risk management issues, etc.). Include use of applicable ratings (Moody’s, Fitch, S&P)
>Plan Q4-03 or Q1-04.
- 3) Locate outside seminars on targeted issues above.
>Ongoing effort. (also Securities training proposed under Training section)

Measurable Goals: (combine f. & g.)

I-g. Develop supervisory capacity to recognize and identify the inherent risk (capital, asset quality, earnings, liquidity, risk management and internal controls) at the consolidated level, as well as individual subsidiaries and/or affiliates level.

Training:

- 1) Present training on recognizing risks in consolidated and subsidiary/affiliate relationships, as noted above in I-c-3.
- 2) Locate external seminars as noted above. >Ongoing effort.

Measurable Goals (f. & g.):

- Bank Supervision will have regulation and/or procedures implemented in this area.
- Bank Supervision will have more technical knowledge and risk management competence in these new and changing areas, and will demonstrate by addressing issues promptly.
- Regulation or Procedures will be developed to provide guidance to supervision.
- Communication avenues will be established with other regulators to enhance cooperation and joint efforts.

Achievement:

Substantially Accomplished:

- Advisors have discussed these issues with counterparts and project actions in 4Q-03 and early 2004 regarding Consolidated Basis Supervision and relationships with other regulators, including Cross-Border Supervision.
- June 2003: Advisor Wilson and Project Manager Bittner met with the Head of Insurance Supervision in the Federation. He indicated that an inadequate law existed, that state level law and supervision were needed, more staff expertise needed, etc.
[Subsequent note: A new state level law was developed but not yet in effect.]
- June 2003: As noted in I-d above, Advisors Mohler and Taber developed a general outline for training in financial, capital market issues for delivery later.
- October 2003: “I-f” Training delivered as noted above under I-c.
- November 2003: TDY Attorney Gegenheimer provided recommended changes to the law to provide better legal authority for Consolidated Basis Supervision. This was translated and held until the Law on Banks is to be amended. Gegenheimer also provided a paper he co-authored on Consolidated Supervision Experiences in several countries that is being prepared for Law Journal publication.
- June 2004: The two Directors and Deputy of the Agencies visited their counterparts in Macedonia to discuss common issues and cross-border cooperation. They are also discussing a written agreement on cooperation according to Basle guidelines. Discussions are also in process with Austria, Serbia and Montenegro and Italy. Prior agreements were with Slovenia and Croatia.

- July 2004: Two banking agencies and CBBH signed a memorandum of cooperation in Banja Luka with the National Bank of Serbia. An agreement will be concluded and signed in Belgrade later in the year.
- November 2004: FSVC provided arrangements for one Onsite Examiner and one Offsite Analyst to attend a Seminar on Supervision on a Consolidated Basis.
- February 2005: The two banking agencies signed an Agreement of Cooperation on Banking Supervision with the National Bank of Serbia.
- April 2005: Drafts of Agreements of Cooperation are in process in Austria, Italy and Turkey.

II. REGULATIONS

Recommend regulatory changes to facilitate improved bank supervision. As supervisory activities expand, current regulations will need to be revised and enhanced, and new regulations created to incorporate the necessary components for an effective and efficient legal, regulatory and judicial framework.

- 1) Review laws, regulations, practices, etc. to include amendments when the laws/regulations are being amended for consolidation of bank supervision. Monitor and anticipate problems occurring involving laws, regulations and procedures and develop an ongoing list of such changes needed.
>Ongoing - effort with agencies, CBBH.
- 2) Review laws, regulations, practices, etc. in view of new products/services, subsidiaries, ownership structures, etc. that may impact the ability to supervise effectively, or may obstruct needed new products and changes.
>Ongoing efforts as such issues are anticipated or arise.

Measurable Goals:

- Evaluation will be performed of changes needed, and guidance on priority issues will be provided on laws, regulations and practices during consolidation changes.
- Enhancements will be made to laws, regulations or procedures in these areas.

Achievement:

Substantially Accomplished

- September 2003: BSP provided information for an IMF Mission reviewing the effectiveness of banking supervision, laws and regulations, conformance to EU Directives, etc. They also recommended tightening lending controls.
- November 2003: As noted above, Attorney Gegenheimer reviewed the Law on Banks and recommended changes regarding consolidated basis supervision.
- Aug-Sept. 2004: Attorney Gegenheimer made recommendations for portions of the Law on CBBH to merge banking agencies under CBBH. And, he made recommendations for a new state level Law on Banks including consolidated-basis supervision (*noted above*), enhanced corporate governance, prompt corrective action, enhanced resolution provisions, judicial review and EU Directives. Governor Nicholl named a working group to develop a state level Law on Banks. Vice-Governor Musa was named to chair the group.
- Sept-Nov. 2004: A new Law on Banks (at BiH state level) was drafted with Attorney Gegenheimer providing most of the changes and expansion for comprehensive coverage and all the desired issues noted above. Deputy Director Brkic and Advisor Wilson modified portions to adapt to BiH needs. The Working Group met and agreed to meet at a remote location in February 2005 to reach consensus on the draft. Meanwhile Deputy Brkic and Advisor Wilson are making modifications for their review. The new law will require comprehensive revision and expansion of banking regulations.
- December 2004: RS MOF stated that RS would not participate in the working group as the RS Assembly had not authorized such effort and objective. The Federation MOF subsequently advised that the Federation would not proceed in the working group without participation of the RS.
- Jan-Feb. 2005: Official working group put on Hold. FBA Deputy Director Brkic, UST Advisor Schwartz and BSP Advisor Wilson continue developing the draft so that it can be presented when the opportunity occurs.
- Mar-May 2005: As above, official working group remains on hold but members above listed continues enhancing draft. Attorney Gegenheimer will visit in July to discuss available alternatives for EU Directives and best international practices.
- July 2005: The new draft of Law on Banks completed. A copy was forwarded to IMF for review.

III. LEGAL FRAMEWORK

III-a. Improve the legal protection for bank agency staff (management and supervisors) so they are not at risk of personal liability when carrying out their official functions.

Achievement:

Substantially Accomplished. The legal protection is very tight as written.

- July 2003: Advisor had several meetings with OHR attorneys to develop a position and opinion regarding legal protection and immunity that was forwarded to the Prosecutor's Office.
- Advisor met with several representatives of organizations, including OHR and CBBH Governor to discuss ongoing threats against FBA and its officials.
- Advisor assisted OHR in activities resulting in OHR providing a "Legal Opinion" to Prosecutors and Court in one case, and providing "Court Monitors" in two cases.
- Advisor provided OHR attorneys with copies of: excerpts from Basle Bank Committee's "Core Principles for Effective Bank Supervision", a World Bank Study in 1999 on Legal Protection in twenty countries and papers developed by Attorney Gegenheimer, who is experienced in this area.
- October 2003: Advisor Wilson and TDY Attorney Gegenheimer met with OHR attorney to discuss this matter and need to maintain appropriate protection against improper charges and personal risk. OHR had indicated an interest in reviewing the wording of "Legal Protection clauses" in various laws, including the Central Bank and Banking Agencies.
- January - February 2004: Advisor and Attorney Gegenheimer provided guidance on legal protection issues, especially "in good faith". The comments were key provisions in the letters to the court. Advisor also analyzed and commented on Report of Court Expert for use in reference by attorney.
- Aug-September 2004: Attorney Gegenheimer provided recommendations for enhanced legal protection, including continued protection after employment at CBBH ceased.
- November 2004: The Constitutional Court of F-BiH upheld a key provision of a court ruling on immunity, but opined that FBA officials could be prosecuted after their employment ceased at FBA for actions protected while employed at FBA (*however, the applicable criteria is not clear*). This appears to be a major setback in legal protection for officials, employees and agents of the banking agencies. Additional efforts will be needed on this issue.
- February 2005: An Appeal Court ruled against FBA on a civil lawsuit making FBA liable to compensate savers for deposit losses. FBA will Appeal to the Supreme Court. OHR has agreed to write a "friend of court letter" with recommended comments of Attorney Gegenheimer on Basel Banking Committee's statement on legal protection for bank

supervisors, interpretation of “in good faith” and the retroactive language of the Amendments previously enacted by OHR.

OHR also agreed to Amend the laws to ensure with certainty that the legal protection is interpreted as being on a continuing basis, i.e., during and after employment ceases.

III-b. Influence the courts to demonstrate appropriate judicial deference to the expertise of the banking supervisor as is common in most western economies.

Project will find and focus on certain technical matters within its expertise and work with OHR/others to include in their contact and education of police, prosecutors and courts.

NOTE: Scope of this item could be very broad, outside our control and difficult to attain. Possibility: locate attorney/judicial expert with related experience to work joint with OHR sponsored seminar for judges, prosecutors, investigating police, et al. Estimate: Combine timing with Legal work on merger, Q3-4 2003.

Measurable Goals: (a. & b.):

- Provide training and reference materials to prosecutors and judges.
- Provide training at University of Law/Criminology (future benefits).

Achievement:

Substantially Accomplished.

- November 2003: Advisor Wilson made presentations on the “*Role and Responsibilities of Bank Supervisors*” at two seminars on “*Financial Crime and the new Criminal Code Procedures*” for judges, prosecutors, police, tax investigators, etc.
- November 2004: Provisions in the amendments to CBBH provide legal protection and provisions in the drafted new Law on Banks including specific guidance on the role of judicial review and limitations.
- April 2005: Advisor Wilson made presentations as in 2003. The reception was better, and the attitude of participants much more favorable and constructive.

See also III-a above for actions.

III-c. Work on regulatory changes, on an as needed basis, that might involve non-bank financial institutions, e.g., micro-finance organizations or savings and loan institutions.

- 1) Review legislation (law and regulations), developing practices and areas of population under-served in current financial environment.
>Ongoing efforts as initiatives develop.
- 2) Cooperate with USAID FSBAT project, World Bank Local Initiatives Project (LIP), MOF, et al, on changes in laws, regulations for non-bank financial operations, such as Micro-finance evolves and savings/credit are considered.
>Ongoing efforts as initiatives develop.

Measurable Goals:

- Provide support and recommendations to appropriate groups.

Achievement:

Partial.

- Advisor met with FSBAT and LIP representatives to discuss pertinent laws and actions planned.
- Advisor discussed a seminar in Basle on Micro-Finance with FBA Deputy Director that he and the Director of LIP attended. A key seminar topic: “Supervision of MFOs”.
- BSP translated the Executive Summary of USAID Report on “*Micro-Credit Organization and Savings Mobilization*” to assist agency officials and others better understand its findings.
- Nov-Dec. 2004: Advisor met with Director of LIP and discussed trends in MCOs, the future of MCOs, partnerships with banks and pressure by politicians to reduce rates to bank levels and other changes.

IV. INTEGRATED SUPERVISION

NOTE: *Tasks listed here relate more to consolidation of banking supervision than to normal meaning of integration of supervision of non-bank financial activities.
See also actions planned under Institutional Development section.*

IV-a. Encourage and facilitate cooperation and integration of functions, to the greatest extent possible, between the RS and Federation banking agencies.

- 1) Propose a joint agency examination team to examine a bank in each entity. The objective will be to enhance cooperation in supervision objectives, harmonize supervision approach, procedures, developing conclusions and ratings process.
>Q2-3-03.

- 2) Propose joint agency AML targeted examinations.
>Q2-3-03.

Measurable Goals:

- Evidence of joint efforts in bank supervision, training and development of processes.

Achievement:

Substantially Accomplished.

- BSP assisted on harmonizing of bank regulatory reporting.
- BSP provided joint training.
- BSP provided Examination Procedures as guidelines to develop own EP.
- January 2004: A joint working group completed a unified Examination Procedures Manual.
- March 2004: The banking agencies began a joint examination of the largest bank in BiH. A representative of the Central Bank was also invited to participate in the payment portion of the examination. The two agencies plan to cooperate on the examinations of all banks having branches in both entities.
- Representatives of two banking agencies met to review examination procedures on AML and CFT with the objective of developing harmonized procedures.
- July 2004: FBA signed an Agreement on Cooperation with the Insurance Commissioner to facilitate communication and cooperation.

IV-b. Work with the Central Bank to better integrate the bank supervision functions between both entities, possibly creating one combined agency at the state level.

Included in I-a. Consolidation.

Measurable Goals:

- Bank supervision operating as one supervision unit (*as above*).

Achievement:

See actions as noted in I-a and above.

V. DEPOSIT INSURANCE

V-a. Encourage and facilitate cooperation between the bank supervision agencies and the BiH Deposit Insurance Agency.

- 1) Actively participate in working group to update Agreement on Cooperation between bank supervision agencies and BiH DIA (*state level agency*). Obtain full support and cooperation of key officials.
>Begin Mar-03, complete Jun-03.
- 2) Participate in the development of procedures in regard to an Insurance Event, Payout and Recovery, and ensure the execution needs are included in the Agreement on Cooperation. (See comment below on Resolution and Payout function.)
>Begin Mar-03, complete Jun-03.
- 3) Assist in development of compatible IT and unified database (see attached Action Plan on consolidation).

Measurable Goals:

- Evidence of cooperation or joint training between supervision and insurance.
- Joint development of needed payout procedures and recovery process.
- Shared database of bank reported financial data will be implemented.

Achievement:

Substantially Accomplished except Shared Database (pending merger approval).

- June 2003: Modified Agreement on Cooperation ratified.
- June 2003: The three Directors appointed a Working Group (from 2 banking agencies, DIA and BSP, UST and GTZ advisors) to develop recommendations for cooperation and actions regarding the August 2003 deadline on mandatory requirement to qualify for deposit insurance.
- July 2003: The Working Group presented recommendations that were accepted and ratified. This included a Memorandum of Understanding to ensure fair and consistent actions, and a new DIA Regulation on post-deadline policy and procedure.
- July-August 2003: As noted in I-b above; brief diagnostic reviews of IT databases were performed. This provides a base for an in-depth analysis and design by FSVC volunteers in October 2003 followed by implementation actions by World Learning in 2004. Progress made on Common Database, completion awaits merger of two agencies.

V-b. Strengthen the links and capacities of the Bank Supervision Agencies, the Central Bank and the Deposit Insurance Agency. Ultimately, this may lead to the integration of all or some of these functions into one unit.

- 1) Continue active participation in Coordination Meetings.
- 2) Participate in Technical Working Group on Consolidation and initiate actions described in Action Plan on Consolidation (and in this SOW).

Measurable Goals: (see other consolidation items, especially I-a).
Substantially Achieved.

V-c. Strengthen the capacity of the Deposit Insurance Agency to protect the Insurance Fund and ensure the maximum recovery of funds paid out for insured deposits.

- 1) Resolution and payout function –
Provide copies of procedures developed for payouts during Provisional Administration and Bank Resolution. Work with Banking Agencies, Deposit Insurance Agency and Central Bank to develop organizational structure, authorities, processes, and internal controls to ensure that the significant experience and expertise of the Banking Agencies is retained and utilized, and that the interests of the Deposit Insurance Agency, including integrity of the deposit insurance fund, are protected. Recommended vehicle is a working group (with project advisors as members) for development of necessary policies and procedures for cooperation and payout during an Insurance Event.
- 2) Utilize TDY Expert to review Payout Procedures in existing Manual of banking agencies and adapt for effective and efficient use by DIA. Expert would also review the Provisional Administration and Liquidation process by banking agencies for appropriate involvement of DIA to protect their interests in recovery of any funds paid out. Expert would initiate or participate in necessary training to prepare DIA for such eventuality.
>Initiate Mar-03, provide training as any uninsured payout event occurs- a possibility in 3Q-03.
- 3) Participate with representatives of bank supervision and deposit insurance to develop a process for monitoring of Provisional Administration and participation in Liquidation when there is a risk of an Insurance Event or an Insured Payout has occurred.
- 4) Assist the bank supervision agencies develop training-OJT in an uninsured bank in Provisional Administration or Liquidation to illustrate the process above to DIA.

- 5) Include DIA professional or analytical staff in technical training seminars/workshops as appropriate.

Measurable Goals:

- DIA has effective procedures to prepare for and execute a payout event.
- DIA has adequate understanding of Provisional Administration and Liquidation to participate in the process, protect its funds and effect maximum recovery.
- DIA participates in selected supervision training.

Achievement:

Substantially Achieved.

- July 2003: BSP provided payout procedures excerpted from Provisional Administrator and Liquidator Manuals to DIA. BSP agreed to bring a TDY Expert to review, make recommendations and provide training in 2004. DIA officials will participate in the development of the procedures to ensure their understanding and ownership.
- June and October 2003: DIA staff invited to Bank Supervision Workshops.
- March-April 2004: TDY Expert on deposit insurance developed guidelines for DIA to use in developing procedures for pay-outs and conducted a one-day training exercise on paying insured depositors. BSP plans to bring Expert back to review the procedures, provide additional guidance and review issues pertaining to sustainability.
- August-September 2004: TDY Expert Waldrop reviewed the drafts off-site and made recommendations. She returned in September to further discuss the guidelines and develop a one-day workshop for DIA staff to simulate a failed bank insured deposit pay-out and discuss recovery of funds from bank resolution. A Bank Examiner experienced in takeovers and resolution participated in the Workshop.
- November 2004: BSP Advisor Wilson met with Director of DIA, discussed provisions being incorporated into the draft of the new Law on Banks that would provide additional protection for the DI Fund, including prompt corrective action, cooperation between the bank supervisor and DIA, and priority payouts.

VI. PROBLEM BANKS

VI-a. Facilitate the timely and effective resolution/liquidation of problem institutions, particularly ones taken over by the banking agencies.

- 1) Review practices and discuss ways to overcome obstacles and increase the efficiency of bank resolution. Document “lessons learned” for use by these and other CEE bank supervision units.

- 2) Close-in advisor support “ad hoc” and as requested on interventions in process or anticipated.

Note: Hercegovacka Bank in Provisional Administration may be transferred to FBA in 2003. Advisors will assist FBA develop a Strategy and Action Plan to deal with this unusual problem. (Subsequent Note: Transfer has not happened yet.)

Note: BA-RS may need assistance in Q3 or Q4-03 (Mandatory Deposit Ins.)

Measurable Goals:

- Advisors assist BA-RS on problem banks, enforcement and implementation of bank resolution, including Provisional Administration & Liquidation Procedures.
- Bank Supervision will have the competence to manage problem banks, intervention and resolution without support (end of contract period).

Achievement:

Substantially Accomplished.

- June 2003: RS Resident Advisor and two TDY Advisors assisted officials of BA-RS plan and takeover a bank having serious liquidity problems (PBSS). Advisors provided close technical support during the takeover of five principal offices and numerous sub-branches. The bank was affected by its primary owner being intervened by OHR in Bosnia and his subsequent arrest by Serbian officials (*and later arrest by Montenegro and transfer to BiH authorities*). Advisors also assisted by advising on Provisional Administration and preparation of a “Bid Information Package”.
- August 2003: Advisor advised the Provisional Administrator of a Federation bank prepare a preliminary “*Bid Information Package*”.
- August & December 2003: Advisor reviewed and advised FBA on the proposal by the Federation government to combine the six un-privatized commercial banks into one bank under a plan to restructure through an action similar to the recent “*Sarajevo Privatization Venture*.”
- October 2003: TDY Advisor Biggs assisted the Provisional Administrator of Hercegovacka Bank prepare and initiate tender offers on the bank, subsidiaries and an asset taken in lieu of debts. This also included meetings with FBA officials to discuss and agree on certain actions.
- The banking agencies plan to revise and adapt unified procedures.
- August-September 2004: Attorney Gegenheimer provided recommendations for provisions of law enabling and requiring the banking agencies to take enforcement and intervention actions at certain benchmarks of capital adequacy and liquidity (*Prompt Corrective Action*). This will result in quicker actions and provide legal protection against criticisms of not

trying to rehabilitate or save the bank. It will also communicate required actions to bankers having problems and the need for solid and prompt rehabilitation efforts. He also recommended provisions of Law to enhance and streamline resolution efforts.

VI-b. Ongoing refinement of the legal/regulatory framework to ensure the banking agencies and Deposit Insurance Agency have appropriate authority in problem bank resolution and liquidation.

- 1) Review obstacles and practices to determine needed changes in legal/regulatory framework to improve efficiency of bank resolution.

Measurable Goals: *(as above in VI-a).*
Substantially Accomplished.

VII. ANTI-MONEY LAUNDERING & COMBATING THE FINANCING OF TERRORISM

Implement the recommendations of the anti-money laundering working group and assist the agency in combating money laundering as the sector and agency evolve.

- 1) Convene the AML Working Group on Banking Sector and update the status of issues and Recommendations. Include a representative of Office of High Representative (OHR) to participate, hopefully as Chair, to ensure participation of all representative parties. Determine needed actions and engage the appropriate parties.
>Initiate actions in May 2003, complete status review of recommendations and develop new recommendations and initiatives to improve the effectiveness of AML / CBT efforts.

- 2) Participate in and support training in Financial Crimes, Anti-Money Laundering and Combating the Financing of Terrorism.
>Apr-03 and ongoing.

- 3) Actively participate in efforts to further these objectives in legal framework, regulations, cooperative agreements, examination procedures and practice. Determine status of Law on AML – CFT circulated in 2002 and work to get implemented.
>Re-start effort in Apr-03, and ongoing.

Measurable Goals:

- Working Group addresses prior Recommendations and acts to improve AML & CFT compliance results.
- Bank Supervision process includes initiatives to improve compliance within their authorities and assist others to develop higher overall compliance.

Achievement:

Substantially Accomplished.

- April 2003: As noted under training, Associate Tuzovic advised and facilitated FBA in developing and presenting training to 35 members of the Federation Intelligence and Security Agency (FOSS) on investigation of financial crime in banks, money laundering and terrorism financing. Advisor Wilson presented international efforts, cross-border issues, communication and cooperation.
- May 2003: Advisor Wilson and Associate Tuzovic obtained a commitment from a Senior Legal Official of Office of High Representative (OHR) to provide a Chairperson for the Working Group. A meeting was held with two officials in May to plan continuation of the Working Group. A letter was sent to Working Group members requesting that they review the Recommendations previously published in booklet form, determine their status and respond. Additional representatives were invited to join the Working Group (State level Ministries of Security and Treasury, and Representatives of Bankers' Association in Federation and RS).
- July 2003: A Working Group meeting reviewed key issues and assigned tasks for members to perform regarding the Recommendations and New Issues. This included developing Actions Plans on each issue.
- July & August 2003: Advisor Wilson and Associate Tuzovic had several meetings with an OHR Official and Assistant to discuss aspects of the Working Group initiatives and plan additional actions to maintain progress on the Action Plans.
- August 2003: A Working Group meeting reviewed status of the Action Plans and planned additional actions. Advisor Taber and Associate Tuzovic provided research and support for the meeting.
- Advisor Taber met with US-DOJ/ICITAP Expert to review a proposal under development in Republika Srpska regarding a company registration process to prevent the fictitious shell company problem in money laundering.
- September – October 2003: Advisor and Associate met with OHR officials several times on a broader OHR Action Plan being developed based on the Working Group's Action Plan for the Banking Sector.
- November 2003: BSP Associate Tuzovic and IT Specialist Siljak met with representatives of OHR, U.S. Embassy and ICITEP to discuss potential for automated software and other technology issues being implemented in banks through FBA IT infrastructure. They also met with representatives of the Spanish Development Agency regarding the potential of

using Bank of Spain software. (*The Spanish government will support the establishment of an FIU.*) An FSVC volunteer participated in three of the meetings.

- November 2003: Associate Tuzovic and the Head of AML – CFT at FBA attended a seminar in Riga, Latvia on “New Developments and Technology in Anti-Money Laundering”.
- November 2003: Advisor Wilson attended a Seminar with FBA officials at OHR on the OHR Action Plan developed based largely on the Action Plan developed by the Working Group noted above.
- January-February 2004: BSP participated with OHR in planning jointly with The World Bank for a series of training tele-conferences on Anti-Money Laundering to begin in April 2004.
- The Agencies have developed competent staff and process in this area. Strong actions were taken against banks with poor compliance. Banks have made substantial improvement in their level of compliance. A recent review by IMF indicated substantial improvement in this area.
- Additional: A law establishing a State Intelligence and Protection Agency has been passed. It will include a Financial Intelligence Unit to deal with money laundering, combating the financing of terrorism and other such crimes.
- July 2004: CBBH initiated the first phase of a Central Deposit Account Registry. This will facilitate verification of bank transaction customers and make the use of fictitious accounts and identification more difficult.
- November 2004: Revisions were made to existing provisions in Law and carried over into the draft of the new Law to reduce certain redundancies and confusion, making the law clearer and more effective.
- January 2005: FBA participated as Instructors on Anti-money Laundering Investigations to new staff of the FIU part of SIPA. They used skills learned from prior BSP training on AML and Train-the-Trainer Seminars.

Attachment)

From: Draft of New Law on Banks

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II. LICENSING AND AUTHORIZATION

Article 6	Application to License a Bank
Article 7	Charter And By-Laws Requirements
Article 8	Approval By Central Bank
Article 9	Court Registration
Article 10	License Conditions
Article 11	Central Bank Registries
Article 12	Expiration of License
Article 13	Surrender of License and Voluntary Liquidation
Article 14	Establishment of Domestic Branches by BiH Banks
Article 15	Establishment of Foreign Branches by BiH Banks
Article 16	Application for a Branch of a Foreign Bank
Article 17	Refusal of Authorization for Foreign Bank Branch
Article 18	Capital Equivalency Deposit for Foreign Bank Branches
Article 19	Deposit Insurance Scheme Relating to Branches of Foreign Banks
Article 20	Monitoring and Application of This Law Regarding Foreign Bank Branches
Article 21	Notification Of Changes
Article 22	Corrective Measures with Regard to Branches of Foreign Banks
Article 23	Revocation of Authorization for a Foreign Bank Branch
Article 24	Representative Offices of Foreign Banks
Article 25	Activities of a Representative Office
Article 26	Revocation of Authorization of a Representative Office
Article 27	Representative Office in Foreign State
Article 28	Maintaining Information on Foreign Operations in BiH

III. CAPITAL AND OWNERSHIP OF BANKS

Article 29	Capital Requirements
Article 30	Structure of Shares
Article 31	Ownership and Qualifying Holdings

- Article 32 Application for Central Bank Point of Qualifying Holdings
- Article 33 Qualifying Holdings by Foreign Regulated Financial Sector Enterprises
- Article 34 Prohibitions on Certain Ownership and Qualifying Holdings
- Article 35 Grounds for Refusal of Authorization
- Article 36 Time to Complete Authorized Action
- Article 37 Grounds for Revocation of Authorization
- Article 38 Unauthorized Acquisitions
- Article 39 Exceptions to Requirement for Prior Authorization
- Article 40 Requirements to Submit Information
- Article 41 Dividends and Capital Distributions
- Article 42 Share Repurchases
- Article 43 Exceptions Regarding Official Multilateral and Regional Development Lending Institutions
- Article 44 Status Changes

IV. GOVERNANCE AND MANAGEMENT OF BANKS

- Article 45 Bank Bodies
- Article 46 General Meeting of Shareholders
- Article 47 Frequency of Meetings
- Article 48 Notification of General Meeting
- Article 49 Special Meeting
- Article 50 Amending Proposed Agenda
- Article 51 Quorum
- Article 52 Decisions of the General Meeting
- Article 53 Agenda Review
- Article 54 Decision Majority
- Article 55 Balloting
- Article 56 Proxies
- Article 57 Denial of Proxy Authorization
- Article 58 Minutes
- Article 59 Minutes Retention
- Article 60 Rejection of Annual Financial Report
- Article 61 Invalid Decisions
- Article 62 Composition of the Supervisory Board
- Article 63 Prohibitions and Requirements for Membership on Supervisory Boards
- Article 64 Nominations to the Supervisory Board
- Article 65 Election of the Supervisory Board
- Article 66 First Mandate
- Article 67 Supervisory Board Meetings
- Article 68 Invitation to Supervisory Board Meetings
- Article 69 Supervisory Board Attendance
- Article 70 Responsibilities of the Supervisory Board
- Article 71. Exceptions to Requirements to Create Committees

- Article 72 Audit Committee
- Article 73 Ethics and Conflicts of Interest Committee
- Article 74 Credit Committee
- Article 75 Asset-Liability Committee
- Article 76 Rights of Board Members
- Article 77 Management Responsibilities
- Article 78 Approvals, Prohibitions and Requirements
- Article 79 Requirements for Management
- Article 80 Deputy Director and Executive Directors
- Article 81 Related Interests
- Article 82 Replacing the Director
- Article 83 Board Secretary
- Article 84 Responsibilities of the Secretary
- Article 85 Financial Disclosure
- Article 86 Business Secrets
- Article 87 Professional Conduct
- Article 88 Liability for Damages

V. OPERATIONAL REQUIREMENTS

- Article 89 General Requirements for Banks' Operations
- Article 90 Permitted Activities
- Article 91. Prohibition on Unfair Business Practices
- Article 92 Central Bank Authority in Cases of Unfair Business Practices
- Article 93. Risk Management Systems
- Article 94. Internal Controls
- Article 95. Appointment of Internal Auditor and Employees of the Internal Audit Unit
- Article 96. Qualifications for Internal Auditor and Employees of the Internal Audit Unit
- Article 97. Duties of the Internal Auditor and Employees of the Internal Audit Unit
- Article 98 Rights of the Internal Auditor
- Article 99 Annual Report: Risk Management and Internal Controls
- Article 100 Investment Limitations
- Article 101 Limitation on Investment in Fixed Assets
- Article 102 Prohibition on Certain Investments
- Article 103 Trading Book and Banking Book
- Article 104 Types of Additional Capital for Trading Book Risk
- Article 105 Maximums of Additional and Supplementary Capital That May be Assigned to Cover Banking Book and Trading Book Risk
- Article 106 Exemption From Requirements Concerning Trading Book
- Article 107 Capital Adequacy Ratio
- Article 108 Valuation of Assets
- Article 109 Liquidity
- Article 110 Prudent Exposure Ratios
- Article 111 Limitations on Net Open Currency Positions

- Article 112 Transactions With Persons Related to the Bank
- Article 113 Prohibited Transactions With Persons Related to the Bank
- Article 114 Reports of Transactions With Persons Related to the Bank
- Article 115 Anti-Money Laundering and Combating Terrorist Financing
- Article 116 Public Revenue Deposits
- Article 117 One Source Deposits
- Article 118 Reporting Public Revenue and Single Source Deposits

VI. BANKS' RELATIONS WITH CLIENTS

- Article 119 Protection of Clients
- Article 120 Disclosure of General Operating Conditions
- Article 121 Regulation of the Contract Content
- Article 122 Notification of Clients
- Article 123 Clients' Complaints
- Article 124 Notification to Holders of Dormant Accounts
- Article 125 Transfer of Dormant Accounts to the Central Bank
- Article 126 Register of Dormant Deposits Transferred to the Central Bank
- Article 127 Reclamation of Dormant Deposits Transferred to the Central Bank
- Article 128 Transfer of Dormant Deposits to the Ministry of Treasury and Finance

VII. RECORDS, ACCOUNTS, STATEMENTS, AUDIT AND REPORTING

- Article 129 Maintenance of Accounting Records
- Article 130 External Auditor
- Article 131 Qualifications for External Auditors
- Article 132 Resignation or Dismissal Of External Auditors
- Article 133 Refusal by the Central Bank to Accept an Audit Report
- Article 134 Quarterly and Annual Financial Reports
- Article 135 Publishing Financial Information
- Article 136 Submission of Information and Cooperation

VIII. SUPERVISION OF BANKING GROUPS ON A CONSOLIDATED BASIS

- Article 137 Transparency of Banking Group Structures
- Article 138 Capital Adequacy and Other Prudential Requirements for Bank Holding Companies and Banking Groups
- Article 139 Group-wide Risk Management Systems and Internal Controls
- Article 140 Governance of Bank Holding Companies
- Article 141 Reports by Bank Holding Companies
- Article 142 Consolidation of Financial Statements of a Banking Group
- Article 143 Bank Subsidiaries
- Article 144 Other Associated Enterprises of Banks
- Article 145 Special Provisions Concerning Foreign Associated Enterprises of Banks
- Article 146 Non-Bank Associated Enterprises of Bank Holding Companies
- Article 147 Corrective Measures Regarding Banking Group Enterprises and Persons With

Article 148 Qualifying Holdings in Banks or Bank Holding Companies
Cooperation Between Financial Sector Supervisors

IX. PROMPT CORRECTIVE ACTION

Article 149 General Provisions on Capital Deficiencies
Article 150 Restrictions on Activities of Undercapitalized Banks
Article 151 Restrictions on Activities of Significantly Undercapitalized Banks
Article 152 Critically Undercapitalized Banks
Article 153 General Provisions on Liquidity Deficiencies
Article 154 Restrictions on Activities of Strained Liquidity Banks
Article 155 Restrictions on Activities of Significantly Strained Liquidity Banks
Article 156 Critically Strained Liquidity Banks

X. RESOLUTION OF BANKS

Article 157 General Provision on Bank Resolution
Article 158 License Revocation
Article 159 Suspension of Litigation
Article 160 Appointment of Provisional Administrator or Receiver
Article 161 Judicial Review of Decision of the Central Bank to Revoke a Banking License or
Appoint a Provisional Administrator
Article 162 Qualifications of Provisional Administrator
Article 163 Provisional Administrator's Rights and Obligations Upon Appointment
Article 164 Responsibilities of Provisional Administrator
Article 165 Payment of Deposits by the Provisional Administrator
Article 166 Payment by the Deposit Insurance Fund of Insured Deposits
Article 167 Analysis and Report by Provisional Administrator
Article 168 Decision on Report of Provisional Administrator
Article 169 Option to Pursue Bankruptcy or Liquidation Through Judicial Proceedings
Article 170 Proposals to Sell or Merge a Bank Under Provisional Administration
Article 171 Proposals to Attract New Shareholders
Article 172 Termination of Provisional Administration
Article 173 Appointment of Receiver
Article 174 Qualifications for Receiver
Article 175 Duties of Receiver Following Appointment
Article 176 Authority of the Receiver
Article 177 Bridge Banks
Article 178 Avoidance of Certain Pre-appointment Transactions
Article 179 Netting of Claims
Article 180 Blocking Deposits
Article 181 Liquidation Procedures
Article 182 Priority of Claims
Article 183 Transactions by Provisional Administrator or Receiver
Article 184 Authority to Pursue Lawsuits for Damages

XI. VIOLATIONS, SANCTIONS, AND ENFORCEMENT ACTIONS

- Article 185 Violations of This Law
- Article 186 Procedures Regarding Violations
- Article 187 Procedures on Subsequent Similar Violations
- Article 188 Actions in Cases of Practices Endangering Banks
- Article 189 Suspension of Persons Charged With Criminal Offenses
- Article 190 Suspension of Persons Charged With Violations of This Law
- Article 191 Consequences of Suspension or Removal
- Article 192 Applicability of Suspension and Removal Provisions to Supervisory Boards, Management and Employees of Banking Group Enterprises
- Article 193 Consequences for Failure to Dispose of Shares
- Article 194 Complaints Concerning Decisions on Enforcement Actions

XII. JUDICIAL PROCEEDINGS

- Article 195 Judicial Review of Actions of the Central Bank
- Article 196 Legal Protection for Officials And Employees of the Central Bank
- Article 197 Legal Protection for Officials And Employees of the Banking Agencies

XIII. TRANSITIONAL AND FINAL PROVISIONS

- Article 198 Central Bank Regulations
- Article 199 Banks Transitional Period
- Article 200 Existing Laws Replaced
- Article 201 Effective Date

(Attachment)

Training seminars organized by USAID Bank Supervision Project

Training Materials for these courses were transferred from project files to the agencies and were previously provided to the CTO at USAID – Sarajevo after the training sessions.

Topic	Delivered to:	Date
Basic Bank Supervision	FBA	March 1997
	BARS	September 1997
Bank Accounting	FBA	June 1997
	BARS	October 1997
Introduction to Credit	FBA	March 1997
	BARS	October 1997
Asset/ Liability Management and Liquidity	FBA	June 1997
	BARS	April 1998
Introduction to Foreign Currency Markets	FBA	June 1997
	BARS	December 1999
Advanced Bank Supervision	FBA	September 1997
	BARS	December 1998
Internal Controls/ Audit	FBA	September 1997
	BARS	March 1998
White Collar Crime and Money Laundering	<i>Joint: FBA/ BARS</i>	March 1998
Supervising Troubled Banks	<i>Joint: FBA/ BARS</i>	September 1998
Ethics and Professional Conduct	<i>Joint: FBA/ BARS</i>	October 1998
	<i>Joint: FBA/ BARS</i>	January 1999
Information Technology (IT) for Examiners	<i>Joint: FBA/ BARS</i>	October 1998
Intermediate Credit	FBA	January 1999
	BARS	July 1998
Managing the Examination Process	<i>Joint: FBA/BARS</i>	August 1999
Offsite Bank Supervision	<i>Joint: FBA/BARS</i>	August 1999
Overall Conclusions & Bank Ratings	<i>Joint: FBA/BARS/DIA</i>	January 2000
Intermediate Offsite Analysis	<i>Joint: FBA/BARS/DIA</i>	June 2002
Anti-Money Laundering	<i>Joint: FBA/BARS/DIA</i>	June 2002
Basic & Inter. Bank Supervision	<i>Joint: FBA/BARS/DIA/YNB</i>	July 2002
Train the Trainer	<i>Joint: FBA/BARS</i>	October 2002
Financial & Market Instruments	<i>Joint: FBA/BARS/DIA/CB</i>	October 2003
Overall Conclusions, Bank Ratings	<i>Joint: FBA/BARS/DIA</i>	June 2004



(Attachment)

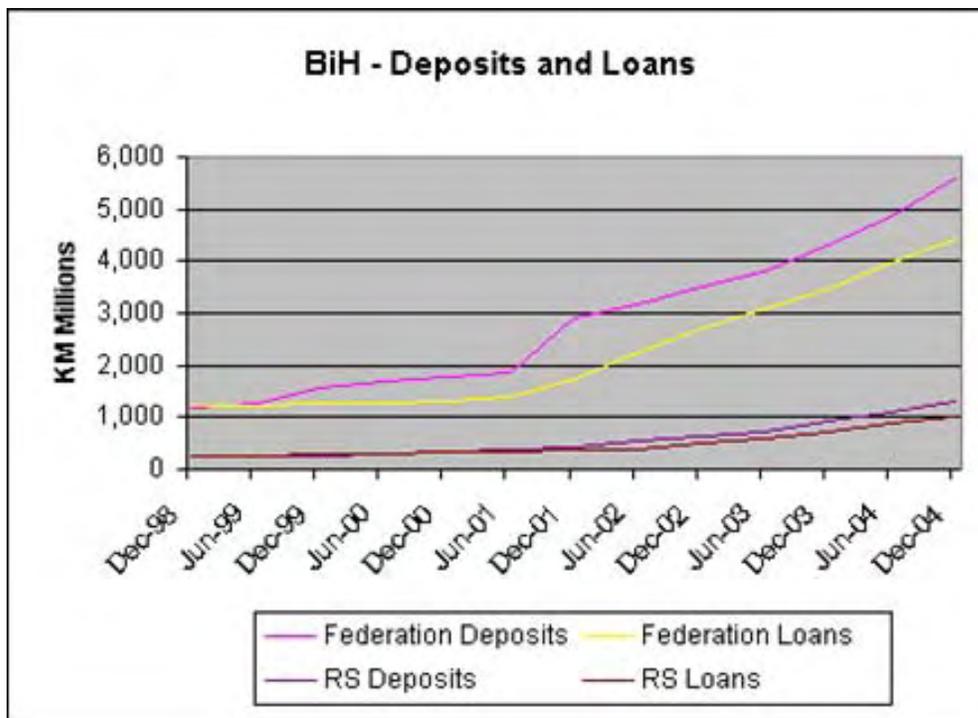
U.S. Based Training arranged by Bank Supervision Project

Topic	Delivered to:	Date
Overview of bank supervision process, internal controls, audit, asset/liability & liquidity mgmt., CAMELS ratings	<i>Joint:</i> FBA/BARS (6 & 5) & Commercial Bankers (7)	July 1997 4 weeks
Effective supervision process, onsite & offsite supervision, risk mgmt., problem banks, corrective actions, enforcement, fraud	<i>Joint:</i> FBA/BARS (5 & 4)	August 1998 4 weeks
International Bank Supervision for non-American Regulators, Jt. by Federal Reserve Bank & IMF	FBA Director Bars	October 2000 3 weeks
Performance Management, Training and Development, Examiner Accreditation, Team-Building	<i>Joint:</i> FBA/BARS (4 & 4), & Senior Project Associate	November 2000 4 weeks

(Attachment)

This Graph shows:

- a comparison of the size and growth of deposits and loans in the two entities
- increasing confidence: deposits increased slowly at first, then rapidly
- sharp deposit growth was quickly followed by sharp loan growth



(Attachment)

LIST OF MAJOR REFERENCES TRANSLATED FOR BANKING AGENCIES

(excluding procedures manuals)

- 1) Basel: Core Principles For Effective Bank Supervision (1997)
- 2) Basel: Elements Of An Internal Control System
- 3) Basel: Enhancing Bank Transparency (September 1998)
- 4) Basel: Core Principles Methodology (2001)
- 5) Basel: Conducting A Supervisory Self-Assessment (2001)
- 6) Basel: Cross Border Supervision And Agreements
- 7) Basel: FSI Paper On Location Of Bank Supervision
- 8) Basel: Guidance On Dealing With Weak Banks (2002)
- 9) Basel: The Third Pillar – Market Discipline (2003)
- 10) FDIC: A Quick Guide For Bank Closing
- 11) OCC: An Examiner’s Guide To Problem Bank Identification, Rehabilitation And Resolution (2002)
- 12) OCC: Red Flags In Board Reports – Guide For Directors (2002)
- 13) OCC: Bc-256 - Enforcement Policy (1998)
- 14) OCC: Standards Of Ethics And Professional Conduct (1998)
- 15) BearingPoint Group: Legal Protection For Bank Supervisors - Immunity Of Public Officials From Personal Lawsuits In The United States, United Kingdom And Germany (July 1999)
- 16) BearingPoint Group: Achieving Supervisory Objectives In Transition Economies - Legal Impediments And Potential Solutions (July 1999)
- 17) EBRD: Building A Strong Banking Sector In Transition Economies – The Case Of Moldova (October 1997)
- 18) World Bank: On The Road To EU Accession:
 - Restructuring The Banking Sector
 - Evaluation Of The Methods Of Restructuring
 - Strengthening Bank Supervision And Intervention
 - Equity Markets
 - Financial Sector Integration - Central Europe And The EU (1998)
- 19) World Bank: Study On Statutory Protections For Banking Supervisors (1999)
- 20) Federal Reserve Bank: Code Of Conduct (1999)
- 21) Federal Reserve Bank: Coverage Of Sections 23a & 23b (1999)
- 22) USG: Political Activity And Federal Employees (1999)
- 23) Instructions: OGE Form 450 – Confidential Disclosure Report (1999)
- 24) Wolfsberg: Global Anti-Money Laundering Guidelines For Private Banking (2002)
- 25) UST: Bank Secrecy Act (And Money Laundering) (1998)
- 26) FATF: 40 Anti Money Laundering + 8 CFT Recommendations
- 27) FATF: Guidance For Financial Institutions In Detecting Terrorist Financing (2003)
- 28) FATF: Report On Money Laundering Typologies (2003)
- 29) Information Paper On Financial Intelligence Units And The Egmont Group (2002);
- 30) Booklet Of BiH Anti-Money Laundering Working Group (2003)

Participation in other Projects and Working Groups by the Advisory Team

The success of the project has been attained through cooperation and inclusion of other international institutions and local interested parties in the implementation of changes to the financial sector. Early on, USAID recognized the importance of the interaction and cooperation from these sources and the interdependence of the players in the success of a financial sector reform that could be sustained. Our advisory team also believes that this interaction is beneficial and essential in making sure that all transitions and changes in the environment, particularly those prompted by legal reform, are fully supported in the implementation phase.

As a result of their long tenure our advisors have been and continue to be involved in many tasks forces, working groups and ad-hoc advisory capacities with the concurrence of USAID. Examples of some of these groups include:

- Central Bank of BiH. Ongoing Bank Supervision Coordination meetings and working groups to discuss implementation of numerous initiatives affecting financial sector reform.
- USAID, U.S. Treasury and The World Bank to develop a deposit insurance concept and a draft of the Deposit Insurance Law from late 1997 through late-1998, and again with U.S. Treasury, GTZ and The World Bank through the enactment of an improved law at the state level in 2002.
- IMF, WB, U.S. Treasury and OHR on Bank Privatization Working Group and Opening Balance Sheets for Federation Banks from 1998 through 2001.
- RS Bank Privatization Unit Advisors from SIDA from 1998-2001.
- USAID Macro-Economic Project on the Payments System study and conversion to commercial banking system from late-1998 to Jan-2001. BSP Advisor Berney was a major contributor to that project; other BSP advisors assisted.
- The World Bank attorney to develop a Law on Micro-Credit in 1998-1999. Project attorney and advisors provided substantive input into the new Law.
- The World Bank & DFID in October 2001 plans for privatizing 2 RS banks. Advisor Dudley developed the “Trustee Plan”. This forced out the issue of delay.
- Local Attorney and Prosecutor, Vildana Helic, training seminar March 1998.

- UST Advisor O'Brien on Seminars for Bankers on Internal Controls and Audit in September 1999.
- USAID Business Finance and Bank Development and Training projects included periodic meetings to discuss changes, trends and concerns in banking.
- Various regular IMF and World Bank missions, providing system data, translated reports, and other needed information.

Advisors Participation with Other Training Efforts:

- Advisors made presentations to USAID Bankers Training on “Internal Controls and Audit” in and on “Bankers Cooperation with Bank Examiners” 1997.
- Advisors made presentations to World Learning participants (Examiners and Bankers) in preparation for U.S. based training in 1997.
- Advisors made presentations to RS bankers in March 2000 on the process of qualifying for approval to perform payment transactions under the new system.
- Advisor participated in Round Table groups chaired by University Professor to discuss various banking related topics 2004-05.

Cooperation with FSVC:

- Volunteer Borders assisted on Training Seminars on Bank Accounting for Examiners and Bank Accounting for Bankers in September 1997.
- Volunteers Davis and Zohab assisted in the first Joint-Agency Training Seminar on “Financial Crime and Money Laundering”. We also arranged for them to make presentations to Federation-MOJ Prosecutors and to the University of Sarajevo School of Criminal Law in March 1998.
- BSP worked with FSVC volunteers on the following projects:
 - Sustainability of Deposit Insurance
 - Sustainability of Banking Supervision Agencies
 - IT Common Data Base
 - IT Examination Training

Core Principles for Effective Banking Supervision Assessment

Prepared by: Claude Raworth and Haydée Gilliam,

October 2001

Background:

Over the past six+ years USAID has provided substantial technical assistance and donor funds to build the banking regulatory infrastructure in the Federation of Bosnia and Herzegovina and in the Republika Srpska. This assistance has included a resident advisor team in both entities as well as short-term advisors that have provided guidance and knowledge transfer in the areas of bank supervision, problem bank resolution, and bank supervisory infrastructure (organizational structure and personnel management areas). The majority of the initial efforts were for developing the legal framework, as well as to provide formal and on-the-job training for onsite bank supervisors. Over the past year, however, much of the technical assistance has been focused on the development of the institutional capacity for the problem bank resolution and provisional administration.

As part of the a Task Order dated July 25, 2001 by BearingPoint Group of BearingPoint (BearingPoint) with USAID, one of the initial tasks identified in the project was the Assessment of the current supervisory capacity to comply with the 25 Core Principles for Effective Banking Supervision established by the Committee on Banking Supervision of the Bank for International Settlements, Basel, Switzerland (Basel Committee). These Principles are deemed the international standards for “excellence in banking supervision”. Additionally, the Banking Supervision Assessment Matrix (BSAM) was used to identify direct and indirect impediments to bank supervision.

The assessment was performed during the period October 1 through October 26, 2001 by Mr. Claude Raworth and Mrs. Haydée Gilliam, both recognized international banking supervision specialists. Mr. Raworth and Mrs. Gilliam are both former examiners with the Office of the Comptroller of the Currency in the United States. Mr. Raworth has more than 30 years bank regulatory experience and has worked for the last six years with Central and Eastern European central banks in the strengthening bank supervision. Mrs. Gilliam has more than 25 years of experience with international banking regulatory and supervisory issues.

The evaluation was performed in both the Federation Banking Agency of Bosnia and Herzegovina and in the Banking Agency of Republika Srpska. Mr. Raworth and Mrs. Gilliam received substantial assistance from the current resident advisors to each of the Agencies, Mr. C. Dale Wilson and Mr. Greg Taber. Additionally, the assessment team interviewed members of the international community, local government and Banking Agencies staff to gain insight into matters affecting the banking supervisor’s performance. Additionally, the team reviewed applicable laws, regulations and Banking Agency records. Full cooperation and access was available to the assessment team.

The results of the assessments were issued to each Banking Agency separately and thoroughly discussed. This summary highlights the most significant conclusions of both reports, identifies areas of additional need and makes recommendations for future consideration by USAID as well as the Banking Agencies.

Conclusions:

There is still substantial need for strengthening efforts and technical assistance for the Banking Agencies of both the Federation and Republika Srpska. There has been substantial achievement noted, particularly as they relate to the legal and regulatory framework. However, staffing has not kept pace with the complexity and emerging issues experienced in the financial sector. Each Agency has been able to perform a “good job” with the limited resources but they may not be able to cannot continue to “stretch” themselves to deal with the ever present crisis and perform continuing preventive supervisory functions.

Another area for improvement that is evident in both Agencies is the lack of perceived independence and credibility of the two institutions. Although the senior management of each Agency is considered professional and with substantial integrity, the overall perception is that their ability to act is limited due to either political pressure (RS) or unjustified lawsuits and investigations (FBiH). The proposal to place both Agencies under the scope of the Central Bank appears to be a solution that will eliminate or at a minimum reduce both of these concerns. It will additionally provide necessary funding for expansion in staff, training, and infrastructure needs.

As can be expected, neither Agency’s performance is considered fully compliant with all the Core Principles, however, a greater degree of compliance is evident in the FBA. This can be attributed to its longevity of operations and also a more robust banking system in the Federation with private and foreign bank ownership as well as deposit insurance. The RS still remains plagued by a troubled economic situation, large problem banks (primarily state-owned) and a shorter development history.

While the RS has been hampered by these problems, their smaller operations have also allowed them to develop more quickly in certain areas such as offsite tools and management information systems. These two areas could be replicated in the FBA and substantially increase the productivity of the overall staff. The FBA still maintains its idea of “creating” an internal MIS system but its development seems to be ineffective in meeting the FBA’s current supervisory needs. Waiting to build the “ideal” system has cost them years of inefficiency and poor “pro-active” supervision.

The banking system in both the Federation and the RS is changing rapidly and new entrants will also likely introduce new products, services and new areas of risk. Both agencies have

focused on dealing with credit-related problems of the past (connected lending and insider abuse primarily) or with liquidity and payment system problems. There has been limited time to develop in other areas such as interest rate risk, country risk, information technology and other legal risks (money laundering and other criminal activities within bank).

Other specific items and recommendations are included in each of the Agency's individual reports. We have recommended to Director Bars (FBA) and Acting Director Novaković (RS) that they use these recommendations to work with their staff and the USAID resident advisors in developing an internal action plan. We have also provided them with the Basel Committee on Banking Supervision document "Conducting a Supervisory Self Assessment – A Practical Application" that identifies a clear methodology they can use to perform a self-assessment and create a work plan.

Recommendations:

The assessment team recommends that USAID focus the technical assistance in three key areas:

- Development of a strong organizational structure, including performance management processes and personnel development
- Institutional technical knowledge building efforts through both formal classroom training and on-the-job advisor guidance on specific areas.
- Staff support of regulatory experts to assist in on-site examinations.

Organizational structure

In order to be effective both Banking Agencies will need to develop adequate levels of staffing, appropriate job descriptions and a performance management process that will reward excellence while dealing with "poor performance". Some initial work and restructuring was done earlier in 2001, however, it has not been finalized. The implementation of the proposal to bring the two Agencies under the "umbrella" of the Central Bank, creates an excellent opportunity to revisit the current organizational structure and implement a sound performance management and remuneration process. This will allow both Agencies to attract and retain talented personnel and appropriately deal with poor performers. Training and coaching in this area will be necessary as these processes are implemented.

Institutional technical knowledge

There is a need to have training and knowledge transfer in new areas of risk for the Agencies such as country risk, market risk and information technology. Additionally, as new personnel is hired and a need for specialists becomes more pronounced, there needs to be some basic

knowledge standards outlined. It is recommended by this assessment team that consideration be given to supporting training efforts in the following areas:

- Money laundering and other “white collar crimes”
- Advanced credit evaluation skills, focusing on cash flow evaluation
- International accounting standards and their implementation during both onsite and offsite processes, particularly as they apply to accounting for mergers, acquisitions and new products
- Information technology – data processing evaluation
- Market risk – interest rate, price and foreign exchange risks within the bank’s balance sheet and off-balance sheet operation
- Train the trainer course that will allow them to build internal capacity to train their new staff
- Managing the examination – including budgeting, planning and performance evaluation.

The above components should include both formal classroom training complemented with on-the-job application of the material.

Staff support

Additional experts are needed to ensure that the Agencies move from a “reactive” mode of supervision to one of being “pro-active”. The experts would be used in “targeted” examinations to identify emerging risks and threats and enable the Agencies to take timely corrective action. The staffing levels at both Agencies are too thin at present and for the immediate future to fulfill this goal. Staffing problems at the RS are even more acute.



Administrative Matters:
A. Project Team Staff:

Resident Project Staff

Dale Wilson	Chief of Party, Resident Advisor: July 1996 to present
Dan Berney	Resident Advisor & Pmts. System: July 1996 to March 2001
Greg Taber	Resident Advisor: September 1997 to present
Daniela Gogic	Translator – June 1997 to present
Sabina Kavazovic	Translator and Office Assistant – May-97 to present
Stasa Perkin	Translator and Office Assistant – Feb-98 to Feb-05
Vildana Tuzovic	Sr. Project Associate and Office Mgr: Nov-1996 to present
Jasna Vijiuk	Translator and Office Manger – Oct-97 to present

Headquarters Project Staff

Lori Bittner	Managing Director, Project Manager – July 1996 to present
Francisco Figueroa	Project Coordinator, Manager – July 1996 to Sept-2002
Haydée Gilliam	Project Manager – 2001 - 2002
James J. Hightower	Managing Director – July 1996 to YE-2000
Joel Shapiro	Project Manager – 2004 to present
Timothy Murphy	Project Coordinator – 2003 to present

TDY Bank Supervision Experts & Principal Assignments:

Phil Anderson	Training, Supervision,
Jane Benson	Intervention, Liquidation, Deposit Pay-outs, Hercegovacka Bk
Lori Bittner	Project Manager, Training, Supervision, Core Principles
John Borders	Training, Supervision, Accounting, Reporting,
Dan Callis	Training, Supervision
Bob Carpenter	Regulatory Attorney, Micro-Finance Laws
Jerry Coleman	Examinations
David Cooke	Senior Policy Advisor, Planning
James Crozier	Examinations
John Demitrovic	Examinations
Ed Drake	Problem Bks, Intervention, Supervision, Money Laundering
Bill Dudley	Trusteeship, Resolution
John Ewald	MIS, Regulatory Reporting
Francisco Figueroa	Training, Supervision, Analysis, Problem Bks, Core Principles
Djevad Gazibegovic	Liquidation, Provisional Administration
Gary Gegenheimer	Regulatory Atty., Administrative Enforcement, Law on Banks
Haydée Gilliam	Supervision, Analysis, Training, Project Mgr, Core Principles
Gil Grey	Examinations, Intervention, Resolution

Jack Gushee	Examinations
Noel Hardin	Examinations
Gene Hollis	Examinations
Neil Isbrandtsen	Examinations
Clydell McSpadden	Supervision, Problem Banks, Enforcement, Intervention
Daniel Luczak	Advisor, Training and Development Policy
Jimmy Mohler	Training, Accounting, Reports, Analysis
Wayne Owens	Examinations
Bill Pendleton	Examinations
Vicki Peterson	Supervision
Harold Poppa	Supervision, Problem Banks, Enforcement Review Process
David Parker	Asset Sales, Liquidation
Charles Ratliff	Examinations, Reports
Claude Raworth	Training, Supervision, Licensing, Core Principles Assessment
Bill Robertson	Supervision, Problem Banks, Performance Mgmt.
Toby Robinson	Problem Banks, Intervention, Provisional Administration
Don Ryan	Liquidation, Case Memo Process
Jimmy Satterfield	Examinations
Richard Stitche	Training, IT Exams, Y2K, Payment Transactions
Graciano Velez	Examinations, Accounting
Sandra Waldrop	Deposit Insurance Pay-out Procedures and Training
Dave Weatherman	Examinations
Alan Whitney	Regulatory Communications
Jim Wright	Training, Anti-Money Laundering

Other Advisors

Assignments at Hercegovacka Bank – PA

Jack Biggs	Asset Sales, Loan Collections, Resolution
Douglas Carpenter	Letters of Credit, Guarantees
James Hightower	MIS Reports
Marilyn Hill	Insurance, Affiliates
Diane Moore	Chief of Staff, Executive Assistant
Mike Rouswell	Asset Sales, Due Diligence, Liquidation
Steve Shippie	Affiliates, Subsidiaries, Asset Sales
Bob Webber	Banking, Supervision, Reports
Patrick Wiede	Administrative, Affiliates

C. USAID Funded Property at Conclusion of Contract -- July 31, 2005

The following list of property transferred to the banking agency where located.

Computer Equipment (Agency Offices - Sarajevo and Banja Luka)		
Item	Description	Location
HP Deskjet 842C	Printer	Sarajevo
Canon C300	Printer	Sarajevo
HP Deskjet 940C	Printer	Banja Luka
Compaq Armada 1520D (laptop)	Office 95 +External mouse Rec. from Bus.Cons. (Broken)	Sarajevo
Extensa / Texas Instruments (laptop)	Office 95 +External mouse Rec. Macro-Econ. (Broken)	Sarajevo
Belinea 17" screen		Sarajevo
HP LaserJet 6L	Office	Sarajevo
TeleFax Panafax-332	Received from Business Consulting	Sarajevo
File cabinets	Two metal case cabinets: One smaller size, other medium	Sarajevo
File cabinets (KING MEC)	Two black metal case cabinets	Sarajevo
File cabinets (KING MEC)	Two black metal case cabinets	Banja Luka
Drawer cabinet		Banja Luka
Desk Lamps	Two	Banja Luka
Coat Rack		Banja Luka
Electric Heater	Two	Banja Luka
Desk Fan		Banja Luka
Dinner Table		Banja Luka
Nokia Cellular phone	(damaged)	Sarajevo
Nokia Cellular phone	(broken)	Sarajevo
Ford Explorer XL 4.0	Color: White/ Doors: 4+1	Sarajevo
Ford Explorer XL 4.0	Color: White/ Doors: 4+1 (Note: Truck previously transferred from Bus. Const. W/O proper papers completed.)	Sarajevo

The following equipment transferred to FBA.

List of Items used by Hercegovacka Bank in Provisional Administration		
Item	Description	Location
CLONER IDE Duplicate and SCSI Duplicator	IM1000 – Image Master 1000 4 Drive SCSI Hard Drive Duplicating System	Sarajevo
SCANNER HP Vectra VL 400 MT		Sarajevo
Logicube Solitare Forensic Kit	Includes: rugged carrying case, portable full page printer,	Sarajevo
Cheetah 36ES Hard Drives	3FEOICQG; 3FEOINAL; 3FE0284N; 3FE01+NT; 3FE02912; 3FEO1213	Sarajevo
Cheetah 36ES Hard Drives	3FE02AVT; 3FE01KSL; 3FE01B6X; 3FE01C4R; 3FE028XS; 3FE028XG	Sarajevo
Diamond Mix Hard Drives	+385152C; +3RS14RC	Sarajevo
GP-405 Digital Laser Photocopier	Copies – UNY11114 Feeder – Z8D27708 Finisher – Z8V62856	Sarajevo
Scuzzy Drives		Sarajevo