

Pursuant to Article 34. paragraph (1) item d) of the Pensions Reserve Fund of Republic of Srpska ("Official Gazette of the Republic of Srpska" no. 73/08, 50/10 and 102/12), Article 30 paragraph (1) item d) of the Statute of the Management Pension Reserve Fund of the Republic of Srpska ad Banja Luka (" Official Gazette of the Republic of Srpska, No. 65/10, 62/11 and 111/12) and Article 3. of the Rules on Management board procedures, Management board of The Management company of Pension Reserve Fund Of Republic of Srpska ad Banja Luka, at the session held on 13th of December 2012. brings,

Investment policy statement and objectives for Pensions Reserve Fund of Republic of Srpska

Article 1.

The investment policy is an act of Pensions Reserve Fund of Republic of Srpska ad Banja Luka (hereinafter referred to as the Reserve Fund), which provides:

1. The objectives of the Reserve Fund,
2. Investment principles,
3. An audit of the investment policy statement.

I OBJECTIVES OF THE RESERVE FUND

Article 2.

(1) The Reserve Fund shall maintain a conservative investment policy in accordance with the Law on Pension Reserve Fund Of Republic of Srpska (Official Gazette of Republic of Srpska, No. 73/08, 50/10 and 102/12, hereinafter referred to as the Act).

(2) A conservative investment policy involves investment of funds in less risky financial instruments up to 100% of the actual inflows obtained by restructuring portfolio of Reserve Fund (proceeds from sale of shares, dividends and interest), with respect to the investment restrictions prescribed by the Act. Less risky financial instruments are as defined in Article 3. Paragraph 2. Of the Investment policy statement and objectives.

(3) The Reserve Fund may invest in risky financial instruments, as defined in Article 3 paragraphs 3, 4, 5, 6 and 7 the investment policy statement and objectives. Total investments in risky financial instruments may not exceed 20% of aggregate inflows generated by restructuring the portfolio of the Reserve Fund (proceeds from sale of shares, dividends and interest).

Article 3.

(1) The investment objective of the Reserve Fund is to achieve stable returns over the long term through investment of the funds, and to support the provision of long-term financial viability of the mandatory pension insurance of Republic of Srpska.

(2) The less risky financial instruments include the following financial instruments that deliver stable returns:

1. cash, cash equivalents, deposits and certificates of deposit at banks in BiH with a certificate of membership in the deposit insurance program,
2. government and entities debt securities, and debt securities of Brcko District with a maximum maturity of 15 years,
3. municipal bonds with maturities up to 15 years and a grace period equal one third to period up to maturity.

(3) In addition to the financial instruments mentioned in the previous paragraph, the Reserve Fund may invest in debt securities of public companies that cumulatively meet the following conditions:

1. debt securities that have terms to maturity up to 10 years and a grace period that is equal to the maximum one third of maturity period,
2. debt securities whose yield is equal to or greater than the average yield on treasury bills in Republic of Srpska in the previous year, plus the risk premium in accordance with the internal regulation of the Management company of Pension Reserve Fund Of Republic of Srpska ad Banja Luka (hereinafter referred to as the Management Company)
3. joint stock company has adopted the standards of corporate governance and adopted a dividend policy and good corporate culture,
4. in the management board or supervisor board of the joint stock company, it has been appointed a representative who is proposed or supported by the Reserve Fund, except in cases where there are other control mechanisms (eg, the existence of regulatory agency that issued the license).

(4) In addition to financial instruments as defined in paragraph 2 and 3 of this Article, the Reserve Fund may invest in shares of joint stock companies in which are fulfilled the following criteria:

1. Shares of joint stock company listed on the official market,
2. Stock company in the last three years has paid out at least one cash dividend,
3. Joint-stock company in the last three years had an average return on equity equal to or greater than the average yield on treasury bills in Republic of Srpska in the previous year,
4. Joint Stock Company has adopted corporate governance standards, adopted a dividend policy and has good corporate culture,
5. The management board or supervisory board in joint stock company appointed a representative who is proposed or supported the by Reserve Fund, except in cases where there are other control mechanisms (eg, the existence of regulatory agency that issued the license).

In addition to these criteria before investing, a visit to a joint stock company is required in order to better understand all aspects of the business.

(5) The Reserve Fund, with the approval of the Supervisory Board, if it determines that it is in the interest of preserving and increasing the Reserve Fund assets, has the right to use pre-emptive recapitalization at public companies that do not meet the criteria in paragraph 4 Counts 1, 2, and 3 of this article, where the Reserve Fund holds more than 5% ownership.

(6) In order to reduce liquidity risk of Reserve Fund, the Reserve Fund may invest in shares of joint stock companies, which do not meet the requirements of paragraph 4 of this article, which are carried at fair value in the portfolio of the Reserve Fund in the top 50, except that this investment will not increase participation in these joint-stock companies for more than 10% share compared to the previous year.

(7) The Reserve Fund, may, with the approval of the Supervisory Board, if it determines that it is in the interest of preserving and increasing the Reserve Fund assets, and for the risk management of Reserve Fund, to invest in securities of foreign entities that are listed in the highest stock segment in the EU states, OECD and CEFTA, and not more than 1% of the assets of the Reserve Fund.

(8) Capital of Reserve Fund in an amount up to 0.10% of the net asset value as of 31.12.2012. year will be used to cover the costs of the court proceedings if Reserve Fund appears as a party in convocation of issuers in the portfolio of Reserve Fund, starting costs of bankruptcy and liquidation of the issuers, and the costs of professional trustees, independent auditors, assessors and notary, only when initiated by the Reserve Fund when the issuer is unable to pay, while the right of recourse of the costs of the issuer remains.

Article 4.

(1) The realization of the investment objectives of the Reserve Fund includes restructuring (rebalancing) of existing investment property the Reserve Fund. Most of the assets of the Reserve Fund consist of equity securities. Equity securities are among the high-risk investments, and the restructuring process needed to free funds engaged in risky forms of investment, and for the most part, in accordance with Article 2 the investment objectives and policies, invest in less risky investment alternatives.

(2) The long-term goal of the Reserve Fund is portfolio structure, in which the dominant share (up to 80%) have debt securities.

Article 5.

(1) The restructuring involves the sale of shares of companies in the portfolio of the Reserve Fund and the purchase of financial instruments in accordance with Article 2 the investment policy and objectives.

(2) The subject of sale may be all companies in the portfolio of the Reserve Fund, except companies in the electric power system of the Republic of Srpska and Telekom Srpske, up to the amount of the Reserve Fund investment restrictions provided by the Act.

(3) The sale of shares of companies in the portfolio of the Reserve Fund, will be performed primarily in shares which fulfilled one of the following criteria:

1. in the past has already published one or more takeover bids in which the majority owners and the related entities have more than 50% ownership,
2. less than 200 shareholders in the company,
3. in which the Reserve Fund remained only institutional investor, or where a reasonable number of other institutional investors started the procedure for the sale,
4. total capital of the company under 5 million BAM,
5. in which the funds managed by the Investment Development Bank of the Republic of Srpska undertook sales procedure,
6. joint-stock company in the last three years had an average return on equity less than the average yield on treasury bills of Republic of Srpska in the previous year,
7. stock market capitalization of the company is less than 5 million BAM.

Article 6.

The Management Company may assess, if it results in the fulfillment of investment objectives of the Reserve Fund, not to sell shares of companies that meet the requirements of Article 5 paragraph 3, specially in the case when one of the shareholders is Share Fund of the Republic of Srpska.

Article 7.

(1) When applying for a takeover bid and selling on the basis of inconsistent shareholder right Management Company will provide a transparent conditions of sale of shares from the Reserve Fund.

(2) Transparency sale of shares from the Reserve Fund means that before applying to a takeover bid or giving an order for the transfer of shares by the use of inconsistent shareholders right, sale of shares will be organized through the stock exchange at a price

equal to the price that has been published at takeover bid, or accepted based on the use of inconsistent shareholder rights.

Article 8.

(1) By selling shares will strive to maximize the sale price. The Management Company will provide its management activities in order to ensure conditions for achieving fair value of the shares.

(2) The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(3) For the purpose of informing the shares, the Management Company will publicly announce the intention to sell in the manner specified by operating rules.

II PRINCIPLES FOR INVESTING

Article 9.

When making investment decisions, Management Company will be guided by the following principles:

1. Principle of security of the funds - the funds will be invested in financial instruments of issuers with high credit rating - low risk. A high credit rating - low risk implies to the financial instruments defined in Article 3 Paragraph 2 of the Investment policy statement of the Reserve Fund.
2. The principle of portfolio diversification - the investments will be made in financial instruments that vary according to the type and issuers, as well as other characteristics. Diversification is achieved by investing in financial instruments whose returns have relatively low positive correlation, negative correlation, or are indifferent;
3. The principle of liquidity - the investments will be made in financial instruments that can be quickly and efficiently bought or sold at a relatively uniform and stable prices as well as financial instruments whose cash flow is certain and known in advance and
4. The principle of profitability - the investments will be made in such a way that in the structure of the portfolio are financial instruments that, with respect to the previous principles, bring the highest return for the level of risk taken. The principle of profitability of investments in equity financial instruments involves investing in stocks of issuers in accordance with Article 3 the Investment policy statement and objectives.

Article 10.

The Management Company will provide the procedures by which any sale and purchase of financial instruments is to be accompanied by an analytical report and opinion of risk analyst.

III INVESTMENT POLICY STATEMENT REVIEW

Article 11.

Management Company shall audit the investment objectives and policies at least annually, and if required, propose amendments.

IV TRANSITIONAL AND FINAL PROVISIONS

Article 12.

(1) With the entry into force of this Investment policy statement and objectives, Investment policy and objectives that have been approved by the Assembly of the Reserve Fund on 30th of January 2012. shall be repealed.

No. UP-41-2/12

Date: 13th of December 2012.

Director
Darko Lakic