

Pursuant to Articles 37 and 291 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 04/17), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b, and Article 37 of the Law on Banking Agency of the Republika Srpska (“Official Gazette of Republika Srpska”, No.: 59/13 and 4/17) and Article 6, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 63/17), the Management Board of the Banking Agency of the Republika Srpska, on its session held on July 25, 2017, adopted the following

D E C I S I O N

ON CALCULATION OF CAPITAL IN BANKS

CHAPTER 1

GENERAL PROVISIONS

Subject of Decision

Article 1

(1) This Decision on Calculation of Capital in Banks (hereinafter: Decision) shall regulate the following:

- 1) characteristics and types of items that are to be included in the calculation of regulatory capital (own funds),
- 2) the method and scope in which individual items are to be included into the calculation of individual parts of regulatory capital,
- 3) the financial leverage ratio,
- 4) capital buffers and capital conservation measures and
- 5) capital requirements and the methodology for calculating capital requirements.

(2) All banks with headquarters in Republika Srpska (hereinafter: RS) to which Banking Agency of Republika Srpska (hereinafter: Agency) has issued operating licenses, shall be under obligation to apply the provisions of this Decision.

(3) The bank shall be under obligation to apply the provisions of this Decision on individual basis, and on consolidated basis in compliance with regulations that regulate supervision on consolidated basis.

Terms

Article 2

The terms used in this Decision shall have the following meanings:

- 1) Accumulated other comprehensive income – shall share the same meaning as in the International Accounting Standard 1, and in the course of calculation of regulatory capital it shall be expressed in the same manner as in the financial statements of the bank, reduced by related tax effects.
- 2) Deferred tax assets and deferred tax liabilities – shall have the same meaning as in the applicable accounting framework.
- 3) Deferred tax assets that rely on future profitability – deferred tax assets whose future value shall be realizable only if the bank, in future, generates taxable profits.
- 4) Distribution – the payment of dividends or interest in any form.
- 5) Funds for general banking risk – provisioning that the bank is allocating on the basis of the decision of the competent body of the bank for the coverage of losses for specific risks that

originate from bank operations and which do not relate to the value adjustments of balance sheet assets and provisions for losses on off balance sheet items.

6) Intangible assets – shall have the same meaning as in the applicable accounting framework and shall include goodwill.

7) Indirect holding – exposure towards an intermediate entity that bought a capital instrument whose issuer is an entity in the financial sector, while the losses that the bank might execute shall not differ significantly from the losses that would occur from a direct holding of those capital instruments,

8) Other capital instruments – capital instruments issued by financial sector entities that do not qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments.

9) Other reserves – reserves in compliance with the applicable accounting framework that has to be disclosed in compliance with the applicable accounting standard, excluding the amounts that are already included in accumulated other comprehensive income or retained earnings.

10) Regulatory capital (own funds) instruments – capital instruments issued by the bank that qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments.

11) Profit – shall have the same meaning as in the applicable accounting framework,

12) Reciprocal cross holding – a holding by a bank of regulatory capital instruments or other capital instruments that are issued by financial sector entities, if those entities also hold regulatory capital instruments issued by the bank,

13) Retained earnings – profits and losses brought forward as a result from profit from previous years or uncovered losses from previous years, in compliance with the applicable accounting framework.

14) Share premium account – in that account the positive difference is disclosed between the sales value of shares achieved and their nominal value.

15) Distributable items – the amount of profit at the end of the last financial year increased by any profits brought forward and reserves at the disposal for that purpose before distribution to holders of regulatory capital instruments, and reduced by all losses brought forward, the profit that is not available for distribution in compliance with the provisions of the legislative framework or internal acts of the bank and amounts that are distributed in reserves that are not at the disposal for distribution under the provisions of the legislative framework or Bank Statute.

16) Credit institution – an undertaking whose activity is to take deposits and other repayable funds from the public, and to grant credits on its own account. For the purpose of this Decision, and in compliance with current legal regulations, credit institutions in Bosnia and Herzegovina (hereinafter: BiH) shall be banks. In the remaining text of this Decision, the term “foreign bank” shall also be used for credit institutions with headquarters outside of BiH.

17) Institution - shall mean a bank, a foreign bank or an investment company.

18) Insurance undertaking – a legal person defined in compliance with the Law on Insurance Companies of Republika Srpska and the Law on Insurance of the Federation of Bosnia and Herzegovina. Insurance undertakings outside of BiH are defined in compliance with the regulations of the European Union or national legislation of that country.

19) Investment fund - a legal person defined in compliance with legislated regulations in RS and the Federation of BiH (hereinafter: FBiH) that regulate operating conditions of investment funds. Investment funds outside of BiH are defined in compliance with the regulations of the European Union or national legislation of that country.

20) Central government – shall cover state bodies and authorities of legislative, executive, and judicial powers that are financed from the state budget and that are, as such, defined by the supervisory authority – enactment of the country in question. In BiH, only the term Council of Ministers of BiH shall be used.

21) Regional governments and local authorities – shall cover the bodies that are, as such, defined by the competent regulatory authority – enactment of the country in question and that

are financed from their budgets. In BiH, it shall include the following authorities and bodies:

1. legislative and executive authorities of RS, FBiH, and Brčko District of BiH,
2. legislative and executive authorities of cantons,
3. municipal and city administration,
4. judicial powers and judiciary of RS, FBiH, and Brčko District of BiH, cantons and municipalities, and
5. authorities and bodies that are financed from the budgets, as listed in Items 1 to 4.

22) Public sector entities (PSE) – shall cover the bodies that are, as such, defined by the competent regulatory authority of the country in question, and if such a definition does not exist, then those shall be the following:

1. non-commercial administrative body responsible to central governments, regional governments or local authorities,
2. non-commercial legal persons whose founders are central governments or regional governments and local authorities and that irrevocably provide guarantees for their liabilities, and
3. institutions whose operations are regulated under a special law and that are subject to public supervision (agencies, institutes, commissions, and similar institutions).

23) Multilateral development banks (MDB) – legal persons whose owners or members are, at the minimum, three sovereign states and whose core activity is the provision of funds for the financing of economic development of all state members, or of only a selected group of state members.

24) Asset Management Company – shall be a legal person defined in compliance with legislated regulations in RS and FBiH that regulates business operations of asset management companies. Asset management companies outside of BiH shall be defined in compliance with a regulation of the European Union.

25) Financial sector entity shall be one of the following:

1. an institution,
2. a financial institution,
3. an ancillary services undertaking included in the consolidated statement of financial position of the bank,
4. an insurance undertaking,
5. a reinsurance undertaking,
6. an insurance undertaking outside of BiH,
7. a reinsurance undertaking outside of BiH,
8. an insurance holding,
9. a mixed-activity holding,
10. a mixed-activity insurance holding,

11. a company with headquarters outside of BiH whose core activity is comparable with any entity listed in items 1 - 10,

26) Financial institution – a legal person that is not an institution and whose core activity is the acquisition of stock in capital, i.e. performance of one or more of the following activities:

1. approving credits and loans, if allowed under a special law;
2. financing commercial deals, including export financing on the basis of redemption under discount and without regress of long-term not yet matured claims secured with financial instruments (in English, forfeiting);
3. financial leasing;
4. payment system services under a special law;
5. issuance of other payment instruments and their management, if the provision of those services is not deemed as provision of payment system services;
6. issuance of guarantees or other commitments;
7. trading on one's own behalf or on behalf of clients:
 - with money market instruments (checks, bills of exchange, deposit certificates,

- etc.),
- transferrable securities,
 - foreign exchange assets,
 - financial futures and options,
 - currency and interest rate instruments;
8. intermediation in concluding deals on the money market;
 9. participating in the issuance of securities and provision of services relating to the issuance of those securities;
 10. management of clients' assets and advising in connection with that;
 11. custodial deals with securities, as well as services of management of securities;
 12. counseling of legal persons relating to capital structure, business strategy, and similar issues, as well as the provision of services that concern deals of merger, i.e. acquisition, and acquisition of shares and stocks in the business of other companies;
 13. issuance of electronic money.

A financial institution shall cover financial holding, mixed financial holding, and an asset management company, but shall not cover an insurance holding or a mixed insurance holding.

27) Regulatory institution (competent authority) – pursuant to Article 2, Paragraph 1, Item 5 of the Banking Law of Republika Srpska.

28) Independent appraiser – a person that:

1. possess necessary qualifications, competencies and experience necessary for the determination of real estate value,
2. is not involved in the procedure of approval of investments or intermediation, sale, or renting of real estate,
3. has no legal or business relationship with the debtor, apart from the task of appraisal, and
4. has no interests of his own relating to the results of the final report that determines the market value of the real estate.

29) Credit risk mitigation (hereinafter: CRM) – a technique the bank uses to mitigate credit risk relating to exposure or exposures that the bank in question has, and that covers funded and unfunded credit protection.

30) Funded credit protection - a credit risk mitigation technique under which the mitigation of credit risk upon exposure of the bank results from the right of that bank, that, in case of onset of the status of default in liabilities on the side of the other contractual party or the onset of other specific credit events relating to the other contractual party, it realizes or transfers onto itself or takes possession of or retains certain assets or amounts, or to reduce the amount of exposure down to the amount of the balance between the amount of exposure and the amount of credit protection.

31) Unfunded credit protection – a credit risk mitigation technique under which the reduction of credit risk upon exposure of the bank results from the liability of the third party to pay a certain amount in case of onset of the status of default in liabilities of the debtor or onset of other specific credit events.

32) Cash assimilated instrument – a certificate of deposit, a bond, including a covered bond or any other non-subordinated instrument issued by the bank, for which the bank was already paid in full and which the bank would reimburse unconditionally at its nominal value.

33) Marking to market – valuation of items at immediately accessible closing prices acquired from independent sources, such as prices from the stock exchanges.

34) Market value of property – the assessed value for which the property could be exchanged as of the date of valuation between an interested buyer and an interested seller in an arm's length transaction under market terms (under the condition that the buyer and the seller are not mutually related persons under the definition from the Law on Economic Companies), pending that both parties are well informed, and are acting in a reasonable manner and voluntarily.

35) Residential property - a house, apartment, and accompanying parts of apartment in condominium ownership that are intended for housing, and construction land intended for building a residential real estate. A garage or a parking spot shall be deemed as residential real estate, if the mortgage was based on the garage, i.e. parking spot, together with the family house, apartment, and accompanying parts of the apartment in condominium ownership that are intended for housing. A house for rest and recreation shall not be deemed as residential real estate.

36) Commercial property - a commercial building, business premises, garage, and garage/parking spot, construction land intended for construction of commercial real estate, and agricultural land. Commercial building shall pertain to a building intended for the performance of business activity, if it is being used for those purposes, for the most part. Business premises shall pertain to one or more premises in a commercial or residential building that are intended for the performance of business activities and that, as a rule, represent a construction unit and have a separate main entrance. A garage or a parking spot shall be deemed as commercial property if they are intended for the performance of business activity or are used for that purpose, for the most part, or if the mortgage was based on the garage, i.e. garage/parking spot, together with the commercial property. Agricultural land shall pertain to meadows, orchards, vineyards, fisheries, and other land intended for performance of agricultural activities, if it is being used to that purpose, for the most part.

37) Exposures at default – all claims from one debtor who is in default with repayment of liabilities to the bank for longer than 90 days in a materially significant amount. Materially significant amounts shall pertain to claims from:

1. natural persons, in amounts exceeding BAM 20 or 1% of total exposure of the debtor, and

2. legal persons, in amounts exceeding BAM 500 or 2.5% of total exposure of the debtor,

Exceptionally, in case of exposure to natural persons, the bank may determine the status of default on liabilities on the basis of an individual exposure, instead of at the level of total receivables of the bank from that debtor.

38) Small and medium enterprises (SME) - persons that are performing economic activities independently in order to execute profit through manufacturing, sale, or provision of services in the market, irrespective of their legal form. For the requirements of application of this Decision, a person may be deemed as a small and medium enterprise only if it meets the conditions under the Law on Accounting and Auditing in Republika Srpska.

39) Officially supported export credits – loans or credits for the financing of exports of goods and services for which official export credit agencies are providing guarantees, insurance, or direct financing.

40) Credit risk value adjustments – amount of general value adjustments and specific value adjustments for loan loss provision for credit risks that are recognized in financial statements of the bank, i.e. the item recorded in the income statement.

41) External credit assessment institution, i.e. “ECAI” – an agency for credit risk assessment that is registered or certified in compliance with European Union regulations on agencies for credit risk rating.

42) Nominated ECAI – the ECAI nominated by the bank.

43) Underlying investment fund – an investment fund in whose shares or stock another investment fund is investing.

44) Transaction with long-term settlement period – a transaction under which one contractual party commits to delivering securities, commodities, or foreign currency, in exchange for cash funds, other financial instruments, or commodities, or vice versa, on the date of settlement or delivery that is specified in the contract, and that onsets later than the market standard for that specific type of transaction, or five working days after the date of concluding the transaction, whichever date onsets earlier.

45) Free delivery - a transaction that is realized so that one contractual party executes the

payment / delivery before the other contractual party performs its obligation under the contract.

46) Margin lending transactions - transactions in which the bank is approving loan for purchase, sale, holding of securities, or trading with them. Margin lending activities shall not represent other types of loans secured by collateral in the form of securities.

47) Operational risk – shall have the same meaning as in Article 90, Paragraph 4 of the Banking Law of Republika Srpska.

48) Market risk – shall have the same meaning as in Article 90, Paragraph 3 of the Banking Law of Republika Srpska.

49) Financial instrument - one of the following:

1. a contract from which financial assets result for one contractual party, and a financial liability or an equity instrument results from the other contractual party,

2. financial derivatives under Attachment 2 of this Decision,

3. any other financial instruments under Attachment 2 of this Decision,

4. primary financial instruments, and

5. instrument that may be deemed as cash.

The instruments referred to in Items 1 - 3 shall be deemed as financial instruments only if their value is derived from the price of an underlying financial instrument or another underlying item, rate, or index.

50) Financial derivatives – financial instrument or another contract that has the following three characteristics:

1. its value changes as a reaction to changes in the determined interest rate, the price of the financial instrument, the price of commodity, exchange rate of foreign currencies, price index or rate price, credit rating or credit index, or another similar variable, under the condition, that in case of non-financial variable, that variable is not specified for either of the contractual parties,

2. it does not require initial net investment or that investment is smaller than the one that would be necessary for other types of contracts for which one may expect that they would react in a similar manner to changes in market factors, and

3. it shall be settled at some date in the future,

51) Underlying instrument – shall be a security or another instrument to which the financial derivative refers,

52) Foreign exchange forward agreement shall be an agreement on purchase or sale of a certain amount of foreign currencies at an already agreed price on an already agreed date of maturity (longer than two working days). A forward agreement does not have a price that would need to be paid upon concluding the agreement (a premium), but as of the date of execution the liability has to be executed, regardless of whether the market price is more favorable than the agreed price of the forward or not.

53) Forward rate agreement - an agreement on the basis of which one contractual party commits to pay to the other contractual party, on a specific date, interest calculated at the fixed rate for the period specified in the contract, and the other contractual party commits to pay interest on the amount specified in the contract at the interest rate that is in effect as of that date (for example, the fixed part and the variable item: EURIBOR, LIBOR, and similar.). On the date of the settlement, the amount of the payment shall be calculated on the basis of the balance between the determined interest rate and the interest rate that is in effect on that date.

54) Futures agreement - shall signify the right or the obligation of purchase or sale of a specific asset or instrument on a date specified in advance (for example, foreign currency futures, interest futures, futures on share indices, futures on bonds, futures on gold, futures on agricultural products, and similar).

55) Currency futures (FX future or a foreign exchange future) - contracts for purchase or sale of certain quantity of one currency in exchange for another currency at a specified exchange rate, and with execution on a specified date of maturity in future.

56) Swap agreement – an agreement between two parties on exchange of cash flows in the

same or different currencies.

57) Foreign currency (FX Swap) - an agreement between two parties on exchange of specific amounts in different currencies, at already agreed exchange rates.

58) Interest rate swap - an agreement between two parties on exchange of periodic payments of interest. It shall serve for protection from interest rate risk. Swapping of interest rates shall imply the exchange of variable interest rates for fixed, and vice versa. The instrument shall serve for adjustment of assets and liabilities currency mismatches, protection interest rates rise (exchange of variable interest rate on long-term loan for a fixed one), as well as potential reduction of interest expense (exchange of a fixed interest rate on long-term loan for a variable one) in case of decline in referent interest rates (LIBOR, EURIBOR).

59) Option - an agreement that grants to the buyer (the option holder) the right to execute purchase, but not an obligation *per se* (call options) or to sell (put options) of underlying asset at a price agreed in advance on a certain date or within a certain timeframe. Options may represent independent instruments or may be built in certain other financial instruments.

60) Call option – an agreement that entitles the buyer (call option holder), but does not represent an obligation, to buy a certain asset at a fixed price determined in advance or a price that may be calculated by using a formula agreed in advance, at a certain date or within a certain timeframe.

61) Put option - an agreement that entitles the buyer (put option owner) but does not represent an obligation, to sell a certain asset at a fixed price determined in advance or a price that may be calculated by using a formula agreed in advance, at a certain date or within a certain timeframe.

62) Foreign exchange option (fx option) - designates the right to purchase or sell certain currency at an exchange rate agreed in advance on a certain date or within a certain timeframe.

63) Warrants - derivative securities that entitle the holder to purchase the underlying instrument by the date, or on the date of expiry of the warranty, at a price determined in advance.

64) Hedge - shall pertain to a financial technique for mitigation of risk of losses caused by fluctuation of value of the financial instrument in the market, i.e. shall pertain to an item that significantly cancels the elements of risk between positions in the trading book and in the banking book or a set of positions.

65) Trade finance - financing, including guarantees, relating to exchange of goods and services by using financial instruments with fixed short-term maturity, usually shorter than one year, without an option for automatic rollover.

66) Delta (δ) - represents the price sensitivity of the option to a minor change in the price of the underlying instrument (factor) to which the option relates.

67) Recognized stock exchange and recognized clearing house – the stock exchange and clearing house included in Attachment 3 to this Decision.

68) Stock exchange index - a numerical indicator of developments in the prices of the index basket of securities at an individual stock exchange.

69) A regulated market - a multi-lateral system that is led and/or that is managed by a market operator, and that facilitates and assists in the gathering of multiple interests of third parties for purchasing or selling of financial instruments in compliance with its binding rules in a manner that leads to concluding of a contract on financial instruments included in trading according to its rules and/or system, and which has an operating license and is functioning and operating in a regular and timely manner in compliance with relevant regulations.

70) Market operator - a person or persons that leads, i.e. manages operations in a regulated market. Market operator in a market may be the regulated market itself.

71) Convertible securities - securities that, based on the choice of the holder, may be exchanged for other securities.

72) Repurchase transaction - any transaction that is regulated under a repurchase agreement or a reverse repurchase agreement.

73) Simple repurchase agreement – a repurchase transaction relating to one type of assets.

74) Repurchase agreement and reverse repurchase agreement shall signify any agreement under which the bank or its other contractual party is transferring securities or commodities or guaranteed rights that concern the right of ownership over securities or commodities, at which time the aforementioned right is guaranteed by a recognized stock exchange that has the right to those securities or commodities, and the agreement does not allow the bank to transfer or pledge individual securities or commodities to more than one contractual party at the same time, with an obligation to again redeem the aforementioned securities or commodities – or replacement securities or commodities that fit the same description at a price determined in advance, at a certain date in the future that is determined, or is yet to be determined by the person performing the transfer, at which time, for the bank selling the securities, it shall concern a repurchase agreement, and for the bank that is buying them it shall concern a reverse repo agreement.

75) Agreement on securities or commodities lending or borrowing securities and commodities shall signify all transactions under which the bank or other contractual party are transferring securities or commodities in exchange for corresponding instruments of security (collateral) and assuming the obligation that the borrower shall return securities or commodities in the same value at a certain date in future or when that is requested from it by the person performing the transfer.

76) Trading book – shall have the same meaning as in Article 2, Paragraph 1, Item 37 of the Banking Law of Republika Srpska.

77) Banking book – shall have the same meaning as in Article 2, Paragraph 1, Item 38 of the Banking Law of Republika Srpska.

78) Share index and its developments - an indicator of behavior of a specific market of shares. The index shall include the most representative shares of the specific market.

79) Covered bonds - the bonds whose issuance is regulated under a special law of the state in which the headquarters of the issuer are located, and which meet all following conditions:

1. for the purpose of protection of the right to ownership, the issuer of covered bonds may only be a bank that is subject to supervision of a regulatory institution,

2. funds acquired in the sale of covered bonds shall have to be invested in assets that provide sufficient coverage for liabilities assumed on the basis of covered bonds in their total amount, and

3. covered bonds shall have to be covered by instruments of security and entitle the holder of covered bonds that in case of bankruptcy or liquidation of the issuer it has priority in collection of the principal and interest.

Covered bonds issued in country members of the European Union shall have to be included into the list of covered bonds, which also includes the list of authorized issuers and the type of instruments of security, which the members of the European Union are submitting to the Commission of the European Union, which submits those data to other members of the European Union.

80) Market maker – a person acting continuously in the market of financial instruments, ready to trade on its own behalf, by purchasing and selling financial instruments, at the prices it determines on its own, using its own capital.

81) Independent price verification (IPV) - the process of regular verification of accuracy and independence of market prices or input parameters for valuation under the model.

82) Positions held with trading represent one of the following:

1. proprietary positions and positions that result from the servicing of clients and market making,

2. positions intended to be resold short term,

3. positions with intention of realization of benefits from actual or expected short-term differences in the price between their selling and purchasing price or at the expense of changes in other prices or changes in interest rates,

- 83) Third country – a country that is not a member of the European Union.
- 84) Secured lending transaction - a transaction on the basis of which an exposure onsets that is secured with a collateral that does not contain a provision granting the bank the right to additional increase of the amount of existing collateral, i.e. to receive a margin at least once a day.
- 85) Capital market-driven transaction - a transaction on the basis of which an exposure onsets that is secured with a collateral that contains a provision granting the bank the right to additional increase of the collateral, i.e. to receive a margin at least once a day,
- 86) Margin agreement – an agreement or provisions of an agreement under which one contractual party is under obligation to submit collateral to the other contractual party when the exposure of the other contractual party towards that contractual party exceeds the contracted threshold of value of collateral.

CHAPTER II REGULATORY CAPITAL AND CAPITAL REQUIREMENTS FOR BANKS

Regulatory Capital Article 3

- (1) Regulatory capital of a bank shall represent the amount of assets that the bank is under obligation to maintain in order to ensure secure and stable business operations, i.e. to meet its obligations towards creditors.
- (2) Regulatory capital shall represent the sum of Common Equity Tier 1 and Tier 2 capital, after regulatory adjustments.

Tier 1 – T1 Article 4

Tier 1 of the bank shall represent the sum of Common Equity Tier 1, after regulatory adjustments and Additional Tier 1 after regulatory adjustments.

Common equity Tier 1 (CET 1) Article 5

- (1) Common Equity Tier 1 – CET 1 of the bank shall comprise items of Common Equity Tier 1 under Article 6 of this Decision after a deduction for regulatory adjustments under Article 9 of this Decision, as well as the application of temporary waiver for deductions from own funds referred to in Article 31 of this Decision. In the course of calculation of own funds, the bank shall perform adjustments in compliance with Paragraph 2 of this Article relating to provisions on cash flow hedges and change in the value of own liabilities, as well as in compliance with Paragraph 3 of this Article relating to provisions on additional value adjustments.
- (2) The application of provisions on cash flow hedges and change in the value of own liabilities shall mean that the bank, in the course of calculation of regulatory capital, shall not include the following items:
- 1) the fair value reserves that concern profit or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows,
 - 2) profit or losses on the liabilities of the bank that are valued at fair value that have onset as a result in the change of the credit rating of the bank itself,
 - 3) profit or losses under liabilities from financial derivatives of the bank, valued at fair value that onset as a result in the change of the credit rating of the bank itself.
- (3) The application of provisions on additional value adjustments shall imply that the bank

shall deduct from Common Equity Tier 1 capital the amount of all additional value adjustments that are determined by applying the own fund requirements for valuation under Article 113 of this Decision on all assets measured at fair value.

Common Equity Tier 1 items Article 6

(1) Common Equity Tier 1 items of the bank shall be:

1) capital instruments, if the requirements for recognition listed in Article 7 of this Decision are met,

2) share premium accounts that concern instruments of capital under Item 1 of this Paragraph,

3) retained profit,

4) accumulated other comprehensive income,

5) other provisioning,

6) funds for general banking risks.

(2) Retained profit, accumulated other comprehensive income, other reserves, and funds for general banking risks shall be recognized as Common Equity Tier 1 only if they are unconditionally, fully, and without limitations, at any moment in time, at the disposal for coverage of losses.

(3) Profit of the current year generated in the course or at the end of the business year – retained profit may be included in Common Equity Tier 1 items, if the following conditions are met:

1) that this profit was audited by an independent external auditor who received prior approval of the Agency for the performance of audit of financial statements of that bank,

2) the competent body of the bank issued a formal decision on distribution of profit.

In exceptional circumstances, the bank may include in the Common Equity Tier 1 item – retained profit, the profit from the current year even before the bank makes a formal decision, only if it receives a prior approval of the Agency. The bank shall, in the course of submitting the application for the issuance of the prior approval, be under obligation to submit to the Agency evidence:

1) that this profit was audited by an independent external auditor who received prior approval of the Agency for the performance of audit of financial statements of that bank,

2) that the amount of profit was reduced by all predictable costs or dividends.

(4) The Common Equity Tier 1 item - other provisioning, shall include all types of provisioning that the bank has formed at the expense of profit after taxation: legally required provisioning, statutory provisioning, and other provisioning, formed from profit in compliance with legislated regulations.

(5) Instruments of capital that meet the conditions under Article 7 of this Decision may be included in Common Equity Tier 1 only after the bank receives a prior consent of the Agency.

Conditions for recognition of Common Equity Tier 1 instruments Article 7

(1) Instruments of capital referred to in Article 6, Paragraph 1, Item 1 shall be recognized as Common Equity Tier 1 instruments only if all following conditions are fulfilled:

1) the bank is issuing the instruments directly in compliance with a prior implemented procedure, prescribed in compliance with legislated regulations in RS, the bylaws of the Agency, founding and other internal enactments of the bank;

2) the instrument is paid in full, and its purchase is neither directly nor indirectly financed by the bank;

3) the instrument meets all following conditions in connection with its classification:

1. it qualifies as share capital in compliance with legislated regulations of RS,
2. it is classified as equity in the context of the applicable accounting framework,
3. it is classified as equity capital in case of the necessity of determination of insolvency of the bank when that is applicable in compliance with legislated regulations that are regulating insolvency;
- 4) the instrument is clearly and separately disclosed in the statements on the financial position of the bank;
- 5) the instrument is without maturity;
- 6) the principal of the instrument cannot be reduced or repaid, except in one of the following two cases:
 1. liquidation of the bank,
 2. discretionary repurchase of instruments or other discretionary methods for reduction of the capital, if that is in compliance with the prescribed conditions for reduction of regulatory capital, if that is applicable pursuant to current legislated regulations and if the bank has acquired prior approval of the Agency,
- 7) provisions that regulate the instrument do not specify, explicitly or implicitly, that the principal of the instrument would be reduced or repaid or that it could be reduced or disbursed, except in case of liquidation of the bank, and the bank does not provide such indication in another manner prior to the issuance of the instrument or during its issuance;
- 8) the instrument meets the following conditions in connection with the distribution:
 1. the conditions that apply relating to the instrument do not grant privileged rights in the sequence for distribution, or in relation to other instruments of Common Equity Tier 1,
 2. distribution to holders of the instrument may be executed only from the items that are distributable,
 3. the conditions that apply in connection with the instrument do not define an upper limit or another type of limit to the maximum level of distribution,
 4. the level of distribution is not determined on the basis of the amount for which the instrument had been bought at issuance,
 5. the conditions that apply in connection with the instrument do not include the obligation upon the bank to execute distribution to its holders, and the bank is not subject to such an obligation in any other manner,
 6. if the distribution under instrument is not performed, it cannot be deemed that a case of default on the liabilities on the part of the bank has onset,
 7. the bank has no limitations because of the discontinuation of distribution under this instrument;
- 9) in relation to all other capital instruments that are issued by the bank, this instrument absorbs the first and proportionally the largest share of losses that onset, and each of the instruments absorbs losses to the same extent, just as all other Common Equity Tier 1 instruments;
- 10) the instrument is subordinated, i.e. has lower priority, in relation to all other claims in case of insolvency or liquidation of the bank;
- 11) the instrument grants to the owner the right to claim the remaining property of the bank, that shall be, in case of liquidation of the bank, and following the payment of all the claims with higher priority, in proportion with the amount of such issued instruments and is not fixed or subject to an upper limit;
- 12) the instrument is neither secured nor covered with a guarantee that would improve the subordinated status of the claims on the part of any of the following:
 1. the bank or its subordinated undertaking,
 2. the parent undertaking of the bank or its subsidiaries,
 3. the parent financial holding or its subsidiaries,
 4. the mixed activity holding or its subsidiaries,
 5. the mixed financial holding or its subsidiaries,

6. any undertaking that are closely connected with the entities listed under sub-items 1 - 5;

13) the instruments are not subject to any contractual or other agreements that would improve the subordinated status of the claims on the basis of instruments in case of insolvency or liquidation.

(2) As an exception from Paragraph 1, Item 6 of this Article, the principle of instrument may be reduced in the framework of the process of resolution of the bank or because of a reduction in the value of instrument of capital upon an order of the authority in charge of bank resolution.

(3) As an exception from Paragraph 1, Item 7 of this Article, provisions that regulate instruments may specify, explicitly or implicitly, that the principal of an instrument may be reduced within the framework of the process of resolution of the bank or because of a reduction in value of the instrument of capital upon an order of the authority in charge of bank resolution.

Consequences of the conditions for Common Equity Tier 1 instruments ceasing to be met Article 8

In case Common Equity Tier 1 instrument ceases to meet the conditions for the recognition of Common Equity Tier 1 instruments referred to in Article 7 of this Decision, the following shall apply:

1) that instrument shall immediately cease to meet the conditions for Common Equity Tier 1 instrument,

2) share premium accounts that concern that instrument shall immediately cease to qualify as Common Equity Tier 1 items.

Common Equity Tier 1 – Regulatory Adjustments Article 9

(1) Banks shall deduct the following from the Common Equity Tier 1 items:

1) losses from the current financial year,

2) uncovered losses from preceding years,

3) intangible assets, in compliance with Article 10 of this Decision,

4) deferred tax funds that depend on future profitability in compliance with Article 11 of this Decision,

5) all tax costs relating to the Common Equity Tier 1 items predictable at the moment of their calculation, except if the bank adjusts in the corresponding manner the amount of Common Equity Tier 1 items to the extent to which such tax costs are reducing the amount to which those items may be applied for coverage of risks or losses,

6) holdings by the bank into its own Common Equity Tier 1 instruments (for example, repurchase own treasury stocks), including own Common Equity Tier instruments for which the bank has a real or potential obligation of purchase on the basis of existing contractual obligation,

7) direct or indirect holdings of the bank in Common Equity Tier 1 instruments of a financial sector entity, if those entities have a reciprocal cross holdings with the bank, and for which the Agency determines that it does not represent a real and acceptable increase of the own funds in compliance with laws and bylaws,

8) direct or indirect amounts of holdings of the bank in Common Equity Tier 1 instruments of a financial sector entity if the bank has a significant investment in that entity, in compliance with Article 12 of this Decision,

9) direct or indirect amounts of holdings of the bank in Common Equity Tier 1 instruments of a financial sector entity if the bank does not have a significant investment in that

entity, in compliance with Article 13 of this Decision,

10) the amount of items that, in compliance with Article 19 of this Decision, need to be deducted from items of additional core capital, which exceeds the Additional Tier 1 of the bank,

11) amount of the qualifying holding/share in a legal person outside of the financial sector. If the bank opts not to disclose this item as a deductible item from capital, it shall be under obligation to award the exposure in question the risk weight of 1,250%,

12) free deliveries in compliance with Article 100, Paragraph 2 of this Decision. If the bank opts not to disclose this item as a deductible item from capital, it shall be under obligation to award the exposure in question the risk weight of 1,250%.

(2) The bank shall implement deductions of investments of the bank in instruments of Common Equity Tier 1 instruments on the basis of gross positions and the exemptions for application of the net principle may be prescribed by the Agency pending the fulfillment of conditions in a special bylaw.

Deduction from Intangible Assets **Article 10**

Banks shall determine in the following manner the amount of intangible assets that shall be deducted:

1) the amount being deducted shall be reduced by the amount of the connected deferred tax liability that would cease to exist if the tangible assets were reduced or were ceased to be recognized in compliance with the applicable accounting framework,

2) the amount that is deducted shall cover the goodwill that is included in the valuation of significant investments of the bank.

Deduction of Deferred Tax Funds Depending on Future Profitability **Article 11**

(1) The bank shall determine the amount of deferred tax funds that shall depend on future profitability and that shall be deducted in compliance with this Article.

(2) The amount of deferred tax funds that depend on future profitability shall be calculated excluding the costs of its reduction by the amount of connected deferred tax liabilities of the bank.

(3) The Agency may allow the bank to reduce deferred tax funds by the amount of related deferred tax liabilities of the bank, if the following conditions are met:

1) if the entity is, in compliance with current legislated regulations, entitled to perform the netting of its current tax funds with current tax liabilities,

2) if deferred tax funds and deferred tax liabilities relate to taxes that are determined by the same tax authority and in relation with the same taxpayer,

3) if the bank has submitted to the Agency a decision or another document of the competent tax authority on the right to perform the netting of the subject deferred tax funds with relating deferred tax liabilities, in compliance with Items 1 and 2 of this Paragraph.

(4) Relating deferred tax liabilities for the requirements of Paragraph 3 of this Article must not include deferred tax liabilities that reduce the amount of intangible assets that have to be deducted.

(5) The following items shall not be deducted from Common Equity Tier 1 and shall be awarded the risk weight in compliance with Chapter IV of the Decision that relates to calculation of capital requirements for credit risk according to the standardized approach:

1) prepayment of taxes of the bank for the current year,

2) receivables from the central government, regional government, or a local tax authority resulting from the treatment of a tax loss, if such possibility exists in compliance with

provisions of applicable tax regulations.

(6) Deferred tax funds that do not depend on future profitability shall be limited to deferred tax funds that result from temporary differences, if all following conditions are met:

1) in case the bank discloses a loss once the prescribed procedure for adoption of annual financial statements of the bank is implemented, or in the case of liquidation or insolvency of the bank, it shall be, without any delay, automatically and mandatorily replaced with a claim of the bank based on taxes,

2) in case the bank, in compliance with tax regulations, has the option of netting the claims on the basis of the tax referred to in Item 1 of this Paragraph with any tax liability of the bank or any other company that is, for taxation purposes, and in compliance with that law, included in the same consolidation, as the bank or any company that is subject to supervision on consolidated bases,

3) when the amount of the claim on the basis of the tax referred to in Item 2 of this Paragraph exceeds tax liabilities referred to in that Item, any such surplus shall be, without any delay, replaced with a direct claim from the central government, i.e. entity governments in compliance with tax regulations.

The bank shall apply the risk weight of 100% to the deferred tax funds, if the conditions under Items 1 - 3 of this Paragraph are met.

Deduction of Significant Investment in Financial Sector Entity Article 12

For the purpose of deduction, the bank shall have a significant investment in a financial sector entity, if any of the following conditions are met:

1) the bank owns more than 10% of Common Equity Tier 1 instruments that this entity has issued,

2) the bank is closely connected with the entity and owns Common Equity Tier 1 instruments issued by that entity,

3) the bank owns Common Equity Tier 1 instruments issued by that entity, and the entity is not included in consolidation for the requirements of supervision, but it is included in the same accounting consolidation as the bank, for the requirements of financial reporting in compliance with the applicable accounting framework.

Deduction of Investment in Common Equity Tier 1 Instruments when Bank Has No Significant Investment in Financial Sector Entities Article 13

(1) If a bank does not have a significant investment in financial sector entities, the total amount of investment in Common Equity Tier 1 of those entities that shall be deducted from the Common Equity Tier 1 of the bank, shall be calculated so that a portion of the total amount of direct and indirect investments in instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 that exceeds 10% of Common Equity Tier 1 of the bank, is multiplied with the volume of direct and indirect investments of the bank in instruments of Common Equity Tier 1 of those entities and total direct and indirect investments in all instruments of capital of those entities.

(2) The portion of the total amount of direct and indirect investments in instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 of financial sector entities in which the bank does not have a significant investment and which is lower than 10% of Common Equity Tier 1 of the bank or equal to it, shall not be deducted from the Common Equity Tier 1 but, instead, a risk weight shall apply to those investments that corresponds to them in compliance with the standardized approach for calculation of capital requirements for credit risk.

(3) The total amount of investments in instruments of Common Equity Tier 1 of financial

sector entities to which risk weights apply in compliance with the standardized approach for the calculation of capital requirement for credit risk shall be calculated so that the amount referred to in Paragraph 2 of this Article is multiplied with the ratio of direct and indirect investments of the bank in instruments of Common Equity Tier 1 of financial sector entities and total direct and indirect investments in all instruments of capital of those entities.

(4) For the requirements of Paragraphs 1 and 3 of this Article, Common Equity Tier 1 shall be calculated so that the sum of items of Common Equity Tier 1 referred to in Article 6 of this Decision is reduced by the regulatory adjustments referred to in Article 9, Items 1, 2, 3, 5, 6, 7, and 12 of this Decision, and an adjustment is performed in compliance with Article 5, Paragraphs 2 and 3 of this Decision.

Requirements for Deductions When Applying Consolidation Article 14

For the requirements of calculation of own funds on individual or consolidated basis, the Agency may, on the basis of a legislated regulation that regulates supervision on consolidated basis, prescribe in a special by-law conditions on the basis of which the banks will be allowed not to perform deduction in the course of calculation of capital of investments in instruments of own funds of the financial sector entity in which the parent company of the bank, the parent financial holding, the parent mixed financial holding, or the bank have a significant investment.

Additional Tier 1 (AT1) Article 15

Additional Tier 1 of the bank shall comprise of items of Additional Tier 1 after reductions for regulatory adjustments under Article 19 of this Decision and the application of temporary exemption from deductions from own funds under Article 31 of this Decision.

Additional Tier 1 items Article 16

(1) Items of Additional Tier 1 shall be:

1) instruments of capital, if the conditions are met for instruments of Additional Tier 1 referred to in Paragraph 2 of this Article,

2) share premium accounts that relate to instruments under Item 1 of this Paragraph.

The instruments under Item 1 shall not meet the conditions for items of Common Equity Tier 1 or Tier 2.

(2) Instruments of capital shall meet the conditions for instruments of Additional Tier 1 only if the following conditions are met:

1) the instruments are issued and paid;

2) the instruments were not bought by any of the following entities:

1. the bank or its subordinate company,

2. the economic company in which the bank has an ownership share, directly or indirectly through control over 20% or more of voting rights or capital of that company;

3) the purchase of the instrument was neither directly nor indirectly financed by the bank;

4) the instruments are subordinated compared to the instruments of Tier 2 in case of insolvency of the bank;

5) the instruments are not secured or covered with a guarantee that would improve the subordinated status of claims on the part of any of the following entities:

1. the bank or its subordinate companies,

2. the parent company of the bank or its subordinate companies,

3. the parent financial holding or its subordinate companies,
4. the mixed holding or its subordinate companies,
5. the mixed financial holding or its subordinate companies,
6. any companies that are closely connected with the entities listed under sub-items 1 – 5;
- 6) the instruments are not subject to any contractual or other agreements that would improve the subordinated status of the claims on the basis of instruments in case of insolvency or liquidation of the bank;
- 7) the instruments are permanent and provisions that regulate them contain no incentives for the bank to redeem them;
- 8) if the provisions that regulate the instruments include one or more call options, the call option may be executed exclusively on the basis of the discretionary right of the issuer, taking into account the fulfillment of conditions under item 9 of this Paragraph;
- 9) a call option may be performed over the instruments, they may be redeemed or again purchased only if the conditions are met as prescribed for reduction of own funds in compliance with Article 30 of this Decision, and at the earliest five years from the date of issuance, except if the conditions are met under Article 30, Paragraph 3 of this Decision;
- 10) the provisions that regulate the instruments do not note, explicitly or implicitly, that a call option would be executed over the instruments, that they would be redeemed or again purchased or that a call option could be performed over them, except in the following conditions:
 1. bank liquidation,
 2. discretionary redemption of instruments or other discretionary methods for reduction of amount of Additional Tier 1, if the bank has acquired prior approval of the Agency in compliance with the conditions prescribed for the reduction of the own funds under Article 30 of this Decision;
- 11) the bank does not note, explicitly or implicitly, that the competent body would consent to the application to execution of the call option, redemption, or repeated purchase of the instruments;
- 12) the instrument meets the following conditions relating to distribution:
 1. the distribution may be executed only from items available for distribution,
 2. the level of distribution by instruments does not change in relation to credit worthiness of the bank or its parent company,
 3. the provisions that regulate the instruments grant the bank full discretionary rights to cancel the distribution by instruments, at any moment in time, for an unlimited period of time and on non-cumulative basis, and the bank may use those cancelled payments without any limitations, for meeting its matured liabilities,
 4. if the distribution is not performed under the instrument, it cannot be deemed as that a case of failure to meet liabilities on the part of the bank has onset,
 5. the bank has no limitations for discontinuation of distribution under this instrument, and the provisions that regulate this instrument must not cover the requirements under Paragraph 3 of this Article;
- 13) the instruments shall not be taken into account in the course of determination whether the liabilities of the bank exceed its assets for the requirements of determination of insolvency of the bank, when that is applicable in compliance with the legislated regulations that regulate insolvency;
- 14) the provisions that regulate instruments require that upon the onset of an event that is a trigger, the value of the principal of the instrument is reduced temporarily or permanently or the conversion of the instruments into instruments of Common Equity Tier 1 is performed;
- 15) provisions that regulate the instruments do not contain any features that may represent an obstacle to recapitalization of the bank, and especially must not cover the requirements under Paragraph 3 of this Article;
- 16) if the instruments were not issued by the bank directly, both of the following

conditions shall have to be met:

1. the instruments were issued through an entity that is included in prudential consolidation,

2. the funds are immediately and without any limitations available to the bank and they are in a form that meets the conditions prescribed under this Paragraph.

(3) For the requirements of the limitation of cancellations of distribution under instruments of Additional Tier 1 and definition of features that may pose an obstacle for recapitalization of the bank, the provisions that regulate an instrument of Additional Tier 1 especially must not include the following.

1) a requirement for distribution by instruments in case the distribution is performed upon an instrument that is issued by the bank that is equally ranked or subordinated compared to the Additional Tier 1 instrument, including the Common Equity Tier 1 instrument,

2) a requirement for execution of distribution upon instruments of Common Equity Tier 1, Additional Tier 1 or Tier 2 that would be cancelled in case of not performing the distribution upon those Additional Tier 1 instruments,

3) an obligation to replace the payment of interest or dividend with payments in any other form. The bank shall not be subject to such an obligation in any other manner.

(4) Instruments of capital that meet the conditions under Paragraph 2 of this Article may be included into Additional Tier 1 only after the bank receives a prior consent of the Agency.

Write down or Conversion of Additional Tier 1 Instruments **Article 17**

(1) In connection with Article 16, Paragraph 2, item 14 of this Decision, the following shall apply to Additional Tier 1 instruments:

1) an event that is the trigger shall onset when the rate of Common Equity Tier 1 of the bank, referred to in Article 34 of this Decision, falls below any of the following levels:

1. 7.687%,

2. level above 7.687%, which is determined by the bank and regulated in more detail in the provisions that regulate the instrument;

2) the bank may describe in more detail, in the provisions that regulate the instrument, one or more events that shall be a trigger, in addition to the ones noted in Item 1 of this Paragraph;

3) if the provisions that regulate the instruments require their conversion into Common Equity Tier 1 instruments upon the onset of the event that is a trigger, those provisions should note in more detail one of the following:

1. rate of such conversion and the constraint for the amount allowed for conversion,

2. the span within which the instruments would be converted into Common Equity Tier 1 instruments;

4) if the provisions that regulate the instruments require that upon the onset of the event that is a trigger, the value of their principal is reduced, the following shall be reduced upon the reduction in value:

1. claim of the owner of the instrument in case of insolvency or liquidation of the bank,

2. the amount that should be paid in case of execution of the call option of redemption of the instrument,

3. distribution under the instrument.

(2) Upon reduction of the value or conversion of the Additional Tier 1 instrument, in compliance with the applicable accounting framework, the items that meet the conditions for items of Common Equity Tier 1 shall onset.

(3) The amount of Additional Tier 1 instruments that are recognized as items of Additional Tier 1 shall be limited to the minimum amount of the items of Common Equity Tier 1 that would onset when the value of the principal of the Additional Tier 1 instrument was fully

reduced or converted Common Equity Tier 1 instruments.

(4) The total amount of additional core capital instruments whose value needs to be reduced or converted upon the onset of an event that is a trigger, shall not be lower than the following two amounts:

1) the amount that is necessary in order for the ratio of Common Equity Tier 1 of the bank to again reach 7.687% in total,

2) the total principal of the instrument.

(5) Upon the onset of an event that is a trigger, the banks shall have to undertake the following:

1) inform the Agency immediately,

2) inform the owners of Additional Tier 1 instruments,

3) reduce the value of the principal of the instruments or convert the instruments into Common Equity Tier 1 instruments without any delay, but within the timeframe of one month, at the latest, in compliance with the requirement of this Article.

(6) The bank that is issuing Additional Tier 1 instruments that are converted into Common Equity Tier 1 upon the onset of an event that is a trigger shall ensure that its approved shareholders capital is, at any moment in time, sufficient for the conversion of all such convertible Additional Tier 1 instruments into shares in case of onset of an event that is a trigger. As of the date of issuance of such convertible Additional Tier 1 instruments, it shall be necessary to implement the prescribed procedure and acquire all the approvals. The bank shall be under obligation to implement the procedure prescribed under the Law and the by-laws that relate to conversion of Additional Tier 1 instruments into Common Equity Tier 1 instruments, upon the onset of an event that is a trigger.

(7) The bank that is issuing Additional Tier 1 instruments that contain a provision on conversion into Common Equity Tier 1 shall be under obligation to ensure that their founding enactments, statute, or provisions of the contract, do not contain any procedural obstacles for that conversion.

Consequences of Conditions for Recognition of Additional Tier 1 Instruments Ceasing to be Met

Article 18

In case of Additional Tier 1 instrument ceasing to meet the prescribed conditions for Additional Tier 1 instruments referred to in Article 16, Paragraph 2 of this Decision, the following shall apply:

1) that instrument shall immediately cease to meet the conditions for Additional Tier 1 instrument,

2) the part of the share premium account that relates to that instrument shall immediately cease to meet the conditions for an item of Additional Tier 1.

Additional Tier 1 – Regulatory Adjustments

Article 19

(1) The banks shall deduct the following from items of Additional Tier 1:

1) direct and indirect investments of the bank in own Additional Tier 1 instruments, including the Additional Tier 1 instruments for which the bank would be under obligation of purchase on the grounds of existing contracts,

2) direct and indirect investments in Additional Tier 1 instruments of financial sector entities with which the bank has reciprocal cross holdings for which the Agency deems that they were performed with the objective of artificial increase of own funds,

3) the amount of direct and indirect investments of the bank in Additional Tier 1 instruments of financial sector entities, if the bank does not have a significant investment in

those entities, and then the amount shall be calculated in compliance with Article 20 of this Decision,

4) direct and indirect investments of the bank in Additional Tier 1 instruments of financial sector entities, if the bank has a significant investment in those entities, excluding positions that as the sponsor of the issuance it is holding for five working days at the longest.

5) the amount of items that, in compliance with Article 25 of this Decision, should be deducted from the items of Additional Tier 1 and which exceeds the Additional Tier 1 of the bank,

6) tax related liabilities relating to the items of Additional Tier 1 predictable at the moment of their calculation, except if the bank adjusts in the appropriate manner the amount of items of Additional Tier 1 to the extent to which such tax related liabilities are reducing the amount up to which those items may be applied to cover risks or losses.

(2) The bank shall perform deduction of investments of the bank in instruments of Additional Tier 1 on the basis of the gross principle, and exceptions for the application of the net principle the Agency may be prescribed by pending the fulfillment of conditions in a special by-law.

Deductions of Investments in Instruments of Additional Tier 1 when the Bank Does Not Have a Significant Investment in Financial Sector Entities

Article 20

(1) If the bank does not have a significant investment in financial sector entities, the total amount of investments in instruments of Additional Tier 1 of those entities that shall be deducted from Additional Tier 1 of the bank shall be calculated so that the portion of the total amount of direct and indirect investments in instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 that exceeds 10% of Common Equity Tier 1 is multiplied by the ratio of direct and indirect investments of the bank in instruments of Additional Tier 1 of those entities of the financial sector and total direct and indirect investments in all instruments of capital of those entities.

(2) The portion of the amount of direct and indirect investments into instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 of financial sector entities in which the bank does not have a significant investment that is lower or equal to 10% of Common Equity Tier 1 of the bank shall not be deducted from the capital but instead the risk weight shall be applied to those investments that corresponds to them in compliance with the standardized approach for the calculation of capital requirement for credit risk.

(3) The total amount of investments in instruments of Additional Tier 1 of financial sector entities to which risk weights apply in compliance with the standardized approach for the calculation of capital requirement for credit risk shall be calculated in such manner that the amount referred to in Paragraph 2 of this Article is multiplied with the ratio of direct and indirect investments of the bank in instruments of Additional Tier 1 of financial sector entities and total direct and indirect investments in all instruments of capital of those entities.

(4) For the requirements of Paragraphs 1 and 3 of this Article, Common Equity Tier 1 shall be calculated so that the sum of items of Common Equity Tier 1 referred to in Article 6 of this Decision is reduced by the regulatory adjustments referred to in Article 9, Items 1, 2, 3, 5, 6, 7, and 12 of this Decision, and an adjustment is performed in compliance with Article 5, Paragraphs 2 and 3 of this Decision.

Tier 2 capital (T2)

Article 21

(1) Tier 2 capital of a bank shall comprise of items of Tier 2 capital of the bank after

reductions for regulatory adjustments under Article 25 of this Decision and the application of the temporary exemption from deductions from own funds referred to in Article 31 of this Decision.

(2) Tier 2 capital cannot exceed one third of the Tier 1 capital.

Tier 2 Capital Items **Article 22**

(1) Items of Tier 2 capital shall be the following:

1) capital instruments and subordinated debts, if the conditions are met as prescribed in Paragraph 2 of this Article (items from that Item are not meeting the conditions for the items of Common Equity Tier 1 or Additional Tier 1),

2) share premium accounts that relate to the instruments under Item 1 of this Paragraph,

3) general value adjustments for loan losses, up to 1.25% of the amount of risk weighted exposures, calculated in compliance with Article 49 of this Decision,

(2) Capital instruments and subordinated debts shall meet the conditions for Tier 2 capital instruments if the following conditions are realized:

1) the instruments are issued or the subordinated debts are received and fully paid;

2) the instruments were not bought or the subordinated debts were not approved/issued by any of the following entities:

1. the bank or its subordinated companies,

2. an economic company in which the bank has a stock in ownership, directly or indirectly through control over 20% or more of voting rights or the capital of that company;

3) the purchase of instruments or approval of subordinated debts was neither directly nor indirectly financed by the bank;

4) claims on the basis of the principal of the instrument or subordinated debt are fully subordinated to claims of all unsubordinated creditors;

5) the instrument or subordinated debts are unsecured, i.e. neither secured, nor covered with a guarantee that would improve the subordinated status of receivables on the part of any of the following entities:

1. the bank or its subordinated companies,

2. parent company of the bank or its subordinated companies,

3. the parent financial holding or its subordinated companies,

4. the mixed holding or its subordinated companies,

5. the mixed financial holding or its subordinated companies, and

6. any economic company that is closely connected with the entities referred to in Sub-items 1 - 5;

6) the provisions of contracts that regulate instruments or subordinated debts do not contain a provision which, in any manner, may improve the status of subordination of receivables on the basis of that instrument or subordinated debt;

7) the instruments or subordinated debts have the initial timeframe of maturity of at least five years;

8) the provisions that regulate the instruments or subordinated debts do not include any incentive for the bank to redeem or repay their principal before maturity;

9) if the instruments include one or more call options or one or more call options of those instruments before the date of their contracted maturity, the options may be executed exclusively on the basis of the discretionary right of the issuer or the debtor, keeping in mind the fulfillment of conditions under Item 10 of this Paragraph;

10) if the call option, redemption, repeated purchase or repayment of those instruments before the date of their agreed maturity timeframe is envisaged, it may be executed pending prior approval of the Agency upon the expiry of five years from its issuance, at the earliest, and before the expiry of five years only if the conditions referred to in Articles 29 and 30 of this

Decision are met;

11) provisions that regulate instruments or subordinated debts do not define explicitly or implicitly neither that the option may be executed of purchase, repeated purchase, or repayment of those instruments before the date of their contracted maturity, nor of accelerating the planned pace of repayment of interest or principal. except in the case of reduction of value or conversion of capital or application of instruments of restructuring in compliance with the Law, i.e. in case of bankruptcy or liquidation of the bank, and the bank does not emphasize that option in any other manner;

12) contracted terms relating to the payment of interest or dividend shall not be changed in relation to credit worthiness of the bank or its parent company;

13) if the instruments were not directly issued by the bank or if subordinated debts were not directly received by the bank, both of the following conditions shall have to be fulfilled:

1. instruments were issued through an entity that is included in prudential consolidation,

2. the funds are immediately and without limitations accessible to the bank and are in a form that meets the conditions prescribed under this Paragraph;

Instruments of capital and subordinated debt that meet the conditions under Paragraph 2 of this Article may be included in Tier 2 capital only after the bank receives prior approval of the Agency.

Amortization of Tier 2 Capital Instruments Article 23

The amount of item of Tier 2 capital instruments that can be included in the Tier 2 capital of the bank in the course of the last five years until the maturity of the instrument shall be calculated by multiplying items 1 and 2 of this Paragraph:

1) the nominal amount of the instrument or subordinated debt on the first day of the last period of five years until the date of maturity in compliance with the contract divided by the number of calendar days in that period,

2) the number of remaining calendar days until the date of maturity of the instrument or subordinated debt.

Consequences of Conditions for Tier 2 Capital Instruments Ceasing to be Met Article 24

In case Tier 2 capital instrument ceases to meet the conditions referred to in Article 22, Paragraph 2 of this Decision, the following shall apply:

1) that instrument shall immediately cease to meet the conditions for recognition for items of Tier 2 capital,

2) the part of the share premium accounts that relate to that instrument shall immediately cease to meet the conditions for items of Tier 2 capital.

Tier 2 Capital – Regulatory Adjustments Article 25

(1) The following shall be deducted from items of Tier 2 capital:

1) direct or indirect investments of the bank in own Tier 2 capital instruments, including own Tier 2 capital instruments for which the institution might have an obligation of purchase on the basis of existing obligations under agreements,

2) investments in Tier 2 capital instruments of financial sector entities, if those entities have a reciprocal cross holdings with the bank for which the Agency deems that they were executed with the objective of artificial increase of capital,

3) amount of direct and indirect investments of the bank in instruments of Tier 2 capital

of financial sector entities if the bank in those entities does not have a significant investment, determined in compliance with Article 26 of this Decision,

4) amount of direct and indirect investments of the bank in instruments of Tier 2 capital of financial sector entities if the bank in those entities has a significant investment excluding positions that it, as the sponsor of the issuance, is holding for five working days at the latest.

(2) The bank shall be performing deduction of investments of the bank in instruments of Tier 2 capital on the basis of the gross principle, and exceptions for application of the net principle may be prescribed by the Agency in a special bylaw.

**Deductions from Investments in Tier 2 Capital Instruments when the Bank Does Not
Have a Significant Investment in Financial Sector Entities**
Article 26

(1) If a bank does not have a significant investment in financial sector entities, the total amount of investment in instruments of Tier 2 capital of those entities that shall be deducted from the Tier 2 capital of the bank shall be calculated so that a portion of the total amount of direct and indirect investments in instruments of Common Equity Tier 1, Additional Tier 1, and Tier 2 capital that exceeds 10% of Common Equity Tier 1 of the bank is multiplied with the ratio of direct and indirect investments of the bank in instruments of Tier 2 capital of those financial sector entities and total direct and indirect investments in all instruments of capital of those entities.

(2) The portion of the total amount of direct and indirect investments in instruments of Common Equity Tier 1, Additional Tier 1, and Tier 2 capital of financial sector entities in which the bank does not have a significant investment, which is lower than 10% of Common Equity Tier 1 of the bank or equal to it shall not be deducted from the capital but, instead, a risk weight shall be applied to those investments that corresponds to them in compliance with the standardized approach for calculation of capital requirement for credit risk.

(3) The total amount of investments in instruments of Tier 2 capital of financial sector entities to which risk weights apply in compliance with the standardized approach for the calculation of capital requirement for credit risk shall be calculated so that the amount referred to in Paragraph 2 of this Article is multiplied with the ratio of direct and indirect investments of the bank in instruments of Tier 2 capital of financial sector entities and total direct and indirect investments in all instruments of capital of those entities.

(4) For the requirements of Paragraphs 1 and 3 of this Article, Common Equity Tier 1 shall be calculated so that the sum of items of Common Equity Tier 1 referred to in Article 6 of this Decision is reduced by the regulatory adjustments referred to in Article 9, Items 1, 2, 3, 5, 6, 7, and 12 of this Decision, and an adjustment is performed in compliance with Article 5, Paragraphs 2 and 3 of this Decision.

Distribution on own funds instruments
Article 27

(1) Capital instruments on the basis of which the bank has a discretionary right to make a decision on the execution of distribution in a non-cash form or in the form of an own funds instrument, shall not meet the conditions for instruments of Common Equity Tier 1, Additional Tier 1, or Tier 2 capital, in the absence of a prior approval of the Agency.

(2) The Agency shall issue the approval referred to in Paragraph 1 of this Article only if it assesses that all following conditions are met in view of the discretionary right referred to in Paragraph 1 of this Article or the form in which the distribution may be executed:

- 1) that would not have an adverse effect on the capacity of the bank to cancel payments in connection with the instrument,
- 2) that would not have an adverse effect on the capacity of the instrument to cover the

losses,

3) that would not in any other way reduce the quality of capital instruments.

(3) Capital instruments in connection with which a legal person, which is not the bank that had issued them, has a discretionary right to make a decision or require that the distribution under the instrument is in a non-cash form or in the form of an own funds instrument, shall not meet the conditions for instruments of Common Equity Tier 1, Additional Tier 1, or Tier 2 capital.

**Investments in Capital Instruments of Financial Sector Entities under Supervision
and Not Meeting the Conditions for Regulatory Capital
Article 28**

The bank shall not deduct from any of the elements of regulatory capital direct and indirect investments in capital instruments of financial sector entities that are under supervision of the competent regulatory authority and that do not meet the conditions for inclusion into regulatory capital of that entity. The bank shall apply appropriate risk weights on such investments in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk under the standardized approach.

**Conditions for Reduction of Own Funds
Article 29**

The bank shall be under obligation to request from the Agency prior approval for one or both of the following:

- 1) reduction, redemption, or repeated purchase of Common Equity Tier 1 instruments that the bank issued in compliance with current regulations,
- 2) execution of the call option, redemption, or repeated purchase of Additional Tier 1 instruments or Tier 2 capital instruments before the date of their maturity under the agreement.

**Supervisory Approval for Reduction of Own Funds
Article 30**

(1) The Agency shall issue to the bank approval for reduction, repeated purchase, redemption, or execution of the call option for purchase of instruments of Common Equity Tier 1, of Additional Tier 1 or of Tier 2 capital, if any of the following conditions are met:

1) if the bank, before or in the moment of execution of the action that concerns reduction of regulatory capital in compliance with conditions prescribed under Article 29 of this Decision, substitutes those instruments with regulatory capital instruments of the same or higher quality, under the conditions that are sustainable from the perspective of the capacity of the bank to generate profit,

2) if the bank proves to the Agency that the regulatory capital of the bank, following the execution of the subject action, would exceed the prescribed capital requirements stipulated in Article 34 of this Decision and the requirement for the combined buffer defined under Article 40 of this Decision and potential additional capital requirements determined for that bank by the Agency on the basis of assessment of risks to which that bank is exposed or might be exposed, and in compliance with the legislated competencies.

(2) In the course of assessment of sustainability of substituting instruments from the aspect of capacity of the bank to generate profit, the Agency shall analyze the performed analysis of the bank on the scope in which those substituting instruments of capital would be less favorable for the bank than the ones they would be substituting.

(3) The Agency may allow the bank to redeem the Additional Tier 1 instruments or Tier 2 capital instruments before the expiry period of five years from the date of issuance, only if the

conditions under Paragraph 1 of this Articles, and Items 1 and 2 of this Paragraph are met:

1) there has been a change in the regulatory classification of those instruments that would probably lead to the exclusion of those instruments from regulatory capital or their re-classification into a form of capital of lower quality, and both of the following conditions are met:

1. the Agency is of the opinion that such change is sufficiently probable,
2. the bank has proven to the Agency that the regulatory reclassification could not have been reasonably predicted at the moment of their issuance,

2) there has been a change in the applicable tax treatment of those instruments in connection with which the bank has proven to the Agency that the change is significant and that it could not have been reasonably predicted at the moment of issuance of the instruments.

Temporary Wiaver from Deductions from Regulatory Capital Article 31

(1) If the bank is temporarily holding capital instruments or it has approved subordinated debt, which meet the conditions for instruments of Common Equity Tier 1, Additional Tier 1 or Tier 2 capital in a financial sector entity, and the regulatory authority in compliance with the legislated regulation deems that an investment for the purpose of the process of financial aid for the purpose of reorganization and bailout of that entity, the Agency may temporarily allow an exemption from provisions on deduction that would otherwise relate to those instruments.

(2) Relating to application of Paragraph 1 of this Article, the Agency shall act in compliance with the legislated regulation which regulates the procedure of financial assistance for the purpose of reorganization and bailout of the financial sector entity.

Requirement for Regulatory Capital (Own Funds) Article 32

Regulatory capital of the bank must not decline below the amount of the paid founding capital which is, in compliance with the provisions of the legislated regulation, required in the course of issuance of the operating license.

Continuous Assessment of Quality of Regulatory Capital (Own Funds) Article 33

The Agency shall perform continuous assessment of quality of regulatory capital in compliance with regulations in laws or by-laws.

Capital Requirements for Banks Article 34

(1) Acting in compliance with the Article 32 of this Decision and prescribed requirements in connection with divergence for small scale operations under the trading book, referred to in Article 35 of this Decision, the bank shall have to meet the following capital requirements at any moment in time:

- 1) the ratio of Common Equity Tier 1 of 6.75%,
 - 2) the ratio of Tier 1 capital of 9%,
 - 3) the ratio of regulatory capital of 12%.
- (2) The bank shall calculate the ratios of capital prescribed in of Paragraph 1 of this

Article in the following manner:

1) the ratio of Common Equity Tier 1 shall be the ratio of the Common Equity Tier 1 of the bank and the total amount of exposure to risk expressed in percentages,

2) the ratio of Tier 1 capital shall be the ratio of Tier 1 capital of the bank and the total amount of exposure to risk expressed in percentages,

3) the ratio of regulatory capital shall be the ratio of regulatory capital of the bank and the total amount of exposure to risk expressed in percentages.

(3) The total amount of exposure to risk shall be calculated as the sum of items 1 - 5 of this Paragraph upon complying with provisions under Paragraph 4 of this Article:

1) amounts of exposures weighted by credit risk determined in compliance with Chapter IV of this Decision that relates to capital requirement for credit risk and the amounts of exposures on the basis of free deliveries calculated in compliance with Article 100 of this Decision, for all business activities of the bank, except for amounts of risk weighted exposures for activities from the trading book of the bank;

2) capital requirements for activities from the trading book of the bank determined in compliance with the Chapter IX of the Decision that relates to capital requirements for market risk for the following:

1. position risk,

2. large exposures that exceed the limitations defined under the Decision on Large Exposures;

3) capital requirements determined in compliance with the provisions from the part of the Decision that relates to market risk and settlement risk, excluding free deliveries, for the following:

1. exchange rate risk,

2. settlement risk,

3. commodity risk;

4) capital requirements for operating risk in compliance with Chapter VIII of this Decision that relates to operating risk;

5) amounts of risk weighted exposures determined in compliance with Chapter IV of this Decision that relates to calculation of capital requirements for credit risk, which results from activities from the trading book of and concerns financial derivatives under Attachment 2 of this Decision, repurchase transactions, transactions of borrowing securities or commodities to the other contractual party or by the other contractual party on the basis of securities or commodities, transactions with long timeframe for settlement, and margin loans.

(4) The following provisions shall apply in the course of calculation of the total amount of exposure under Paragraph 3 of this Article:

1) capital requirements referred to in Items 2 and 4 of Paragraph 3 shall include those risks that result from all business activities of the bank,

2) the banks shall multiply the capital requirements referred to in items 2 - 4 of Paragraph 3 with 12.5.

(5) In the course of calculating the regulatory capital, the amount of lacking loan loss provisioning under regulatory requirement and criteria for classification shall represent a deduction, i.e. shall be subjected to regulatory adjustments.

(6) The calculation of capital requirements, in compliance with the provisions of this Decision, shall be subjected to independent review by internal and external audit, and in compliance with the regulations under laws and by-laws that regulate the function of internal and external audit in banks.

**Divergence from Capital Requirements for Operations of Small Scope from Trading
Book
Article 35**

(1) The bank may calculate capital requirements for operations from the trading book in compliance with Chapter IV of this Decision that relates to the calculation of capital requirements for credit risk, instead of in compliance with the part of this Decision that relates to the calculation of capital requirements for position risk, if the scope of their balance sheet and off-balance sheet deals from the trading book meets both of the following conditions:

- 1) it usually amounts to less than 3% of total assets,
- 2) it never exceeds 4% of total assets.

(2) Total assets under Paragraph 1, Items 1 and 2 represents the sum of the net bookkeeping value of balance sheet assets and the bookkeeping value of off balance sheet items reduced by provisioning for losses under off balance sheet assets.

(3) In the course of calculation of the scope of balance sheet and off-balance sheet operations, the bank shall apply the following:

1) debt instruments shall be valued at their market price or their nominal value, equity instruments at their market price, and financial derivatives at the nominal or market value of reference instruments,

2) the absolute value of long positions shall be added to the absolute value of short positions.

(4) If the scope of the trading book exceeds 4%, the bank shall be under obligation to inform the Agency of that immediately. If the Agency, on the basis of the submitted data, determines that the scope of the trading book of the bank exceeds 3%, on three or more occasions in the course of one calendar month, or on nine or more occasions during a quarter, the Agency shall inform the bank that from the next reporting date it shall start to calculate capital requirements in compliance with Chapter IX of this Decision that concerns the calculation of capital requirements for market risk.

(5) As an exception, the Agency may adopt a decision in which it shall require from the bank to calculate capital requirements for market risk even if the bank does not exceed the limits under Paragraph 4 of this Article.

Reporting on Capital Requirements and Financial Information

Article 36

(1) The banks shall be under obligation to report to the Agency on calculation of the capital requirements referred to in Article 34 of this Decision in compliance with the by-law that regulates in more detail unique templates, the frequency, and the dates of reporting.

(2) The Agency may also require from the bank additional reports on financial information that are necessary for acquiring a full review of the risk profile of the bank, and prescribe other special requirements for reporting.

CHAPTER III

FINANCIAL LEVERAGE, CAPITAL BUFFERS AND CAPITAL CONSERVATION MEASURES

1. Financial Leverage

Calculation of Financial Leverage Ratio

Article 37

(1) The bank shall calculate the financial leverage ratio in compliance with the methodology prescribed in Paragraphs 2 - 8 of this Article.

(2) The financial leverage ratio shall be calculated in such a manner that the measure of capital of the bank shall be divided by the measure of total exposure of the bank, and then the resulting ratio shall be expressed in percentages.

The bank shall calculate the financial leverage ratio as of the reference reporting date.

(3) For the requirements of Paragraph 2 of this Article, the measure of capital shall be the Tier 1 capital.

(4) The measure of total exposure of the bank shall be the sum of values of exposure of:

1) assets under Paragraph 5 of this Article, apart from the items that are deducted in the course of determination of the measure of capital referred to in Paragraph 3 of this Article,

2) financial derivatives under Paragraph 7 of this Article,

3) repurchase transactions, transactions of borrowing securities or commodities to the other contractual party or from the other contractual party, transactions with a long settlement term and margin loans under Paragraph 6 of this Article,

4) off balance sheet items under Paragraph 8 of this Article.

(5) The bank shall determine the value of assets for the requirements of Paragraph 4 of this Article excluding the contracts under Attachment 2 of this Decision, in compliance with the following principles:

1) the value of exposure of assets shall represent the value of exposures referred to in Article 44 of this Decision, wherein the balance sheet positions shall be reduced only by value adjustments, and off-balance sheet positions by provisioning calculated pursuant to international accounting standards,

2) techniques for credit risk mitigation cannot affect the reduction of the amounts of items that are included in the value of exposure of the assets,

3) netting of loans with deposits shall not be allowed,

4) the netting of repurchase transactions, transactions of borrowing securities or commodities to the other contractual party or from the other contractual party, transactions with a long settlement term and margin loans shall not be allowed.

(6) The bank shall determine the value of exposures of repurchase transactions, transaction of borrowing of securities or commodities to the other contractual party or from the other contractual party, transactions with long period of settlement and margin loans, including those that are held as off balance sheet items, in compliance with Article 87 of this Decision.

(7) The bank shall determine the value of exposures for financial derivatives under Attachment 2 of this Decision, including the off-balance sheet ones, in compliance with Article 46 of this Decision. In exceptional circumstances, the bank may use the method of original exposure under Article 47 of this Decision for determining the values of financial derivatives under Items 1 and 2 of Attachment 2 of this Decision, only if it is using the same method for the determination of values of those contracts for the requirements of calculation of capital requirements.

(8) The bank shall determine the value of exposures of off-balance sheet items, excluding those that are listed in Paragraphs 6 and 7 of this Article, in compliance with Article 44 of this Decision, wherein the bank shall take the bookkeeping value of those items, reduced by loan loss provisioning pursuant to the international standard for off-balance sheet items, to which the following conversion factors shall apply:

1) the conversion factor that applies to the bookkeeping value for unutilized credit lines that can be irrevocably recalled at any moment in time without prior announcement, referred to in Paragraph 4, Items 1 and 2 of Attachment 1 of this Decision, shall amount to 10%,

2) the conversion factor for off balance sheet items of medium/low risk on the basis of trade financing referred to in Paragraph 3 Item 1 of Attachment 1 of this Decision and for off-balance sheet items connected with officially backed export credits referred to in Paragraph 3, Item 2 of Attachment 1 of this Decision, shall amount to 20%,

3) the conversion factor for off-balance sheet items of medium risk on the basis of trade financing referred to in Paragraph 2, Item 1 and Paragraph 2, Item 2, Sub-item 1 of Attachment

1 of this Decision, and for off balance sheet items connected with officially backed export credits referred to in Paragraph 2, Item 2, Sub-item 2 of Attachment 1 of this Decision, shall amount to 50%,

4) the conversion factor for all other off-balance sheet items referred to in Attachment 1 of this Decision shall amount to 100%.

(9) The bank shall be under obligation to ensure and maintain the financial leverage ratio at the level of 6% at the minimum.

Reporting on Financial Leverage Article 38

The bank shall be under obligation to report to the Agency on the financial leverage ratio and its integral parts in compliance with the by-law regulation that regulates in more detail the unique templates, the frequency, and the reporting dates.

2. Capital Buffers

Requirement for Maintaining Capital Conservation Buffers Article 39

(1) The buffer for capital conservation shall be the regulatory capital that the bank has to maintain in the form of Common Equity Tier 1 in the amount of 2.5 % of their total amount of risk exposure, and calculated in compliance with Article 34, Paragraph 3 of this Decision.

(2) The buffer for capital conservation referred to in Paragraph 1 of this Article shall represent a part of the Common Equity Tier 1 which is above minimum prescribed amount of 6.75% of the total amount of risk exposure.

(3) If the Agency, for a certain bank, on the basis of the assessment of risk to which the bank is exposed or might be exposed, has determined a higher ratio of Common Equity Tier 1 from the prescribed minimum, which amounts to 6.75% of the total amount of risk exposure, then the buffer for capital conservation shall represent a portion of the Common Equity Tier 1 above the ratio that the Agency determined for that bank.

(4) If the bank is not meeting the requirements under Paragraph 1 of this Article, the constraints to distribution shall apply as under Article 41, Paragraphs 2 and 3 of this Decision and the plan for capital conservation referred to in Article 42 of this Decision.

Requirements for Other Capital Buffers Article 40

(1) The Agency shall determine a list of systemically important banks in compliance with Article 187 of the Banking Law of Republika Srpska.

(2) The Agency may determine the ratio of capital buffer for systemically important banks in the amount of 0% to 2% of the total amount of exposure to risk, calculated in compliance with Article 34, Paragraph 3 of this Decision.

(3) The requirement for the combined buffer shall represent the Common Equity Tier 1 (expressed in percentages in relation to the total amount of risk exposure calculated in compliance with Article 34, Paragraph 3 of this Decision) that is intended for complying with the requirements for the buffer for capital conservation, increased by the following buffers, depending on which of the following is applicable:

- 1) counter-cyclical buffer of capital specific for the bank,
- 2) buffer for a systemically important bank,
- 3) buffer for systemic risk.

(4) The application of the requirement for maintaining a counter-cyclical capital buffer

specific for the bank and the buffer for systemic risk shall, when necessary, be prescribed under a special enactment.

(5) If the bank is not meeting the requirements under Paragraph 1 of this Article, the constraints to distribution shall apply as under Article 41, Paragraphs 2 and 3 of this Decision.

3. Capital Conservation Measures

Capital Conservation Measures - Limitations to Distribution

Article 41

(1) The bank that is meeting the requirements for the combined buffer cannot perform the distribution of profit in connection with Common Equity Tier 1, if that would lead to the reduction of Common Equity Tier 1 down to a level at which it would no longer comply with the combined buffer.

(2) The bank that fails to comply with the requirement for the combined buffer shall be under obligation to calculate the maximum distributable amount (MDA) and inform the Agency on that concerning MDA.

(3) Before the calculation of the MAD referred to in Paragraph 2 of this Decision, the bank must not undertake any of the following activities:

- 1) perform the distribution of profit relating to the Common Equity Tier 1,
- 2) form the obligation of paying variable fees or discretionary pension benefits or perform payout of fees, if at that moment in time, it is not complying with the combined buffer under Article 40 of this Decision,
- 3) performing the payments under instruments of Additional Tier 1.

(4) The MAD shall be calculated by multiplying the sum calculated in compliance with Paragraph 5 of this Article with the factor determined in compliance with Paragraph 6 of this Article. The MAD shall be reduced for all activities that concern Paragraph 3, Items 1 - 3 of this Article.

(5) The sum that shall be multiplied in compliance with Paragraph 4 of this Article shall comprise of the following:

1) profit from the current year that was generated in the course of the business year, that is not included in Common Equity Tier 1 in compliance with Article 6, Paragraphs 2 and 3 of this Decision, and which was realized following the most recent decision on distribution of profit or any of the activities pertaining to Paragraph 3, Items 1 - 3 of this Article, and

2) profit from the current year that was generated at the end of the business year, that is not included into the Common Equity Tier 1 in compliance with Article 6, Paragraphs 2 and 3 of this Decision, and which was realized following the most recent decision on distribution of profit or any of the activities pertaining to Paragraph 3, Items 1, 2 or 3 of this Article,

reduced by:

3) amounts that would be paid on the basis of taxes, if the Items 1 and 2 of this Paragraph were retained.

(6) The factor shall be determined in the following manner:

1) if the Common Equity Tier 1 being maintained by the bank, and not being used for complying with capital requirements referred to in Article 34, Paragraph 1, Item 3 of this Decision, expressed as the percentage share in the total amount of risk exposure calculated in compliance with Article 34, Paragraph 3 of this Decision, falls into the first (i.e. the lowest) quartile of distribution of the requirement for the combined buffer, the factor shall amount to 0,

2) if the Common Equity Tier 1 being maintained by the bank, and not being used for complying with capital requirements referred to in Article 34, Paragraph 1, Item 3 of this Decision, expressed as the percentage share in the total amount of risk exposure calculated in compliance with Article 34, Paragraph 3 of this Decision, falls into the second quartile of distribution of the requirement for the combined buffer, the factor shall amount to 0.2,

3) if the Common Equity Tier 1 being maintained by the bank, and not being used for complying with capital requirements referred to in Article 34, Paragraph 1, Item 3 of this Decision, expressed as the percentage share in the total amount of risk exposure calculated in compliance with Article 34, Paragraph 3 of this Decision, falls into the third quartile of distribution of the requirement for the combined buffer, the factor shall amount to 0.4,

4) if the Common Equity Tier 1 being maintained by the bank, and not being used for complying with capital requirements referred to in Article 34, Paragraph 1, Item 3 of this Decision, expressed as the percentage share in the total amount of risk exposure in compliance with Article 34, Paragraph 3 of this Decision, falls into the fourth (i.e. the highest) quartile of distribution of the requirement for the combined buffer, the factor shall amount to 0.6,

5) the lower and upper limits of each of the quartiles of distribution of the requirement for the combined buffer shall be calculated in the following manner:

$$\text{Lower limit of distribution quartile} = \frac{\text{Requirement for combined buffer} \times (Q_n - 1)}{4}$$

$$\text{Upper limit of distribution quartile} = \frac{\text{Requirement for combined buffer} \times Q_n}{4}$$

where “Q_n” signifies the ordinal number of the relevant quartile of distribution.

(7) The limitations that are stipulated under this Article shall apply only to the payments that lead to the reduction of Common Equity Tier 1 or a reduction in profit, and if the discontinuation of payment or failure to implement the payment do not represent the onset of the status of default on liabilities or conditions for application of the recovery plan of the bank in case of insolvency.

The Agency shall prescribe in a special by-law the obligations of the bank relating to recovery plans.

(8) If the bank is not complying with the requirement for the combined buffer, and it intends to distribute some of its available profit or undertake some of the activities under Items 1 – 3 of Paragraph 3 of this Article, it shall inform the Agency on above stated and submit the following information:

- 1) amount of capital being maintained by the bank, divided into:
 1. Common Equity Tier 1,
 2. Additional Tier 1,
 3. Tier 2 capital;
- 2) the amount of profit from the current year generated in the course of the business year and profit for the current year generated at the end of the business year;
- 3) amount of the MDA calculated in compliance with Paragraph 4 of this Article;
- 4) amount of available profit it intends to distribute to the following:
 1. payment of dividends,
 2. redemption of shares,
 3. payments under Additional Tier 1 capital instruments,
 4. payment of the variable fee or discretionary pension benefits, either by forming a new liability of payment or by paying in compliance with the liability of payment that onset at the moment in which the bank did not comply with the requirement for combined buffer.

(9) The bank shall be under obligation to maintain adequate internal systems with which it shall ensure accurate calculation of the amount of available profit and the MDA, and it shall have to be competent to prove that accuracy upon a request of the Agency.

(10) For the requirements of Paragraphs 1 and 2 of this Article, the distribution relating to the Common Equity Tier 1 shall contain the following:

- 1) payment of dividends in cash,
- 2) distribution of bonus shares in full or partially or other capital instruments referred to

in Article 6, Paragraph 1, Item 1 of this Decision,

3) redemption or purchase of own shares or other capital instruments referred to in Article 6, Paragraph 1, Item 1 of this Decision by the bank,

4) repayment of amounts paid related to the capital instruments referred to in Article 6, Paragraph 1, Item 1 of this Decision,

5) distribution of items under Items 2 - 5 of Article 6, Paragraph 1 of this Decision.

Capital conservation plan

Article 42

(1) If the bank is not complying with the requirement for maintenance of capital conservation buffers, it shall be under obligation to comply the plan for conservation of capital and submit it to the Agency within the timeframe of five working days at the latest upon ascertaining that it would not be successful in complying with that requirement, except if the Agency approves an extension to that timeframe to 10 days. The Agency shall issue such an approval in individual cases only, on the basis of assessment of specific circumstances in each individual bank, taking into account the scope and the complexity of business operations of the bank.

(2) The plan for conservation of capital referred to in Paragraph 1 of this Article shall contain the following:

1) assessment of income and expenses and the planned balance sum and the structure of balance sheet items,

2) measures for increasing the prescribed ratios of capital of the bank,

3) the plan and the framework for increasing Common Equity Tier 1 in order to comply fully with the requirement for maintaining buffers for capital conservation,

4) any other information that the Agency may deem as necessary for the implementation of assessment which is being required in compliance with Paragraph 3 of this Article.

(3) The Agency shall perform the assessment of the capital conservation plan of the bank, and shall approve the plan only if it is of the opinion that it is very likely that its implementation would preserve or collect sufficient capital that would facilitate the bank to comply with the requirement maintaining buffers for capital conservation within the timeframe that the Agency deems appropriate.

(4) If the Agency fails to approve the plan for conservation of capital in compliance with Paragraph 3 of this Article, it shall undertake one or both of the following measures:

1) require from the bank to increase its regulatory capital up to a certain level within certain timeframes,

2) prescribe for that bank stricter rules for distribution than the ones stipulated in Article 41 of this Decision.

CHAPTER IV

CAPITAL REQUIREMENTS FOR CREDIT RISK

Approaches to Credit Risk

Article 43

(1) When calculating the amount of risk weighted exposures for the requirements of Article 34, Paragraph 3, Item 1 of this Decision, the bank shall apply the standardized approach for calculation of capital requirements for credit risk.

(2) For the requirements of calculation of capital requirements for credit risk, exposures towards investment companies from third countries and exposures towards banks shall be

treated as exposures towards institutions only if the third country is, in relation to that entity, applying regulatory and supervisory requirements that are approximately equal to the ones being applied in RS, i.e. the European Union.

(3) For the requirements of the preceding Paragraph, the Agency shall apply the decision of the European Commission on whether a third country is applying regulatory and supervisory requirements that are, at the minimum, approximately equal to the ones being applied in the European Union, and provide a list of those countries in Attachment 4 of this Decision.

Value of Exposures Article 44

(1) The calculation of value of exposures for items of balance sheet assets shall be performed so that from the bookkeeping value the correction of value pursuant to international accounting standards is subtracted, increased or reduced by the difference between the corrections of value and provisioning calculated according to the methodology of the Agency, additional value adjustments in compliance with Article 5, Paragraph 3 of this Decision and the reduction of regulatory capital relating with the item of assets. The value of exposures of off-balance sheet assets listed in Attachment 1 to this Decision shall represent the amount of its bookkeeping value reduced by provisioning pursuant to international accounting standards increased or reduced by the difference of loan loss coverage for off-balance sheet items, according to the methodology of the Agency, multiplied by the following conversion factors:

- 1) 100% for items with high risk,
- 2) 50% for items with medium risk,
- 3) 20% for items with medium/low risk,
- 4) 0% for items with low risk.

Off-balance sheet items shall be allocated into risk categories as stated in Attachment 1 of this Decision.

(2) If the bank is using the complex financial collateral method referred to in Article 88 of this Decision, the value of exposure of securities or commodities, sold, offered as collateral or given under lease on the basis of a repurchase transaction or within the framework of a transaction of borrowing securities or commodities to the other contractual party or from the other contractual party or margin loans, shall be increased by the corrective factor appropriate for such securities or commodities as prescribed under Articles 88 and 89 of this Decision.

(3) The value of exposure of financial derivatives listed in Attachment 2 of this Decision shall be determined in compliance with methods for calculation of values of exposure provided under Articles 45 - 47 of this Decision.

(4) The value of exposure of repurchase transactions, transaction of borrowing securities or commodities to the other contractual party or from the other contractual party, transactions with long timeframes for settlement or margin loans may be determined in compliance with Chapter VI of the Decision, which concerns credit risk mitigation (CRM) techniques.

(5) If funded credit preservation is being applied to the exposure, the value of exposure that is applicable to that item may be changed in compliance with Chapter VI of the Decision that concerns credit risk mitigation (CRM) techniques.

Methods for Calculation of Value of Exposures of Financial Derivatives Article 45

(1) The bank shall determine the value of exposure for financial derivatives listed in Attachment 2 of this Decision on the basis of one of the following methods: the market value method referred to in Article 46 of this Decision or the original exposure method referred to in Article 47 of this Decision. A bank that is not complying with the conditions for the treatment referred to in Article 35 of the Decision must not apply the original exposure method. In the

course of determination of values of contracts on the basis of financial derivatives listed in Paragraphs 3 - 7 of Attachment 2 of this Decision, the bank must not apply the original exposure method.

(2) According to the methods referred to in Paragraph 1 of this Article, the value of exposure towards certain other contractual party shall be equal to the sum of the value of exposures calculated for each of the groups of transactions between the bank and the same other contractual party.

(3) For the market value method and the original exposure method, the bank shall adopt principled methodology for calculation of an hypothetical amount for different types of products and shall ensure that the hypothetical amount that is being included into the calculation represents an appropriate measure of risk that results from the contract.

**Market-to-Market Method
Article 46**

(1) In order to determine the present cost of substitution for all contracts with positive value, the bank shall connect present market values with the contracts.

(2) In order to determine the potential future credit exposure, the bank shall multiply the hypothetical amounts or reference values, as necessary, with the corresponding percentage from Table 1 and in compliance with the following principles:

1) contracts that cannot be classified in one of the five categories from Table 1 shall be treated by the bank as contracts that relate to the commodity that is not a precious metal,

2) for contracts with multiple substitutions of the principal, the percentages shall be multiplied with the number of remaining payments in compliance with the provisions of the contract,

3) for contracts that are structured in such manner that the remaining exposures are to be settled on payment dates agreed in advance and whose provisions are always re-defined so that the market value of the contract, on those dates determined in advance, equals to zero, the remaining timeframe until maturity is equal to the timeframe until the first next date of defining the terms. In case of contracts related to interest rate that meet the aforementioned conditions and have the remaining timeframe until maturity exceeding one year, the percentage that shall be applied shall not be below 0.5%.

Table 1.

Remaining timeframe until maturity	Contracts with interest rate	Contracts relating to currencies, gold	Contracts relating to equity instruments	Contracts relating to precious metals, excluding gold	Contracts relating to commodities that are not precious metals
1 year or shorter	0%	1%	6%	7%	10%
1 to 5 years	0.5%	5%	8%	7%	12%
longer than 5 years	1.5%	7.5%	10%	8%	15%

(3) The value of exposure shall represent the sum of the present cost of replacement and the potential future credit exposure.

**Original Exposure Method
Article 47**

(1) The value of exposure shall represent the product of the hypothetical amount of each instrument and the percentage provided in Table 2.

Table 2.

Initial maturity timeframe	Contracts with interest rate	Contracts relating to currencies and gold
1 year or shorter	0.5%	2%
1 to 2 years	1%	5%
Addition for each following year	1%	3%

(2) When calculating the value of exposure of contracts relating to interest rate, the bank may apply the initial period of maturity of the remaining timeframe until maturity.

Exposure Classes Article 48

Each exposure shall be classified into one of the following exposure classes:

- 1) exposures towards central governments or central banks,
- 2) exposures towards regional governments or local authorities,
- 3) exposures towards public sector entities,
- 4) exposures towards multilateral development banks,
- 5) exposures towards international organizations,
- 6) exposures towards institutions,
- 7) exposures towards companies,
- 8) exposures towards private individuals,
- 9) exposures secured with real estate,
- 10) exposures in the status of default on liabilities,
- 11) high risk exposures,
- 12) exposures in the form of covered bonds,
- 13) exposures towards institutions and companies with a short-term credit assessment,
- 14) exposures in the form of stock or shares in investment funds,
- 15) exposures on the basis of equity investments,
- 16) other exposures.

Calculation of Risk Weighted Exposure Amounts Article 49

(1) For the purpose of calculation of amounts of risk weighted exposures, appropriate risk weights in compliance with provisions of this Decision shall apply to all exposures, unless those exposures represent a deduction item in the course of calculation of regulatory capital. The application of risk weights shall depend on the category of exposure in which the exposure is classified and on the corresponding level of credit quality. It shall be possible to determine the credit quality on the basis of a credit assessment of the External Credit Assessment Institutions (hereinafter: ECAIs) or Export Credit Agency (hereinafter: the ECA), in compliance with Chapter V of this Decision that concerns recognition and classification of credit assessments.

(2) For the purpose of application of risk weights, as stated in the preceding Paragraph, the value of exposure shall be multiplied by the risk weight that is listed or determined in this part of the Decision.

(3) If credit protection applies to the exposure, it shall be possible to apply the risk weight that is applicable to that item in compliance with Article 95 of this Decision.

(4) Exposures for which the corresponding risk weight is not determined shall be awarded the risk weight of 100%.

Exposures towards Central Governments or Central Banks Article 50

(1) Except in cases listed in Paragraphs 2 - 7 of this Article, exposures towards central governments and central banks shall be awarded the risk weight of 100%.

(2) Exposures towards central governments and central banks for which a credit assessment of the selected ECAI exists shall be awarded the risk weight provided in Table 3 that corresponds to the credit assessment of the ECAI in compliance with Article 69 of this Decision.

Table 3.

Level of credit quality	1	2	3	4	5	6
Risk weight	0%	20%	50%	100%	100%	150%

(3) Exposures towards the European Central Bank (hereinafter: ECB) shall be awarded the risk weight of 0%.

(4) Exposures towards the Council of Ministers of BiH, the Central Bank of BiH (hereinafter: CBBiH), central governments and central banks of state members of the European Union denominated in domestic currency of that central government and central bank shall be awarded the risk weight of 0%.

(5) Until December 31, 2017, exposures towards Council of Ministers of BiH, the CBBiH, central governments or central banks of the European Union country members denominated in domestic currency of any European Union country member shall be awarded the same risk weight that applies to such exposures denominated in their domestic currency.

(6) For exposures referred to in the preceding Paragraph, the bank shall calculate the amount of risk weighted exposures in the following manner:

1) in year 2018, 20% of the risk weight being awarded to those exposures in compliance with Paragraph 2 of this Article,

2) in year 2019, 50% of the risk weight being awarded to those exposures in compliance with Paragraph 2 of this Article,

3) in 2020, and further on, 100% of the risk weight being awarded to those exposures in compliance with Paragraph 2 of this Article.

(7) If the regulatory institutions of the third country that is applying the supervisory and regulatory framework that is, at the minimum, approximately on par with the one being applied in the European Union, award a risk weight that is lower than the weight referred to in Paragraphs 1 and 2 of this Article, the exposures towards their central government and central bank that are denominated in the domestic currency may be weighted by the bank in the same manner. The list of those third countries shall be provided in Attachment 4 to this Decision.

Exposures towards Regional Governments or Local Authorities

Article 51

(1) Exposures towards regional governments or local authorities shall be weighted as exposures towards institutions. Privileged treatment for short-term exposures referred to in Article 55, Paragraph 2 and Article 56, Paragraph 2 of this Decision shall not apply.

(2) Exposures towards the Government of Republika Srpska, Government of the Federation of BiH, and Government of Brčko District of BiH shall have the same treatment as exposures towards the Council of Ministers of BiH.

(3) Exposures towards religious communities shall be treated as exposures towards regional governments or local authorities in compliance with Paragraph 1 of this Decision, if the religious communities, in compliance with public law, were founded as legal persons and collect taxes in compliance with the legislation that grants them that right.

Exposures towards Public Sector Entities

Article 52

(1) Exposures towards public sector entities for which there is no credit assessment of the selected ECAI shall be awarded risk weights in line with Table 4 according to the level of credit quality that is awarded to exposures towards the central government in which the public-sector entity has headquarters.

Table 4.

Level of credit quality awarded to the central government	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	100 %	150 %

(2) Risk weights for exposures towards public sector entities that have headquarters in states whose central governments have not been awarded a rating shall amount to 100%.

(3) Exposures towards public sector entities for which there is a credit assessment of the selected ECAI shall be treated in compliance with Article 56 of this Decision. The privileged treatment referred to in Article 55, Paragraph 2 and Article 56, Paragraph 2 of this Decision for short-term exposures shall not apply to those entities.

(4) For exposures towards public sector entities with the initial timeframe of maturity of up to three months, the risk weight shall equal 20%.

(5) When the regulatory institutions of the third country that are applying the supervisory and legal framework that is, at the minimum, on par with the one being applied in the European Union, are treating the exposures towards public sector entities in compliance with Paragraph 1 or 2, the bank may weight exposures towards those public-sector entities in the same manner. Otherwise the bank shall apply the risk weight of 100%. The list of third countries shall be provided in Attachment 4 to this Decision.

Exposures towards Multilateral Development Banks

Article 53

(1) Exposures towards multilateral development banks that are not referred to in Paragraph 2 of this Article shall be treated in the same manner as exposures towards institutions. The privileged treatment referred to in Article 55, Paragraph 2, Article 56, Paragraph 2 and Article 57, Paragraph 3 of this Decision shall not apply for short-term exposures.

The Inter-American Investment, the Black Sea Trade and Development Bank, the Central American Bank for Economic Integration, and the CAF-Development Bank of Latin America shall be deemed as multilateral development banks.

(2) Exposures towards the following multilateral development banks shall be awarded the risk weight of 0%:

- 1) International Bank for Reconstruction and Development,
- 2) International Finance Corporation,
- 3) Inter-American Development Bank,
- 4) Asian Development Bank,
- 5) African Development Bank ,
- 6) Council of Europe Development Bank,
- 7) Nordic Investment Bank,
- 8) Caribbean Development Bank,
- 9) European Bank for Reconstruction and Development,
- 10) European Investment Bank,
- 11) European Investment Fund,
- 12) Multilateral Investment Guarantee Agency,
- 13) International Finance Facility for Immunization, and
- 14) Islamic Development Bank.

(3) Risk weight of 20% shall be awarded to the portion of unpaid subscribed capital in the European Investment Fund.

Exposures towards International Organizations

Article 54

Risk weight of 0% shall be awarded exposures towards the following international organizations:

- 1) European Union,
- 2) International Monetary Fund,
- 3) Bank for International Settlements,
- 4) European Financial Stability Facility,
- 5) European Stability Mechanism,
- 6) an international financial institution founded by two country members of the European Union or more than two of them, and whose objective is to ensure financing and provide financial assistance to its members that are in serious financial difficulties, or under threat of such difficulties.

Exposures towards Institutions

Article 55

(1) Exposures towards institutions for which there is a credit assessment of the selected ECAI shall be weighted in compliance with Article 56 of this Decision. Exposures towards institutions for which there is no credit assessment of the selected ECAI shall be weighted in compliance with Article 57 of this Decision.

(2) Exposures towards institutions whose remaining timeframe to maturity is three months or shorter and that are denominated in the national currency of the debtor, shall be awarded the risk weight which is one category less favorable than the privileged risk weight referred to in Article 50, Paragraphs 4 - 7 of this Decision, which is awarded to exposures to the central government in which the institution has its headquarters.

(3) Exposures whose remaining timeframe to maturity is three months or shorter and that are denominated in the national currency of the debtor must not be awarded a risk weight below 20%.

(4) Exposures towards financial institutions that have approval for operation and are under supervision of regulatory authorities and are subject to supervisory requirements comparable with the ones being applied to banks shall be treated as exposures towards institutions.

(5) Exposures to financial institutions shall also include exposures to investment companies in BiH that are operating in compliance with legislated regulations that regulate business operations of investment companies, investment companies from the European Union country members that are operating in compliance with the European Union regulations, as well as recognized investment companies from third countries that are meeting the following conditions:

- 1) a company that would, if it were founded in the European Union, be covered by the definition of the investment company,
- 2) a company that has an approval to operate in the third country,
- 3) a company that is subject to solvency rules and meets the solvency rules that the regulatory authorities deem as at least equally strict as the ones that are defined under the European Union regulations.

Exposures towards Institutions that Are Awarded Rating

Article 56

(1) Exposures towards institutions whose remaining timeframe to maturity is longer than three months and for which there is a credit assessment of the selected ECAI shall be awarded the risk weight listed in Table 5 which corresponds to the credit assessment of the ECAI in

compliance with Article 69 of this Decision.

Table 5.

Credit quality level	1	2	3	4	5	6
Risk weight	20 %	50 %	50 %	100 %	100 %	150 %

(2) Exposures towards institutions whose remaining timeframe to maturity is shorter than three months and for which there is a credit assessment of the selected ECAI shall be awarded the risk weight listed in Table 6 which corresponds to the credit assessment of the in compliance with Article 69 of this Decision.

Table 6.

Credit quality level	1	2	3	4	5	6
Risk weight	20 %	20 %	20 %	50 %	50 %	150 %

(3) The relationship between the treatment of short-term assessment referred to in Article 64 of this Decision and the general privileged treatment for short-term exposures under Paragraph 2 of this Article shall be as follows:

1) if there is no assessment of the short-term exposure, the general privileged treatment for short-term exposures referred in Paragraph 2 of this Article shall apply to all the exposures towards institutions whose remaining timeframe to maturity is shorter than three months,

2) if there is a short-term assessment and such assessment determines the application of a more favorable or equal risk weight as upon the application of general privileged treatment for short-term exposures referred in Paragraph 2 of this Article, then the short-term assessment shall apply only for the aforementioned exposure. For other short-term exposures, the general privileged treatment for short-term exposures referred in Paragraph 2 of this Article shall apply,

3) if there is a short-term assessment and such assessment determines the application of a less favorable risk weight than upon the application of general privileged treatment for short-term exposures referred in Paragraph 2 of this Article, then the general privileged treatment for short-term exposures shall not apply, and all short-term receivables that have not been awarded a rating shall be awarded the same risk weight that applies for that short-term assessment.

Exposures towards Institutions Not Awarded Rating Article 57

(1) Exposures towards institutions for which there is no credit assessment of the selected ECAI shall be awarded the risk weight in compliance with the level of credit quality that is awarded to exposures towards central governments of the country in which the bank has headquarters, in compliance with Table 7.

Table 7.

Credit quality level awarded to central government	1	2	3	4	5	6
Risk weighted exposures	20 %	50 %	100 %	100 %	100 %	150 %

(2) For exposures towards institutions that have not been awarded a rating, and that have headquarters in states whose central government has not been awarded a rating, the risk weight shall equal 100%.

(3) For exposures towards institutions that have not been awarded a rating, and whose original effective timeframe until maturity is three months or shorter, the risk weights shall equal 20%.

Exposures towards Companies Article 58

(1) Exposures towards companies which there is a credit assessment of the selected ECAI

shall be awarded the risk weight provided in Table 8 that corresponds to the credit assessment of the ECAI in compliance with Article 69 of this Decision.

Table 8.

Credit quality level	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

(2) Exposures for which there is no credit assessment shall be awarded the risk weight of 100% or the risk weight that is awarded to exposures towards central governments in countries in which the company has headquarters, depending on which of the weights is higher.

Exposures towards Private Individuals **Article 59**

(1) Exposures towards private individuals that meet the following criteria shall be awarded the risk weight of 75%:

- 1) exposure that is either towards one natural person or several of them or towards a small or medium legal person (SME),
- 2) exposure that is one of a significant number of exposures with similar characteristics, so that the risks relating to such crediting are significantly reduced,
- 3) the total amount that the debtor or a group of related persons owes to the bank and its parent companies and their subsidiary entities, including all the exposures with the status of default on liabilities, does not exceed BAM 250,000. The Bank shall have to undertake reasonable measures to gain such knowledge.

(2) Securities shall not be classified into the category of exposures towards private individuals.

(3) Exposures that do not meet the criteria under Items 1 - 3 of this Article must not be classified into the category of exposures towards private individuals.

(4) The current value of minimum payments of leasing may be classified into the category of exposures towards private individuals.

Exposures Secured with Real Estate **Article 60**

(1) Exposure or any part of exposure that is secured in total with residential and business real estate shall be awarded the risk weight of 100% unless they meet the requirements under Paragraphs 3 and 4 of this Article and unless they are classified into another category of exposures.

(2) The part of exposure that is being treated as fully secured with real estate has to amount at least 80% of the market value of that real estate for residential real estate, i.e. 60% of market value for business real estate, and the part of the exposure that exceeds the amount of 80% of market value for residential real estate, i.e. 60% of market value of business real estate shall be awarded the weight that applies to unsecured exposures of that other contractual party.

(3) Exposures or any parts of exposures fully secured with residential real estate in which the owner is residing or shall be residing, i.e. is leasing, or shall be leasing, and which meet the requirements under Paragraph 5 of this Article shall be awarded the risk weight of 50%.

(4) Exposures or any parts of exposures fully secured with business real estate that meet the conditions under Paragraph 5 of this Article shall be awarded the risk weight of 75%.

(5) Real estate shall be deemed as recognized security only if the following requirements are met:

1) For the purpose of legal security, all following conditions shall have to be met:

1. mortgage or another right to collection from the value of the real estate that is implementable in all areas of judicial competences that are relevant at the time of concluding

the contract on loan, as well as registered in a timely and appropriate manner,

2. all legal preconditions for founding a pledge shall have to be met,

3. contractual provisions that establish security and legal proceedings relating to them shall facilitate the bank to redeem the value of security within a reasonable timeframe;

2) All following conditions shall have to be met for the monitoring of the value and assessment of real estate value:

1. following the initial assessment of an authorized independent appraiser, the bank shall be under obligation continuously to monitor the value of real estate, specifically once a year, at the minimum, for business real estate, and once every three years for residential real estate. The bank shall monitor the value of real estate even more frequently if the market conditions are subject to significant changes,

2. the value of real estate shall be assessed again if the information available to the banks point to a potential significant reduction in the value of the real estate compared to usual market prices, and that subsequent assessment shall be performed by an independent appraiser. For exposures that exceed the amount of BAM 1 million, or represent more than 5% of regulatory capital of the bank, the appraiser in question shall perform subsequent valuation once every three years, at the minimum.

For the monitoring of value of real estate and determination of the real estate for which subsequent assessment is being performed, the bank may use statistical methods.

3) The bank shall be under obligation to clearly document the types of residential and business real estate that it accepts as collateral and credit policies relating to that.

(6) Exposures that have a credit assessment of the selected ECAI that is more favorable than the weight awarded to the class of exposures secured with real estate in compliance with this Article shall be awarded the more favorable weight regardless of the sequence in the decision tree.

Exposures with Status of Default on Liabilities

Article 61

(1) Unsecured part of any exposure with the status of default on liabilities shall be awarded the following risk weights:

1) 150% when the corrections of value for credit risk are below 20% of the unsecured part of the amount of exposure, before reduction in terms of impairment for credit risk,

2) 100% when the corrections of value for credit risk are not below 20% of the unsecured part of the amount of exposures, before reduction in terms of impairment for credit risk.

(2) For the purposes of determination of the secured part of a matured liability, recognized collateral shall be deemed those that are recognized for the purposes of credit risk mitigation.

(3) It shall be deemed that the status of default on liabilities of an individual debtor has onset when one of the following conditions or both following conditions are met:

1) the bank deems it probable that the debtor shall not meet in full its liabilities towards the bank, its parent company or any of its subordinated companies, without taking under consideration the possibility of collection from the collateral,

2) the debtor is in default for longer than 90 days with meeting its matured liability in a materially significant amount in compliance with Article 2, Item 37 of this Decision. In case of exposures to private individuals, institutions may apply the definition of the onset of the status of default on liabilities stipulated in Items 1 and 2 at the level of individual exposure, instead of in relation to the total exposures of the debtor.

(4) For the requirements of Item 2 of Paragraph 3, the following shall apply:

1) for overdrafts, the counting of the number of days in default shall start with the date on which the debtor exceeds the approved limit, when its approved limit was reduced and is lower than the current amount used, or when it performed the payment from the current account without coverage, and their amount is significant,

2) for the requirements of Item 1, the approved limit shall cover any credit limit that the bank has determined and of which it has informed the debtor,

3) the counting of the days of default for exposures under credit cards shall start on the date on which the liability of payment of the minimum portion matures,

4) the significance of the matured credit liability shall be assessed in relation to the threshold under Article 2, Item 37,

5) the bank shall be under obligation to have documented policies in connection with the counting of the number of days in default, especially in regard to the extension of the deadline for settlement of liabilities. Those policies shall have to be consistently applied through time and be in compliance with the established system for risk management.

(5) For the requirements of Paragraph 3, Item 1, when assessing the probability of the debtor not meeting its liabilities regularly, the bank shall be under obligation to take into account the following elements:

1) the bank does not recognize interest rate income and income from fees and charges under the credit liability,

2) the bank recognizes special corrections of value for credit risk because of the noticed significant worsening of the credit quality of the debtor that followed the onset of that exposure,

3) the bank has sold the credit exposure with significant economic losses,

4) the bank accepts restructuring of credit exposure that would probably result in the reduction of the financial liability of the debtor because of the significant reduction or delay in the payment of the principal, interest, or, if necessary, charges,

5) the bank has submitted an application for the initiation of bankruptcy or similar proceedings over the debtor in connection with the credit liability of the debtor towards the bank, its parent company or any of its subordinated companies,

6) an application has been submitted for the initiation of bankruptcy or similar proceedings over the debtor, that would lead to nonpayment or delay of payment of the credit liability of the debtor to towards the bank, its parent company or any of its subordinated companies.

(6) If the exposure that was previously in the status of default on liabilities is no longer meeting any of the conditions from the definition for the onset of the status of default on liabilities under Article 2, Item 37 and Article 61, Paragraph 3, the bank shall award the rating to the debtor or individual exposure as if it concerned an exposure that is not in the status of default on liabilities, but only after the expiry of 6 months from the discontinuation of fulfillment of aforementioned conditions.

If any of the conditions from the definition of the onset of the status of default on liabilities is fulfilled subsequently, it shall be deemed as that a new status of default on liabilities has onset.

High Risk Exposures

Article 62

(1) The bank shall, when applicable, award the risk weight of 150% to exposures, including high-risk exposures in the form of shares or stock in investment funds.

(2) High risk exposures shall cover the following exposures:

1) investments in companies of risky capital,

2) investments in alternative investment funds with headquarters outside of BiH,

(3) In the course of assessment of exposures that are not referred to in Paragraph 2 as of high risk, the bank shall take into account the following risk characteristics:

1) there is a high risk of losses as a consequence of onset of the status of default on liabilities of the debtor,

2) it is not possible to assess in an adequate manner whether the exposure could be classified as exposures defined under Item 1 of this Paragraph.

Exposures in Form of Covered Bonds
Article 63

(1) In order for it to be possible to apply the privileged treatment referred to in Paragraphs 4 and 5 of this Article, covered bonds shall have to meet the requirements stipulated under Paragraph 6 and be secured with any of the following recognized assets:

1) exposures towards Council of Ministers of BiH, Government of Republika Srpska, Government of the Federation of BiH, CBBiH, central governments, central banks of members of European System of Central Banks (ESCB) in the European Union or exposures that are secured with their guarantees,

2) exposures towards central governments of third countries, central banks of third countries, multilateral development banks, international organizations that meet the conditions for the 1st level of credit quality or exposures that are secured with their guarantees, and exposures in the context of this Item which, in compliance with this part of the Decision meet the conditions for the 2nd level of credit quality, under the condition that they do not exceed 20% of the nominal amount of outstanding liabilities that result from the covered bonds of the bank issuer,

3) exposures towards institutions that meet the conditions for the 1st level of credit quality. Total exposure of this type must not exceed 15% of the nominal amount of outstanding liabilities that result from the covered bonds of the bank issuer. Exposures towards institutions from the European Union with maturity of 100 days or shorter shall not belong into the 1st level of credit quality, instead those institutions shall have to meet minimum conditions for the 2nd level of credit quality.

(2) Situations described in Items 1 - 3 of Paragraph 1 of this Article shall include collaterals that are intended exclusively for the protection of holders of bonds from the losses in compliance with current laws.

(3) In case of covered bonds that are secured with real estate, the bank shall have to take care of ensuring that the real estate meets the conditions under Article 60, Paragraph 5.

(4) Covered bonds for which there is a credit assessment of the selected ECAI shall be awarded the risk weight provided in Table 9, that corresponds to the credit assessment of the ECAI in compliance with Article 69 of this Decision.

Table 9.

Credit quality level	1	2	3	4	5	6
Risk weight	10 %	20 %	20 %	50 %	50 %	100 %

(5) Covered bonds for which there is no credit assessment of the selected ECAI shall be awarded the risk weight on the basis of the risk weight awarded to the superior unsecured exposures towards the bank that is issuing them. The following connection between the risk weights shall apply:

1) if the risk weight of 20% is awarded to exposures towards the bank, the covered bond shall be awarded the risk weight of 10%,

2) if the risk weight of 50% is awarded to exposures towards the bank, the covered bond shall be awarded the risk weight of 20%,

3) if the risk weight of 100% is awarded to exposures towards the bank, the covered bond shall be awarded the risk weight of 50%,

4) if the risk weight of 150% is awarded to exposures towards the bank, the covered bond shall be awarded the risk weight of 100%.

(6) Privileged treatment may apply to exposures in the form of covered bonds under the condition that the bank that is investing in covered bonds may prove to the Agency:

1) that it is receiving information on portfolio, at the minimum on the following:

1. value of the set for coverage of outstanding liabilities resulting from covered bonds, as

well,

2. geographic distribution and type of asset used for coverage, the loan amount, interest rate risk, and exchange rate risk,

3. maturity structure of the asset serving as coverage of covered bonds as well,

4. percentage of loans that matured more than 90 days ago,

2) the issuer shall ensure that the information referred to in Item 1 are at the disposal of the bank on a semi-annual basis, at the minimum.

Exposures towards Institutions and Companies with Short-term Credit Assessment Article 64

Exposures towards institutions and companies, for which there is a short-term credit assessment of the selected ECAI, shall be awarded the risk weight provided in Table 10 which corresponds to the credit assessment of the ECAI in compliance with Article 69 of this Decision.

Table 10.

Credit quality level	1	2	3	4	5	6
Risk weight	20%	50%	100%	150%	150%	150%

Exposures in Form of Stock or Shares in Investment Funds Article 65

(1) Exposures in the form of stock or shares in investment funds shall be awarded the risk weight of 100%, except if the bank is applying the method of assessment of credit risk under Paragraph 2 of this Article.

(2) Exposures in the form of stock or shares in investment funds, for which there is a credit assessment of the selected ECAI, shall be awarded the risk weight provided in Table 11 which corresponds to the credit assessment of the ECAI in compliance with Article 69 of this Decision.

Table 11.

Credit quality level	1	2	3	4	5	6
Risk weight	20%	50%	100%	100%	150%	150%

Exposures Based on Equity Investments Article 66

(1) The following exposures shall be treated as exposures on the basis of equity investments:

1) exposures that are not debt and that represent a subordinated residual right to assets or issuer income,

2) debt exposures and other securities, partnerships, derivatives or other instruments whose economic essence is similar to exposures referred to in Item 1 of this Paragraph.

(2) Exposures on the basis of equity investments shall be awarded the risk weight 100%, except if they represent a deductible item from regulatory capital, if they are treated as high risk exposures in compliance with Article 62 of this Decision or if they are awarded the risk weight of 1.250%, in compliance with Article 9 of this Decision.

(3) Investments in regulatory capital instruments that are issued by banks shall be deemed as receivables on the basis of equity investments, except if they represent a deductible item from regulatory capital or if they are treated as high risk exposures in compliance with Article 62 of this Decision.

Other Exposures
Article 67

(1) Tangible assets (land and construction facilities, equipment, advances for tangible assets, and tangible assets in preparation) shall be awarded the risk weight of 100%.

(2) Paid advances and income from future periods for which the bank cannot determine other contractual parties shall be awarded the risk weight of 100%.

(3) Cash items in the procedure of collection shall be awarded the risk weight of 20%. Cash in cash register and cash equivalents shall be awarded the risk weight of 0%.

(4) Gold in the treasury or at a special location, to the extent to which it is covered with liabilities in gold, shall be awarded the risk weight of 0%.

(5) In case of asset sale and repurchase agreements and agreements on direct termed purchases, the risk weight shall be applied that is awarded for the assets that the agreements concern, but not for other contractual parties in that business operations.

(6) The value of exposure on the basis of lease shall be equal to the discounted minimum payments of the lease. The minimum payments of the lease shall be the payments that the bank is requiring or may require from the lease holder in the course of duration of the lease contract, and payments on the basis of any call option for the items of the lease that would very likely be performed.

CHAPTER V
RECOGNITION OF CREDIT ASSESSMENTS OF ECAI

Utilization of Credit Assessments of ECAI
Article 68

(1) External credit assessment may be used for determination of risk weights for exposures, only if they were awarded or confirmed by ECAI.

(2) The European Supervisory Body for Securities and Market (ESMA) shall be updating and publishing the list of registered and certified agencies for credit risk assessment on its website whose assessments the bank may use.

Classification of Credit Assessments of ECAI
Article 69

(1) The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA) shall, through their Joint Board, compile drafts of implementation-related documents in which they shall determine the manner of classification of credit assessment of ECAI to corresponding levels of credit quality under part III of this Decision. That procedure shall have to be objective and principled.

(2) The Agency shall publish websites from which the documents may be downloaded as under Paragraph 1 of this Article.

Utilization of Credit Assessment of ECA
Article 70

(1) For the purposes of Article 50 of this Decision, the bank may utilize credit assessments of ECA it selected, if any of the following conditions are met:

1) if this concerns a generally accepted rating for assessment of risk awarded by the ECA, which are participating in the design of guidelines of the Organization for Economic Cooperation and Development (OECD) for officially backed export crediting,

2) the ECA is publishing its own credit assessments and commits to utilizing the agreed methodology of the OECD, and the credit assessment is connected with one of the eight minimum export insurance premiums (MEIP) stipulated in the agreed methodology of the OECD. The bank may recall its selection of the ECA. If there are specific indications that the objective of the recall is to reduce the requirements that concern capital adequacy, the bank shall have to justify that recall.

(2) Exposures with which the credit assessment of the ECA is recognized for the requirements of awarding risk weights shall be awarded the risk weight provided in Table 12.

MEIP	0	1	2	3	4	5	6	7
Risk weight	0%	0%	20%	50%	100%	100%	100%	150%

**General Requirements for Utilization of ECAI Credit Assessments for Determining Risk Weights
Article 71**

The bank may select one ECAI or several of them that shall be used for determination of risk weights that shall be awarded to balance sheet and off-balance sheet assets. The bank may recall its selection of the ECAI. The bank shall have to justify that recall if there are specific indications that the objective of the recall is to reduce the requirements that concern capital adequacy. Credit assessments must not be applied selectively. The bank shall use the credit assessments requested. When applying a credit assessment, the banks shall have to comply with the following requirements:

1) the bank that decides to use credit assessments awarded by the ECAI for specific categories of exposures shall have to use those credit assessments in a principled manner for all the exposures from the aforementioned category,

2) the bank that decides to use credit assessments awarded by the ECAI shall have to use them in a continuous and principled manner,

3) the bank may use only those credit assessments of the ECAI that take into account all amounts that the institution is claiming, both the principal and the corresponding interest,

4) if for a certain item there is only one credit assessment of the selected ECAI, that credit assessment shall be used for determination of risk weights for that specific item,

5) if for a certain item there are two credit assessments of the selected ECAI that correspond to different risk weights, the aforementioned item shall be awarded the higher risk weight,

6) if for a certain item there are more than two credit assessments of the selected ECAI, the credit assessments used shall be the ones providing the two lowest risk weights. If the aforementioned two lowest risk weights differ, the higher risk weight shall be awarded. If the aforementioned two lowest risk weights are equal, that risk weight shall be used.

**Credit Assessment of Issuer and Issuance
Article 72**

(1) If there is a credit assessment for a specific program of issuance or for the financial instrument to which the item that represents exposure belongs, the aforementioned credit assessment shall be used for determining the risk weight that shall be awarded to that item.

(2) If for a certain item there is no direct credit assessment, but there is a credit assessment for a specific program of issuance or a financial instrument to which the item representing the exposure does not belong, or if there is a general credit assessment for the issuer, that credit

assessment shall be used in the following cases:

1) if it provides a higher risk weight than would usually be the case, and the said exposure is in all aspects of the same rank or subordinated compared to the specific program of issuance or the financial instrument, or to superior unsecured exposures of that issuer,

2) if it provides a lower risk weight and the said exposure is in all aspects of the same rank or superior in comparison to the specific program of issuance or the financial instrument, or to superior unsecured exposures of that issuer,

In all other cases, the exposure shall be treated as an item lacking a rating.

(3) Application of Paragraphs 1 and 2 of this Article shall not preclude the application of Article 63 of this Decision.

(4) Credit assessments for the issuer from the group of companies cannot be used as credit assessments of another issuer from the same group of companies.

Long-term and Short-term Credit Assessments

Article 73

(1) Short-term credit assessments may be used only for short-term assets and off-balance sheet items that represent exposure towards institutions and companies.

(2) Short-term credit assessments shall be used only for items to which the short-term credit assessment relates, and shall not be used in order for the risk weight to be derived from them for any other item, except in the following cases:

1) if the financial instrument for which there is a short-term credit assessment is awarded the risk weight of 150%, then all unsecured exposures towards the same debtor to which no rating has been awarded, regardless of whether they are short-term or long-term, shall also be awarded the risk weight of 150%,

2) if the financial instrument for which there is a short-term credit assessment is awarded the risk weight 50%, not a single short-term exposure without a rating may be awarded a risk weight below 100%.

Items in Domestic and Foreign Currency

Article 74

(1) A credit assessment that concerns items denominated in domestic currency of the debtor cannot be used to derive risk weights for another exposure towards the same debtor that is denominated in a foreign currency.

(2) If the exposure onsets because of the participation of the bank in a credit approved by a multilateral development bank, whose status of creditor with priority right is recognized in the market, the credit assessment for the debtor's item in the domestic currency may be used for determination of the risk weight.

CHAPTER VI

CREDIT RISK MITIGATION TECHNIQUES (CRM)

1. General Terms

General Provision for Recognition of Credit Risk Mitigation Effects

Article 75

(1) For the requirements of this part of the Decision, the creditor bank shall represent the

bank that is the recipient of credit protection.

(2) Not a single exposure to which a credit risk mitigation technique was applied may lead to a higher amount of risk weighted exposure compared to the identical exposure to which the credit risk mitigation technique was not applied.

(3) If the requirements for recognition of funded and unfunded credit protection are met, the bank may adjust the calculation of the amount of risk weighted exposures that was performed in compliance with Chapter IV of this Decision that relates to the calculation of capital requirements for credit risk.

(4) The bank shall be under obligation to deem cash, securities or commodities purchased, borrowed, or received on the basis of repurchase transactions or transactions of borrowing of securities or commodities to the other contractual party or from the other contractual party as collateral.

(5) If the bank in the course of calculating the amounts of risk weighted exposures in compliance with Chapter IV of the Decision that relates to calculation of capital requirements for credit risk, uses several types of instruments for reduction of credit risk that cover one exposure, it shall be under obligation to act in the following manner:

1) divide the exposure into parts covered with an individual type of instrument for credit risk mitigation, and

2) calculate separately the amount of risk weighted exposures for each part under Item 1 of this Paragraph in compliance with the provisions of the Decision concerning the calculation of capital requirements for credit risk pursuant to this part of the Decision.

(6) If the bank, in the course of calculating the amounts of risk weighted exposures in compliance with Chapter IV of the Decision that relates to the calculation of capital requirements for credit risk, is covering one exposure with credit protection of one provider of protection, and that protection has different maturities, it shall be under obligation to do the following:

1) divide the exposure into parts covered with an individual type of instrument for risk mitigation, and

2) calculate separately the amount of risk weighted exposures for each part pursuant to Item 1 of this Paragraph in compliance with the provisions of the Decision concerning the calculation of capital requirements for credit risk in accordance with this part of the Decision.

Principles for Eligibility of Credit Risk Mitigation Effects

Article 76

(1) The creditor bank that is using an arrangement of credit protection that covers policies and procedures, activities and processes, i.e. techniques for acquiring credit protection, shall have to ensure that those arrangements are implementable in all relevant areas of judicial jurisdiction.

The creditor bank shall be under obligation to submit, upon a request of the Agency, an updated, written, justified, and independent legal opinion or several of them that it has used in order to determine whether the credit protection arrangement i.e. credit protection arrangements, meet those conditions.

(2) The creditor bank shall be under obligation to undertake all appropriate measures to ensure that the credit protection arrangement is efficient and to manage the risks connected with that arrangement.

(3) The bank may recognize funded credit protection upon the calculation of effects of credit risk mitigation only if the assets that represent credit protection meet both of the following requirements:

1) they represent assets that are, in compliance with Articles 77 - 79 of this Decision, recognized as collateral,

2) they are sufficiently liquid, and their value is sufficiently stable with the time passing

and provide adequate security in connection with the level of achieved credit protection, taking into account the allowed level of recognition of credit protection for the needs of calculation of the amounts of risk weighted exposures.

(4) The bank may recognize funded credit protection when calculating the effects of credit risk mitigation only if the creditor bank is entitled to cash in or retain the assets that represent credit protection, in a timely manner, in case of onset of the status of default on liabilities, insolvency, or bankruptcy of the debtor or, when applicable, persons with which the collateral is located, and in case of onset of another credit event listed in the documentation on the transaction. The degree of correlation between the value of assets that represents funded credit protection and credit worthiness of the debtor must not be too high.

(5) In case of unfunded credit protection, the provider of protection shall be recognized only if it is listed in Article 80 of this Decision.

(6) In case of unfunded credit protection, the subject agreement on protection shall be recognized in compliance with Articles 80 and 81 of this Decision, if the subject agreement is legally implementable in all relevant areas of judicial jurisdiction and provides adequate security in connection with the level of achieved credit protection, taking into account allowed degree of eligibility of credit protection for the purpose of calculating the amounts of risk weighted exposures.

(7) Credit protection shall have to meet the conditions under the part of the Decision that concerns requirements for the eligibility of credit protection.

(8) The bank shall be under obligation, upon a request of the Agency, to prove that it has adequate risk management processes, in order to control the risks that it may be exposed to because of the implementation of credit risk mitigation procedures.

(9) Independently from the recognized reduction of credit risk in the course of calculation of the amounts of risk weighted exposures, the bank shall be under obligation to continue to implement full assessment of credit risk of basic exposures and to be competent to prove to the Agency that they met that requirement. For the purposes of this Paragraph, for repurchase transactions and transactions of borrowing of securities or commodities to the other contractual party or from the other contractual party, a basic exposure shall be deemed as the net amount of exposures.

Eligibility of Collateral According to All Approaches and Methods **Article 77**

(1) The bank may use the following items as eligible collateral according to all approaches and methods:

1) cash deposit deposited with the creditor bank or other instruments that may be deemed as cash, and which is being held by the creditor bank,

2) debt securities of central governments or central banks that have a credit assessment of the ECAI or ECA for which it was determined in compliance with Article 69 of this Decision that they belong to the 4th level of credit quality, at the minimum, and shall be weighted according to the rules for weighting exposures towards central governments and central banks in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk,

3) debt securities of institutions that have a credit assessment of the ECAI and for which it was determined in compliance with Article 69 of this Decision that they belong to the 3rd level of credit quality, at the minimum, and shall be weighted according to the rules for weighting exposures towards institutions in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk,

4) debt securities of other entities that have a credit assessment of the ECAI and for which it was determined in compliance with Article 69 of this Decision that they belong to the 3rd level of credit quality, at the minimum, and shall be weighted according to the rules for

weighting exposures towards companies in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk,

5) debt securities that have a short-term credit assessment of the ECAI and for which it was determined in compliance with Article 69 of this Decision that they belong to the 3rd level of credit quality, at the minimum, and shall be weighted according to the rules for weighting short-term exposures in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk,

6) shares or convertible bonds included in the main stock exchange index,

7) gold,

(2) For the requirements of Paragraph 1, Item 2 of this Article “debt securities of central governments or central banks” shall include the following:

1) debt securities of the Government of Republika Srpska, the Government of the Federation of BiH, and the Government of Brčko District of BiH,

2) debt securities of multilateral development banks, to which, in compliance with Article 53, Paragraph 2 of this Decision the risk weight of 0% applies,

3) debt securities of international organizations to which, in compliance with Article 54 of this Decision, the risk weight of 0% applies.

(3) For the requirements of Paragraph 1, Item 3 of this Article “debt securities of institutions” shall include the following:

1) debt securities of regional governments and local authorities, apart from those referred to in Paragraph 2, Item 1 of this Article,

2) debt securities of public sector entities, under which there is treatment in compliance with Article 52, Paragraphs 1 and 2 of this Decision,

3) debt securities of multilateral development banks, except those to which the risk weight of 0% is applied in compliance with Article 53, Paragraph 2 of this Decision.

(4) The bank may use debt securities of other institutions that do not have a credit assessment of the ECAI as eligible collateral, if those debt securities are meeting all following criteria:

1) they are listed in a recognized stock exchange,

2) they are deemed as superior receivables (from the aspect of collection),

3) all other issuances of the institution of the issuer with the same status in the sequence of collection, that have a rating, have a credit assessment of the ECAI for which it was determined in compliance with Article 69 of this Decision that they belong to the 3rd level of credit quality, at the minimum, and shall be weighted according to the rules for weighting exposures towards institutions or the rules for risk weighting of short-term exposures in compliance with Chapter IV of this Decision relating to the calculation of capital requirements for credit risk,

4) the bank does not have any information that would point to credit assessment of issuance that would be less favorable than the one referred to in Item 3 of this Paragraph,

5) market liquidity of the instrument is sufficient for these needs.

(5) The bank may use stocks or shares in investment funds as eligible collateral if all following conditions are met:

1) the price of stocks or shares is disclosed on the daily basis publicly,

2) the investment fund is limited to investments in instruments that may be recognized in compliance with the provisions of Paragraphs 1 and 4 of this Article,

If the investment fund is investing in shares or stock of another investment fund, conditions equal to the ones from Items 1 and 2 of this Paragraph shall apply to each such relevant investment fund. If the investment fund is using derived instruments for protection of allowed investments that shall not prevent the stocks and shares in such investment funds from being recognized as collateral.

(6) For the requirements of Paragraph 5 of this Article, if the investment fund (“original investment fund”) or any of its relevant investment funds, is also investing into instruments

that cannot be recognized under Paragraphs 1 and 4 of this Article, the bank may use stocks or shares in that investment fund as collateral up to the amount that is equal to the value of eligible assets being held by the investment fund, under the assumption that the investment fund in question or some of its relevant investment funds have utilized the possibility of investing in assets that are not being recognized to the maximum amount allowed.

When the relevant investment fund has relevant investment funds itself, the bank may use stocks or shares in the original investment fund as eligible collateral only under the condition that they apply the methodology under the first Sub-paragraph.

In cases when the assets, that are not being recognized, have a negative value because of liabilities or potential liabilities resulting from ownership, the bank shall be under obligation to do the following:

- 1) calculate the total value of assets that are not being recognized, and
- 2) if that amount acquired in compliance with Item 1 of this Paragraph is negative, deduct the absolute value of that amount from the total value of eligible assets.

(7) In connection with Items 2 - 5 of Paragraph 1 of this Article, if the securities have two credit assessments of the ECAI, the bank shall be under obligation to apply the less favorable assessment. If the securities have more than two credit assessments of the ECAI, the bank shall be under obligation to apply the two most favorable assessments. If the two most favorable credit assessments differ, the bank shall be under obligation to apply the one that is less favorable.

Additional Eligibility of Collateral under the Financial Collateral Comprehensive Method Article 78

(1) The bank that is applying a complex method of financial collateral referred to in Article 88 of this Decision, except for collaterals referred to in Article 77 of this Decision, may also recognize the following items as collateral:

- 1) shares or convertible bonds that are not included in the main stock exchange index, but that are being traded at a recognized stock exchange;
- 2) stocks or shares in investment funds if both of the following conditions are met:
 1. the price of stocks or shares is disclosed publicly on the daily basis,
 2. the investment fund is limited to investments in instruments that may be recognized in compliance with the provisions of Article 77, Paragraphs 1 and 4 of this Decision, and in instruments referred to in Item 1 of this Paragraph.

If the investment fund is investing in stocks or shares of another investment fund, conditions equal to the ones from Items 1 and 2 of this Paragraph shall apply to each such relevant investment fund.

If the investment fund is using derivatives for protection of allowed investments that shall not prevent the stocks and shares in such investment funds from being recognized as collateral.

(2) If the investment fund or any of its relevant investment funds are also investing in instruments that cannot be recognized under Article 77, Paragraphs 1 to 4 of this Decision and the instruments referred to in Item 1, Paragraph 1 of this Article, the bank may recognize the stocks or shares in that investment fund as collateral up to the amount that equals the value of eligible assets being held by the investment fund, under the assumption that the investment fund in question or some of its relevant investment funds have utilized the possibility of investing in assets that are not being recognized to the maximum amount allowed.

In cases when the assets that are not being recognized have a negative value because of liabilities or potential liabilities resulting from ownership, the bank shall be under obligation to do the following:

- 1) calculate the total value of assets that are not being recognized, and
- 2) if that amount acquired in compliance with Item 1 is negative, deduct the absolute

value of that amount from the total value of eligible assets.

Other Funded Credit Protection Article 79

The bank may use the following other funded credit protection as eligible collateral:

- 1) cash deposits deposited with another bank or instruments that may be deemed as cash being held by another bank, but not in a custodial relationship, and that are provided as a pledge to the creditor bank,
- 2) life insurance policies that are pledged for the benefit of the creditor bank,
- 3) instruments issued by another bank that the bank in question will redeem upon request.

2. Recognition of Unfunded Credit Protection

Eligibility of Protection Providers under all Approaches Article 80

The bank may deem the following entities as eligible providers of unfunded credit protection:

- 1) central governments and central banks,
- 2) regional governments and local authorities,
- 3) multilateral development banks,
- 4) international organizations whose exposures, in compliance with the provisions of Article 54 of this Decision, are awarded the risk weight of 0%,
- 5) public sector entities, receivables according to which, they shall be treated in compliance with Article 52 of this Decision,
- 6) institutions and financial institutions for which exposures towards financial institutions shall be treated as exposures towards institutions in compliance with Article 55, Paragraph 4 of this Decision,
- 7) other companies, including parent companies, subordinated companies, and affiliated companies of banks if those companies have a credit assessment of ECAI.

Eligibility of Guarantees as Unfunded Credit Protection Article 81

The bank may use guarantees as eligible unfunded credit protection.

Requirements for Financial Collateral Article 82

(1) Financial collateral and gold may be used as eligible collateral according to all approaches and methods, if all conditions are met under Paragraphs 2 - 4 of this Article.

(2) The credit quality of the debtor and the value of collateral must not be significantly interdependent. If the value of collateral is significantly reduced, that shall not mean, in itself, that there has been a significant worsening of the credit quality of the debtor. If the credit quality of the debtor worsens significantly, it shall not mean, in itself, that there has been a significant reduction in the value of collateral.

Securities of the debtor or any other person from the group related to the debtor cannot be used as eligible collateral. Independently of that, own issuances of covered bonds of the debtor may be included into eligible collateral under the conditions referred to in Article 63 of this Decision, if they are pledged for a repurchase transaction, pending the fulfillment of the condition under the Paragraph 1 of this Article.

(3) The bank shall be under obligation to fulfill all contractual and legal obligations, and to

undertake all activities necessary to ensure that the contract on collateral is implementable under the regulations that apply to such contracts.

The bank shall be under obligation to ensure a valid legal assessment that shall confirm that the contract on collateral is implementable in all relevant areas of judicial jurisdiction.

Where necessary, the banks shall be under obligation to implement subsequent legal assessment in order to ensure that the contract is continuously implementable.

(4) The bank shall be under obligation to fulfill all following operational requirements:

1) document contracts on collateral in appropriate manner and have clear and efficient procedures for timely realization of collateral,

2) use efficient proceedings and processes for controlling risks that result from the utilization of collateral, including the risks of inefficiency and reduced efficiency of credit protection, valuation risks, risks relating to termination of credit protection, concentration risks that result from the utilization of collateral and interdependencies of collateral and the overall risk profile of the bank,

3) have documented policies and procedures that define types and amounts of accepted collaterals,

4) calculate the market value of collateral, and adjust it with the market value at least once on a quarterly basis, i.e. more frequently if they have available information that point to significant reductions in the market value of collateral,

5) if the collateral is located with third persons, undertake reasonable activities that ensure that the third persons are recording such collateral separately from their own assets,

6) ensure that they have sufficient resources for regular functioning of margin agreements with other contractual parties in transactions of financing with securities, measured by timeliness and accuracy, taking into account additional increases of collateral,

7) have policies for managing collateral in order to control, supervise, and report on the following:

1. risks they are exposed to because of margin agreements,

2. concentration risk by individual types of assets that comprise the collateral,

3. reuse of collateral, including potential loss of liquidity that results from reuse of collateral received from other contractual parties,

4. ceding of right to collateral that is given to other contractual parties.

(5) In addition of having to meet all requirements under Paragraphs 2 - 4 of this Article, in order for it to be possible to use financial collateral as eligible collateral according to simple method for financial collateral, the remaining timeframe until maturity of protection shall have to equal the remaining timeframe until maturity of the exposure, at the minimum.

Requirements for Other Funded Credit Protection

Article 83

(1) The treatment referred to in Article 93, Paragraph 1 of this Decision may be applied to cash deposits deposited with another bank or to instruments that may be deemed as cash that are kept by another bank, if all following conditions are met:

1) the debtor's claim from another bank shall have to be unconditional and irrevocably pledged or ceded to the creditor bank, and such a pledge or cession shall be legally implementable in all relevant areas of judicial jurisdiction,

2) the other bank shall have to be informed on the pledge or the cession,

3) on the basis of the aforementioned information, the other bank may perform payments to the creditor bank or other parties only pending prior consent of the creditor bank.

(2) Life insurance policies pledged with the creditor bank may be used as recognized collateral if all following conditions are met:

1) life insurance policy is pledged with the creditor bank or ceded to it,

2) the company that issued the life insurance policy is informed about the pledge or the

cession and because of that information it must not perform payments on the basis of contract without prior consent of the creditor bank,

3) the creditor bank shall be entitled to cancel the insurance policy in case of onset of the debtor's status of default on liabilities and collect the redemption value of the policy,

4) the creditor bank shall be informed on each non-payment to the insured person under the insurance policy,

5) life insurance policy shall have to be valid until the maturity of the loan. When that is not possible because the insurance policy is expiring before the conclusion of the credit relationship, the bank shall have to ensure that the amount acquired after the expiry of the insurance policy shall serve as protection until the conclusion of loan contract,

6) the pledge or the cession shall have legal effect and shall be implementable in all areas of judicial jurisdiction relevant at the time of concluding loan contract,

7) redemption value of the policy shall be published by the company that issued the life insurance policy and it cannot be reduced,

8) the company that issued the life insurance policy shall have to disburse the redemption value of the policy at request, in a timely manner,

9) the redemption value of the policy cannot be requested without prior consent of the bank,

10) the company that issued the life insurance policy shall be subject to the legal framework that is in effect in BiH or European Union or shall be subject to supervision of the regulatory authority of the third country in which the supervisory and legal framework is approximately equal to the one that is being applied in the European Union.

3. Unfunded Credit Protection

Requirements Concerning Guarantees Article 84

(1) With respect to the conditions referred to in Article 85, Paragraph 1 of this Decision, credit protection that results from guarantees may be used as unfunded credit protection if all following conditions are met:

1) credit protection is direct;

2) the coverage of credit protection is clearly defined and undisputable;

3) the contract on credit protection does not include a clause whose fulfillment is beyond direct control of the creditor bank, and which would:

1. facilitate the provider of protection unilateral termination of protection,

2. increase the effective cost of protection due to worsening of credit quality of the hedged exposures,

3. potentially prevent the provider of protection from performing the payment in a timely manner if the original debtor fails to perform any matured payments or in case of expiry of contract on lease for the needs of recognition of the value of assets given under lease referred to in Article 67, Paragraph 6 of this Decision,

4. potentially facilitate that the provider of protection shortens the timeframe to which the credit protection was contracted;

4) the contract on credit protection shall be legally implementable in all areas of judicial jurisdiction that were relevant at the time of concluding the loan contract.

(2) The bank shall be under obligation to prove to the Agency that it has systems established for the management of potential risk concentration that results from the utilization of guarantees. The bank shall be under obligation to prove to regulatory authorities that its strategy of using guarantees is related to its management of the overall risk profile.

(3) The bank shall be under obligation to fulfill all contractual and legal obligations, and to undertake all activities necessary to ensure that the unfunded credit protection is

implementable under the regulations that apply to such contracts.

The bank shall be under obligation to ensure a valid legal assessment that shall confirm that the unfunded credit protection is implementable in all relevant areas of judicial jurisdiction. When necessary, the bank shall be under obligation to implement subsequent legal assessment in order to ensure that it is continuously implementable.

Requirements for Counter-Guarantees of Sovereign and Other Public-Sector Entities

Article 85

(1) The bank may treat the exposures referred to in Paragraph 2 of this Article as if they were hedged with a guarantee of the entities referred to in that Paragraph, under the condition that all following conditions are met:

- 1) the counter-guarantee shall cover all elements of credit risks with claims,
- 2) both the original guarantee and the counter-guarantee meet the conditions that concern the guarantees referred to in Article 84 and Article 86, Paragraph 1 of this Decision, except that the counter-guarantee shall not have to be direct,
- 3) the coverage is reliable and there are no historical data that would indicate that the coverage of the counter guarantee is lower than the effective equal type coverage of the direct guarantee of the same entity.

(2) The treatment referred to in Paragraph 1 of this Article shall be applied to exposures hedged with a guarantee for which there is a counter-guarantee of one of the following entities:

- 1) central governments and central banks,
- 2) units of regional governments and local authorities,
- 3) multilateral development banks or international organizations that are awarded the risk weight of 0% in compliance with Article 53, Paragraph 2 and Article 54 of this Decision or on the basis of those Articles,

(3) The bank shall also apply the treatment referred to in Paragraph 1 of this Article to exposures for which a counter-guarantee was issued by other entities, in addition to entities referred to in Paragraph 2 of this Article, if that counter-guarantee is covered with a direct guarantee of one of those entities and if the conditions are met as under Paragraph 1 of this Article.

Additional Requirements for Guarantees

Article 86

(1) Guarantees may be used as eligible unfunded credit protection if all conditions are met as under Article 84 of this Decision, as well as all following conditions:

1) in case of an eligible onset of the status of default on liabilities or non-payment of debt of the other contractual party, the creditor bank shall be entitled, within a reasonable period, to request from the provider of guarantees payment of any matured amount of money in relation to the claim for which the protection was acquired,

in case of unfunded credit protection that covers loans secured by residential real estate, the obligation of meeting the conditions referred to in Article 84 of Paragraph 1, Item 3, Sub-item 3 of this Decision and the first sentence of this Item shall be limited to 24 months,

- 2) the guarantee is explicitly documented obligation committed to by the provider of the guarantee;
- 3) one of the following conditions is met:
 1. the guarantee covers all types of payments for which it is expected that they are, in connection with the claim, covered by the debtor,
 2. if certain types of payments are left out from the guarantees, the creditor bank has adjusted the value of guarantees so that it reflects such a limited coverage.

(2) In case of guarantees, i.e. counter-guarantees of entities listed in Article 85, Paragraph

2 of this Decision, it shall be deemed that the requirement referred to in Item 1 of Paragraph 1 of this Article is fulfilled if any of the following conditions are met:

1) the creditor bank is entitled to receive from the provider of guarantee, in a timely manner, a temporary payment that meets both of the following conditions:

1. it represents a comprehensive assessment of the amount of losses, including losses that result from non-payment of interest and other types of payments, that the debtor is under obligation to perform, and that the creditor bank shall probably suffer,

2. it is proportional to the coverage of guarantee,

2) the creditor bank may prove to regulatory authorities that the effects of guarantee, which also covers losses resulting from non-payment of interest and other types of payments that the debtor is under obligation to perform, justifies such treatment.

4. Calculation of Effects of Credit Risk Mitigation in Funded Credit Protection

Financial Collateral Simple Method Article 87

(1) The bank may apply the simple method of financial collateral only if they are calculating the amounts of risk weighted exposures in compliance with the standardized approach. Bank must not apply both methods: the simple method of financial collateral and the complex method of financial collateral.

(2) Under the simple method of financial collateral, the bank shall award the eligible financial collateral a value that equals its market value as stipulated in Article 82, Paragraph 4, Item 4 of this Decision.

(3) For values of exposures that are secured up to the level of the market value of the eligible collateral, the bank shall award the risk weight that they would award pursuant to the part of the Decision that concerns the calculation of capital requirements for credit risk - when the creditor bank had a direct exposure towards that collateral. For that purpose, the value of exposures of off balance sheet items listed in Attachment 1 of this Decision shall equal 100% of the value of the item, and instead of the value of the exposure referred to in Article 44 of this Decision.

The risk weight of 20% at the minimum shall apply to the secured part of exposures, except in cases referred to in Paragraphs 4 - 6 of this Article. The bank shall award to the remaining part of the value of exposure the risk weight they would be awarding to unsecured exposures towards to the other contractual party in compliance with Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk.

(4) The bank shall apply the risk weight of 0% to the secured part of exposures that result from repurchase transactions and transactions of borrowing of securities to the other contractual party or from the other contractual party, that meet the criteria referred to in Article 91 of this Decision. If the other contractual party is not a participant in the main market, the bank shall be under obligation to apply the risk weight of 10%.

(5) For financial derivatives referred to in Attachment 2 of this Decision, whose market price is determined on a daily basis and which are secured with cash or an instrument that may be deemed as cash, and are denominated in the same currency, the bank shall apply the risk weight of 0% on the secured part of the value of exposure that is being calculated in compliance with Articles 45 - 47 of this Decision. The bank shall apply the risk weight of 10% on the secured part of the value for transactions that are secured by debt securities of central governments or central banks, and which, pursuant to Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk, receive the risk weight of 0%.

(6) For other transactions that are not referred to in Paragraphs 4 and 5 of this Article, the bank may apply the risk weight of 0% if the exposure and the collateral are denominated in the

same currency and if any of the following conditions is met:

- 1) the collateral is a cash deposit or an instrument that may be deemed as cash,
- 2) the collateral is in the form of debt securities of central governments or central banks to which, pursuant to Article 50 of this Decision, the risk weight of 0% applies, and whereas its market value shall be reduced by 20%.

(7) For the requirements of Paragraphs 5 and 6 of this Article, debt securities of central governments or central banks shall include the following:

- 1) debt securities of the Government of Republika Srpska, Government of the Federation of BiH, and Government of Brčko District of BiH,
- 2) debt securities of multilateral development banks to which, pursuant to with Article 53, Paragraph 2 of this Decision, the risk weight of 0% shall apply,
- 3) debt securities of international organizations to which, pursuant to Article 54 of this Decision, the risk weight of 0% shall apply.

Financial Collateral Comprehensive Method Article 88

(1) In the course of valuation of financial collateral for the requirements of the comprehensive method of financial collateral, the bank shall apply volatility adjustments to the market value of financial collateral in compliance with the provisions of Articles 89 - 91 of this Decision, in order to take into account price volatility.

If the collateral is denominated in a currency that differs from the currency in which the reference exposure is denominated, in addition to the volatility adjustment for collateral, determined in compliance with Articles 89 - 91 of this Decision, the bank shall also apply the volatility adjustment for currency mismatch.

(2) When calculating the volatility-adjusted value of collateral (C_{VA}) the banks shall take into account the following:

$$C_{VA} = C \cdot (1 - H_C - H_{fx})$$

where:

C = value of collateral,

H_C = volatility adjustment for collateral calculated in compliance with Articles 89 and 91 of this Decision,

H_{fx} = volatility adjustment for currency mismatch, calculated in compliance with Articles 89 and 91 of this Decision.

The bank shall apply the formula under this Paragraph when calculating the volatility-adjusted value of collateral for all transactions.

(3) When calculating the volatility-adjusted value of exposure (E_{VA}) the bank shall be under obligation to take into account the following:

$$E_{VA} = E \cdot (1 + H_E)$$

where:

E = the value of exposure that would be determined in accordance with the part of the Decision that concerns the calculation of capital requirements for credit risk,

H_E = the volatility adjustment for exposures, calculated in compliance with Articles 89 and 91 of this Decision.

(4) For the requirements of calculation of “E” in Paragraph 3 of this Article, the value of exposure of off-balance sheet items listed in Attachment 1 of this Decision shall be equal to 100% of the value of the item, instead of the value of exposure referred to in Article 44 of this Decision.

(5) The bank shall be under obligation to calculate fully adjusted value of exposure (E^*), taking into account the volatility of collateral and its effects on risk reduction in the following manner:

$$E^* = \max \{0, E_{VA} - C_{VAM}\}$$

where:

E_{VA} = the value of exposure corrected with the volatility adjustment, calculated in compliance with Paragraph 3,

$C_{VAM} = C_{VA}$ that is additionally adjusted for any currency mismatch in compliance Articles 96 - 98 of this Decision.

(6) If the collateral comprises of a bigger number of eligible items, the bank shall be under obligation to calculate the volatility adjustment (H) in the following manner:

$$H = \sum_i a_i H_i$$

where:

a_i = share of the value of individual eligible item i in the total value of the collateral,

H_i = volatility adjustment applicable to the eligible item i .

Supervisory Volatility Adjustment under the Financial Collateral Comprehensive Method Article 89

(1) The volatility adjustments that are applied by the bank according to the supervisory volatility adjustments approach, under the assumption of daily revalorizations, shall be the factors provided in Tables 14 - 16 of this Paragraph.

Volatility adjustments

Table 13.

Credit quality level linked to credit assessment of debt security	Remaining timeframe to maturity	Volatility adjustment for debt securities of entities referred to in Article 77, Paragraph 1, Item 2 of this Decision			Volatility adjustments for debt securities of entities referred to in Article 77, Paragraph 1, Items 3 and 4 of this Decision		
		period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)	period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)
1	≤ 1 year	0.707	0.5	0.354	1.414	1	0.707
	> 1 ≤ 5 years	2.828	2	1.414	5.657	4	2.828
	> 5 years	5.657	4	2.828	11.314	8	5.657
2-3	≤ 1 years	1.414	1	0.707	2.828	2	1.414
	> 1 ≤ 5 years	4.243	3	2.121	8.485	6	4.243
	> 5 years	8.485	6	4.243	16.971	12	8.485
4	≤ 1 years	21.213	15	10.607	N/A	N/A	N/A
	> 1 ≤ 5 years	21.213	15	10.607	N/A	N/A	N/A
	> 5 years	21.213	15	10.607	N/A	N/A	N/A

Table 14.

Credit quality level linked to the credit assessment of the short-term debt security	Volatility adjustments for debt securities of entities referred to in Article 77, Paragraph 1, Item 2, with short-term credit assessment	Volatility adjustments for debt securities of entities referred to in Article 77, Paragraph 1 Items 2 and 4, with short-term credit assessment
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	period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)	period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)
1	0.707	0.5	0.354	1.414	1	0.707
2-3	1.414	1	0.707	2.828	2	1.414

Table 15.

Other collaterals or types of exposures			
	period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)
Shares included in the main stock exchange index and convertible bonds included in the main stock exchange index	21.213	15	10.607
Other shares or convertible bonds that are traded at recognized stock exchange	35.355	25	17.678
Cash	0	0	0
Gold	21.213	15	10.607

Table 16.

Volatility adjustments for foreign currency mismatch		
period of realization of 20 days (%)	period of realization of 10 days (%)	period of realization of 5 days (%)
11.314	8	5.657

(2) In the course of the calculation of volatility adjustments in compliance with Paragraph 1 of this Article, the following conditions shall have to be met:

1) period of realization for transactions secured by collateral shall be 20 working days,
2) for repurchase transactions, except if such transactions involve the transfer of commodities or secured rights relating to the right to commodities, and for transactions of borrowing of securities to the other contractual party or from the other contractual party, the period of realization shall be 5 working days,

3) for other transactions that depend on developments on the capital markets, the period of realization shall be 10 working days.

(3) The credit quality level to which the credit assessment of the debt security is linked, and which is referred to in Tables 13 - 16 and Paragraphs 4 - 6 of this Article, shall represent the level of credit quality from the part of this Decision that relates to the calculation of capital requirements for credit risk.

For the requirements of determination of the level of credit quality to which the credit assessment of the debt security is linked, and which is referred to in Paragraph 1 of this Article, Article 77, Paragraph 7 of this Decision shall also duly apply.

(4) For securities that are not recognized, as well as for commodities given as a loan or sold on the basis of repurchase transactions or transactions of borrowing of securities or commodities to the other contractual party or from the other contractual party, the volatility adjustment shall be equal to the one that is applied to shares that are not included in the main stock exchange index, and which are traded at recognized stock exchange.

(5) For recognized stocks in investment funds, the volatility adjustment shall be the weighted average volatility adjustment that would apply to assets in which the fund is investing, whereas the bank shall be under obligation to take into account the period of realization transactions referred to in Paragraph 2 of this Article.

If the bank does not have at its disposal information on assets in which the fund has invested, the volatility adjustment shall be the highest corrective factor that would apply to the assets in which the fund is entitled to invest.

(6) For debt securities to which no rating has been awarded, and which are issued by institutions that meet the criteria for recognition referred to in Article 77, Paragraph 4 of this Decision, volatility adjustments for securities of institutions or companies shall apply, that have an external credit assessment linked with the 2nd or 3rd level of credit quality.

**Scaling up of Volatility Adjustment under the Financial Collateral Comprehensive Method
Article 90**

The volatility adjustments referred to in Article 89 of this Decision shall be the volatility adjustments that the bank shall be under obligation to apply if the revalorization is being performed on a daily basis. If the revalorization is not being performed on a daily basis, the bank shall be under obligation to apply higher volatility adjustments. The bank shall calculate the volatility adjustments by scaling up volatility adjustments on the basis of daily revalorization, by applying the following formula for the square root of time:

$$H = H_M \cdot \sqrt{\frac{N_R + (T_M - 1)}{T_M}}$$

where:

H = volatility adjustment that shall be applied,

H_M = volatility adjustment in case of daily revalorization,

N_R = actual number of working days between revalorizations,

T_M = period of realization for that type of transaction.

**Conditions for Application of Volatility Adjustment of 0% under the Financial Collateral Comprehensive Method
Article 91**

(1) A bank that is applying the regulatory volatility adjustment approach referred to in Article 89 of this Decision, may, instead of volatility adjustments calculated pursuant to Articles 89 and 90 of this Decision, apply to repurchase transactions and transactions of borrowing of securities to the other contractual party or from the other contractual party the volatility adjustment of 0%, if the conditions are met as under Paragraph 2, Items 1 - 8 of this Article.

(2) The bank may apply volatility adjustment of 0% if all following conditions are met:

1) exposure and collateral are in the form cash or debt securities of central governments and central banks in the sense of Article 77, Paragraph 1, Item 2 of this Decision, and they are, in compliance with Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk, awarded risk weight is of 0%,

2) exposure and collateral are denominated in the same currency,

3) maturity of transactions does not exceed one day or the value of exposure and the value of collateral are adjusted on the daily basis based on market value, i.e. the margin is determined on the daily basis (*daily remargining*),

4) the period between the most recent adjustment with market value, and before the non-payment of the margin that the other contractual party was under obligation to pay, and the settlement of the collateral, cannot exceed four working days,

5) the settled transactions shall be executed through the system of settlement allowed for those types of transactions,

6) documentation pertaining to the agreement or the transaction shall be the standard documentation that is being used in the market for repurchase transactions or transactions of

borrowing of securities to the other contractual party or from the other contractual party,

7) documentation ascertains that in case the other contractual party fails to meet the obligation of disbursement of cash or delivery of securities or the additional increase of collateral, the status of default of liabilities of that other contractual party onsets in any other manner, that transaction may be terminated immediately,

8) competent authorities for market regulation shall deem the other contractual party as a participant in the main market (*core market*).

(3) Participants in the recognized market referred to in Paragraph 2, Item 8 of this Article shall be the following entities:

1) entities referred to in Article 77, Paragraph 1, Item 2 of this Decision, whose exposures are awarded the risk weight of 0% in compliance with Chapter IV of this Decision that concerns the calculation of capital requirements for credit risk,

2) institutions,

3) other financial institutions whose exposures are awarded the risk weight of 20% in compliance with Chapter IV of this Decision that concerns the calculation of capital requirements for credit risk,

4) legally regulated investment funds that are subject to calculation of capital requirements or requirements that concern financial leverage,

5) legally regulated pension funds,

6) recognized clearing firms.

Calculation of Amount of Risk Weighted Exposures under the Financial Collateral Comprehensive Method Article 92

Under the standardized approach, the bank shall be under obligation to apply the “E^{*}” that is calculated in compliance with Article 88, Paragraph 5 of this Decision, as the value of exposure for the requirements of Article 49 of this Decision. In case of off-balance sheet items referred to in Attachment 1 of this Decision, the bank shall be under obligation to apply the “E^{*}” as the value to which the percentages prescribed in Article 44, Paragraph 1 of this Decision apply, in order to obtain the values of exposures.

Other Funded Credit Protection Article 93

(1) If the conditions are met as under Article 83, Paragraph 1 of this Decision, cash deposits held at other banks may be treated as guarantees of such banks.

(2) If the conditions are met as under Article 83, Paragraph 2 of this Decision, to the amount of exposures covered with the present redemption value of life insurance policies that are pledged with the creditor bank, the risk weight pursuant to Paragraph 3 of this Article shall be awarded, if the standardized approach is applied to the exposures.

If there is currency mismatch, the banks shall be under obligation to reduce the present redemption value in compliance with Article 94, Paragraph 3 of this Decision, whereas the value of credit protection shall equal to the present redemption value of the life insurance policy.

(3) For the requirements of Paragraph 2 of this Article, the bank shall be under obligation to award the following risk weights on the basis of risk weights that apply to unsecured exposures with priority right in collection towards the company that issued the life insurance policy in compliance with Chapter IV of this Decision that concerns the calculation of capital requirements for credit risk:

1) if the unsecured exposure with priority right to collection towards the company that

issues life insurance policies was awarded the risk weight 20%, the risk weight of 20% shall apply,

2) if the unsecured exposure with priority right to collection towards the company that issues life insurance policies was awarded the risk weight 50%, the risk weight of 35% shall apply,

3) if the unsecured exposure with priority right to collection towards the company that issues life insurance policies was awarded the risk weight 100%, the risk weight of 70% shall apply,

4) if the unsecured exposure with priority right to collection towards the company that issues life insurance policies was awarded the risk weight 150%, the risk weight of 150% shall apply.

(4) The bank may treat the instruments that shall be redeemed upon request, and which may be recognized on the grounds of Article 77, Item 3 of this Decision, as guarantees of the bank that issued them. The value of recognized credit protection shall be the following:

1) the nominal amount, if the instrument is being redeemed at its nominal value,

2) the value of instrument which is calculated in the same manner as for debt securities that meet the conditions referred to in Article 77, Paragraph 4 of this Decision, if the instrument is being redeemed at its market price.

5. Calculation of Effects of Credit Risk Mitigation for Unfunded Credit Protection

Valuation

Article 94

(1) For the requirements of calculation of effects of unfunded credit protection in compliance with this Decision, the value of unfunded credit protection (G) shall be the amount that the provider of protection committed to pay in case of debtor's non-payment or in case of onset of other contracted credit events.

(2) When the unfunded credit protection is denominated in currency that differs from the currency of the exposure, the bank shall be under obligation to reduce the value of credit protection by applying the volatility adjustment in the following manner:

$$G^* = G \cdot (1 - H_{fx})$$

where:

G^* = the amount of credit protection adjusted for exchange rate risk,

G = the nominal amount of credit protection,

H_{fx} = the volatility adjustment for any foreign exchange mismatch between credit protection and the relevant liability determined in compliance with Paragraph 3 of this Article.

If there is no foreign exchange mismatch, " H_{fx} " shall equal zero.

(3) The bank shall be under obligation to establish volatility adjustments that shall apply to any foreign exchange mismatch for the period of realization of 10 working days, if the revalorization is being performed on a daily basis, and it may calculate them using the regulatory volatility adjustment approach in the manner referred to in Article 89 of this Decision. The bank shall be under obligation to scale up volatility adjustment in compliance with Article 90 of this Decision

Calculation of Amounts of Risk Weighted Exposures in Compliance with Standardized

Approach

Article 95

(1) For the requirements of Article 49, Paragraph 3 of this Decision, the bank shall be under

obligation to calculate the amounts of risk weighted exposures in compliance with the following formula:

$$\max\{0, E - G_A\} \cdot r + G_A \cdot g$$

where:

E = the value of exposure in compliance with Article 44 of this Decision. For that purpose, the value of exposure of off balance sheet items referred to in Attachment 1 of this Decision shall equal 100% of the value of the item, instead of the value of exposures referred to in Article 44 of this Decision,

G_A = the amount of protection from credit risk calculated pursuant to Article 94, Paragraph 2 of this Decision (G^*), additionally adjusted for any maturity mismatch in the manner prescribed in the part of the Decision that concerns maturity mismatches,

r = the risk weight for exposures towards the debtor in compliance with Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk,

g = the risk weight for exposures towards the provider of protection in compliance with Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk.

(2) When the protected part (G_A) is lower than the amount of the exposure (E), the bank may apply the formula under Paragraph 1 of this Article only when the protected and the unprotected part have the same rights in the sequence of collection.

(3) The banks may expand the treatment envisaged under Article 50, Paragraphs 4 and 7 of this Decision to exposures or to parts of exposures secured with a guarantee of central governments and central banks when such guarantee is denominated in the domestic currency of the debtor, and, at the same time, the exposure is denominated in that currency.

Maturity Mismatch Article 96

(1) For the requirements of calculation of amounts of risk weighted exposures, maturity mismatch shall onset when the remaining timeframe until maturity of credit protection is shorter than the maturity of the hedged exposure. If the remaining timeframe until maturity of protection is shorter than three months, and if the timeframe until maturity of the protection is shorter than the maturity of the relevant exposure, that protection cannot be used as a recognized credit protection.

(2) If there is a maturity mismatch, credit protection shall not be recognized if the original maturity timeframe of credit protection is shorter than one year.

Maturity of Credit Protection Article 97

(1) Effective maturity of the relevant exposure is the longest possible remaining period in which the debtor is under obligation to meet its liabilities, and in the course of calculation of maturity mismatch the period shall be used of five years at the longest. In compliance with Paragraph 2 of this Article, maturity of credit protection shall pertain to the period until the earliest date on which the protection may cease or may be terminated.

(2) If the provider of protection may terminate the protection unilaterally, the bank shall be under obligation to treat as maturity the period until the earliest date on which the provider of protection may utilize that right. If the buyer of protection may unilaterally terminate the protection, and the conditions under the agreement for the protection are such that they encourage the bank to conclude the transaction before the maturity agreed, the bank shall be under obligation to treat as the maturity of protection the period until the earliest date on which the option of termination of protection may be utilized. Otherwise, the bank may deem that such option has no effect on the maturity of the protection.

Valuation of Protection
Article 98

(1) For transactions to which funded credit protection applies in compliance with the financial collateral simple method, if there is a mismatch between the maturity of the exposure and the maturity of the protection, the collateral shall not be recognized as funded credit protection.

(2) For transactions to which funded credit protection applies in compliance with the financial collateral comprehensive method, the bank shall be under obligation to adjust the value of collateral by the maturity of credit protection and the exposure in compliance with the following formula:

$$C_{VAM} = C_{VA} \cdot \frac{t - t^*}{T - t^*}$$

where:

C_{VA} = the volatility adjusted value of the collateral as referred to in Article 88, Paragraph 2 of this Decision or the amount of exposures, whichever is lower,

t = the remaining number of years until the date of maturity of credit protection, calculated in compliance with Article 97 of this Decision or the value of T, whichever is lower,

T = the remaining number of years until the date of maturity of exposures, calculated in compliance with Article 97 of this Decision or five years, whichever is lower,

$t^* = 0.25$.

The bank shall be under obligation to apply the C_{VAM} as C_{VA} additionally adjusted by the maturity mismatch that shall be included in the formula for the calculation of fully adjusted value of the exposure (E^*) referred to in Article 88, Paragraph 5 of this Decision.

(3) For transactions to which unfunded credit protection is applied, the bank shall be under obligation to adjust the value of credit protection so that it reflects the maturity of the credit protection and the exposure in compliance with the following formula:

$$G_A = G^* \cdot \frac{t - t^*}{T - t^*}$$

where:

G_A = G^* adjusted by any maturity mismatch,

G^* = the amount of protection adjusted by any foreign exchange mismatch,

t = the remaining number of years until the date of maturity of credit protection, calculated in compliance with Article 97 of this Decision or the value of T, whichever is lower,

T = the remaining number of years until the date of maturity of exposures, calculated in compliance with Article 97 of this Decision or five years, whichever is lower,

$t^* = 0.25$.

The bank shall be under obligation to apply the G_A as the value of protection for the requirements of Articles 94 and 95 of this Decision.

CHAPTER VII
CAPITAL REQUIREMENT FOR SETTLEMENT / DELIVERY RISK

Settlement / Delivery Risk
Article 99

(1) In case of transactions that relate to debt instruments, equity, foreign currency, and commodity transactions, excluding repurchase transactions, as well as contracts on borrowing securities or commodities that are not settled after the date of maturity, the bank shall be under obligation to calculate the difference in the price to which it is exposed.

(2) The bank shall be under obligation to calculate the capital requirement for the settlement / delivery risk on the basis of outstanding transactions if the other contractual party has not settled the liability for longer than 4 days after the contracted date of settlement / delivery.

(3) The difference in price shall be calculated as the balance between the contractual price of settlement for the debt, equity, foreign currency, or commodity instrument and its present market value, in case that difference would represent a loss for the bank.

The bank shall multiply that difference in the price with the corresponding percentage provided in the following table, Table 17, in order to calculate the capital requirement for the settlement risk.

Table 17.

The number of working days following the date of settlement	(%)
5 - 15	12%
16 - 30	50
31 - 45	75
46 or more	100

**Free Deliveries
Article 100**

(1) The bank shall be required to hold regulatory capital (own funds) as provided in Table 18, if the following occurs:

1) if the payment of securities, currency or commodity was performed before they were received or if the delivery of securities, currency or commodity was performed before they were paid,

2) in case of cross-border transactions, if one day or more days passed since the payment was executed or the delivery was performed.

Table 18

Column 1	Column 2	Column 3	Column 4
Type of transaction	By the first contracted payment or delivery	From the first contracted payment or delivery and until four days after the contracted payment or delivery	From 5 working days since the date of contracted payment or delivery and until the conclusion of transaction
Free delivery	No capital requirement	Treat as exposure	Treat as exposure weighted with the weight of 1.250%

If the amount of positive exposures that result from transactions of free delivery is not significant, the bank may apply the risk weight of 100% to those exposures, except when the risk weight of 1.250 % is required in compliance with Column 4 in Table 18.

(2) As an alternative to the application of risk weight of 1.250% to exposures on the basis of free deliveries in compliance with Column 4 in Table 18, the bank may deduct the transferred value and the current positive exposure of those exposures from the Common Equity Tier 1 in compliance with Article 9, Paragraph 1, Item 12 of this Decision.

**Waiver
Article 101**

If a systemic break down of the system of settlement or setting off occurs, the Agency may

waive the capital requirement calculated in compliance with Chapter VII of the Decision that concerns settlement / delivery risk, until the situation improves. In the aforementioned case, the outstanding/unsettled transaction of the other contractual party shall not be deemed as the onset of the status of default on liabilities in the context of credit risk.

CHAPTER VIII CAPITAL REQUIREMENT FOR OPERATING RISK

Approval Article 102

(1) In order to be able to apply the standardized approach and receive an approval from the Agency, the bank shall be under obligation to meet, in addition to general standards for establishment and application of the risk management system and special standards for operating risk management, also the criteria under Article 108 of this Decision, as well as to have an adopted recovery plan for operating risk.

(2) The Bank shall be under obligation to prescribe in policies and procedures the manner and the obligation of valuation of exposure to operating risk for the coverage of events of low frequency with large losses. The bank shall determine what represents operating risk in the aforementioned policies and procedures.

(3) The bank shall be under obligation to develop plans for acting in crisis situations (contingency plans) and business continuity plans that provide the bank with the possibility of uninterrupted business operations and constraining losses in case of a serious disturbance in business operations.

Reverting to Application of Less Sophisticated Approaches Article 103

(1) The bank that is applying the standardized approach cannot revert to the application of the simple approach, unless the conditions under Paragraph 2 of this Article are met.

(2) The bank may revert to the application of a less sophisticated approach for operating risk only if the following conditions are met:

1) the bank has proven to the Agency that it is not proposing the application of the less sophisticated approach with the objective of reducing the capital requirement for operating risk, but that instead it is necessary because of the nature and complexity of the bank, and that it would not have a significant negative impact on the solvency of the bank or the capacity of effective management of operating risk.

2) the bank has received a prior approval from the Agency.

Basic Indicator Approach Article 104

(1) Under the basic indicator approach, the capital requirement for operating risk equals to 15% of the three-year average of the relevant indicator, as prescribed in Article 105 of this Decision. The bank shall perform the calculation of the three-year average of the relevant indicator on the basis of data for the last three periods of twelve months at the of financial year.

(2) When the bank has been doing business for less than three years, it may apply estimates of future business operations in the course of calculation of the relevant indicator, under the condition that it starts to use historical data as soon as they become available.

(3) When the bank can prove to the Agency that, because of a merger, i.e. acquisition, takeover, or sale of the bank or other activity, the application of the three-year average for the calculation of the relevant indicator would lead to an inadequate assessment of the capital

requirement for operating risk, the Agency may approve to the bank changes in the calculation so that it takes into account such events. In such cases, the Agency itself may require that the bank amends its calculation.

(4) If for a certain period the relevant indicator is negative or equal to zero, the banks shall not take into account that data in the course of calculation of the three-year average. The bank shall be calculating the three-year average so that the sum of the positive values is divided with the number of positive values.

**Relevant Indicator
Article 105**

(1) The bank shall disclose the relevant indicator as the sum of elements provided in Table 19 in compliance with the International Accounting Standards. The bank shall include each of the elements into the sum with its positive or negative sign.

Table 19

1. Interest and similar income
2. Interest rate and similar expenses
3. Income from dividends and stocks, and other securities with variable / fixed income
4. Income from compensation and fees
5. Expenses for compensation and fees
6. Net profit or loss from financial operations, which shall cover the following: <ul style="list-style-type: none"> - net income / expense from change in the value of securities intended for trade that are valued at fair value in the income statement, - net profit / losses on the basis of sale of securities intended for trade, and - net exchange rate differences.
7. Other operating income

(2) When calculating the relevant indicator, the banks shall not include:

- 1) costs of value adjustments and provisioning for off balance sheet items, and business operating costs,
- 2) net profit / losses from financial assets that are held up to maturity and are available for sale,
- 3) extraordinary income, and
- 4) income from insurance.

(3) Exceptionally, the bank shall, when calculating the relevant indicators, include the costs of compensations for paid outsourced services if the third party is the parent company of the bank, a subordinated company of the bank, or a subordinated company of the parent company.

**Standardized Approach
Article 106**

(1) Under the standardized approach, the bank shall classify its activities in business lines as provided in Table 20 from Paragraph 4 in compliance with the principles under Article 107 of this Decision.

(2) The bank shall calculate the capital requirement for operating risk as the three-year average of the sum of annual capital requirements for all business lines from Table 20. The annual capital requirement for each business line shall equal the product of the corresponding beta factor provided in that table and the part of the relevant indicator classified in the corresponding business line.

(3) In the course of any year, the banks may net the negative capital requirements that are a consequence of the negative part of the relevant indicator in any of the business lines with positive capital requirements in another business line, without any limitations. However, if the

total capital requirement for all business lines in the course of a certain year is negative, the banks shall use the value of zero as the entry data for the denominator for the aforementioned year.

(4) The bank shall calculate the three-year average of the sum referred to Paragraph 2 of this Article on the basis of data for the final three periods of twelve months at the end of financial year. When audited data are not accessible, the bank may also use unaudited data.

When the bank can prove to the Agency that, due to a merger, i.e. acquisition, takeover or sale of the bank or other activity, the application of the three-year average for the calculation of the relevant indicator would lead to an inadequate assessment of the capital requirement for operating risk, the Agency may approve to the bank changes in the calculation so that it takes into account such events. In such circumstances, the Agency itself may require that the bank amends its calculation.

When the bank has been doing business for less than three years, it may apply estimates of future business operations in the course of calculation of the relevant indicator, under the condition that it starts to use historical data as soon as they become available.

Table 20.

Business Lines	Description of activities	Percentage (beta factor)
Corporate financing	Services of sponsoring the issuance (<i>underwriting</i>). Services relating to the provision of services of sponsorship of issuance. Investment counselling. Activities of counselling of companies in connection with capital structure, business strategy and similar issues, as well as the provision of advice and provision of services that concern mergers and acquisition of companies. Activities of investment research and financial analysis, as well as other forms of general recommendations that concern transactions with financial instruments.	18 %
Trading and sale	Trading for own account. Activities of intermediation in the course of making deals on the money market. Receiving and transfer of orders relating to one or more financial instruments. Performance of orders on behalf of clients. Services of sponsoring an issuance without the obligation of redemption. Managing multilateral trading platform	18 %
Brokerage activities with retail (activities involving natural persons and small and medium entrepreneurs that meet the criteria under Article 59 of this Decision for the category of exposures towards retail)	Receiving and transfer of orders relating to one or more financial instrument. Performance of orders on behalf of clients. Services of sponsoring and issuance without the obligation of redemption.	12 %
Commercial banking	Receiving deposits or other returnable assets. Lending. Financial leasing. Guarantees and commitments.	15 %

Business operations with retail (activities involving natural persons and small and medium entrepreneurs that meet the criteria under Article 59 of this Decision for the category of exposures towards retail)	Receiving deposits or other returnable assets. Crediting. Financial leasing. Guarantees and commitments.	12 %
Payments and settlements	Payment system services. Issuance of instruments of payments and their management.	18 %
Agency services	Depositing and administration of financial instruments for client account, including the agent activities and services connected with that, such as the management of cash assets, i.e. collateral.	15 %
Asset management	Portfolio management. Management of investment fund Other forms of asset management.	12 %

Note: The bank shall use those activities from the list of activities that are characteristic for its business operations and market in which it is operating.

Principles for Business Line Mapping Article 107

(1) The bank shall ascertain and document special policies and criteria for mapping of the relevant indicator for existing business lines and activities in the standardized framework referred to in Article 106 of this Decision. The bank, as necessary, shall revise and adjust the aforementioned policies and criteria in compliance with new or changed business activities and risks.

(2) The bank shall be applying the following principles for business line mapping:

1) the banks shall map all activities into business lines in the manner that ensures comprehensiveness and mutual exclusiveness,

2) if a certain activity cannot be simply mapped into a business line, but it represents a supporting activity to the activity that is included in a specific business line, the bank shall map it into the business line in which the activity is mapped that the subject activity is supporting. If the supporting activity is supporting activities from more than one business line, the bank shall implement objective criteria for classification,

3) if a certain activity cannot be mapped in any of the business lines, the bank shall, for that activity, use the business line with the highest percentage. The same business line shall also be used for all corresponding supporting activities,

4) the bank may apply the methods that shall be applied for determination of internal prices for the mapping of the relevant indicator by business lines. The costs incurred in one business line that may be attributed to another business line may be re-mapped into the business line they concern,

5) mapping of activities into business lines for the requirements of calculation of the capital requirement for operating risk shall be applied in a principled manner with the categories that the banks are using for credit and market risk,

6) the management of the bank shall be responsible for the policy of mapping into business lines that is under the control of the bank supervisory body,

7) the bank shall ensure independent checks of the procedures of mapping of activities into business lines.

Criteria for the Standardized Approach

Article 108

The criteria under Article 102, Paragraph 1 for the application of the standardized approach shall be the following:

1) The bank shall establish an adequately documented system of assessment and management of operating risk with clearly delegated responsibilities for that system. The bank shall determine its exposure to operating risk and shall monitor relevant data on operating risk, including the data on significant tangible losses. The subject system shall be subject to regular independent checks that shall be performed by an internal or external person that has the knowledge necessary for implementing such checks.

2) Assessment of operating risk of the bank shall have to be firmly integrated into the processes of risk management of the bank. Its results shall represent an integral part of the procedure of monitoring and control of the risk profile of the bank for the operating risk.

3) Established system of reporting to the management and the supervisory board on exposures to operating risk and established procedures for undertaking appropriate activities on the basis of information from report to the management.

Combined Application of Various Approaches

Article 109

(1) The bank shall be under obligation to request from the Agency an approval for the application of a combination of the basic indicator approach and the standardized approach in exceptional circumstances only, such as assuming new business operations, which may require temporary transitional period for the application of the standardized approach.

(2) The Agency shall issue the approval referred to in the Paragraph 1 of this Article only if the bank takes over the obligation of starting with the application of the standardized approach within the determined period of time that was approved by the Agency.

CHAPTER IX

CAPITAL REQUIREMENT FOR MARKET RISK

1. Requirements for Trading Book

Requirements for Trading Book

Article 110

(1) The trading book of a bank shall cover all items in financial instruments and commodities that are held with intent to trade or for the purpose of protection from risk of other items in the trading book. Positions in the trading book must not have limitations to their marketability or they are possible to be hedged from risk.

(2) The trading book shall cover all items that are, in compliance with applicable accounting standards, classified in the category of financial assets or liabilities under fair value through the income statement of the bank (items intended for trading).

The Agency may exclude an individual instrument from the trading of the bank, if it determines that it was not used for trading, regardless of its classification according to applicable accounting standards. The Agency may include an individual instrument into the trading book of the bank, if it determines that it was used for trading, regardless of its classification under the applicable accounting standards.

(3) The intent to trade shall be proven on the basis of strategies, policies, and procedures that the bank is determining for the purpose of management of a position or portfolio in compliance with Article 111 of this Decision. The difference between activities in the trading

book and activities in the banking book shall be based on objective criteria that shall be applied in a principled manner and that are already defined in internal policies of the bank.

(4) The positions that are held with intent to trade shall be those positions that are held exclusively for the purpose of short-term sale and/or with the objective of generating profit from actual or expected short-term differences between purchasing and selling prices or other changes in the prices or interest rates. Those positions shall cover the positions in own trading and positions that result from the provision of services to clients and from performance of activities of the market making.

(5) The bank shall be under obligation to establish and maintain adequate systems of internal controls for the management and assessment of the values in the trading book in compliance with Articles 112 and 113 of this Decision.

(6) The bank may include the instrument of internal protection in the calculation of capital requirements for the position risk, if they are held with intent to trade and if the conditions are met as under Articles 111 - 114 of this Decision.

(7) Built in financial derivatives that are, in compliance with the provisions of IAS / IFRS, deemed as an independent financial derivative, and which does not meet the conditions under the Paragraph 1 of this Article, shall not be deemed as a position in the trading book and shall not be included in the calculation of capital necessary for the coverage of market risks.

If the built in financial derivative does not represent a position in the trading book, the bank shall be under obligation to monitor, measure, and manage, in an appropriate manner, risks resulting from it or take them into account in the procedure of internal assessment of capital adequacy in banks (*ICAAP*).

Management of Positions in the Trading Book **Article 111**

In the course of management of its positions or a set of positions in the trading book, the bank shall be under obligation to meet the following:

1) clearly documented strategy for trading from the position / instrument or portfolios approved by the supervisory board of the bank that includes the expected period of holding;

2) clearly defined policies and procedures for active management of positions overtaken in organizational units of the bank intended for trading. Those policies and procedures shall include the following elements:

1. which items it is possible to assume in the trading desk,

2. limits were determined for individual positions whose utilization, and potential overdraft the bank is continuously and regularly monitoring, as well as periodically checking their adequacy,

3. authorities of individual employees employed for assuming and managing positions within determined limits and in compliance with the adopted trading strategy,

4. reporting to the supervisory board and management of the bank on positions that are held in the trading book, as an integral part of the process of risk management of the bank,

5. active monitoring of positions based on relevant sources of market information and assessment of marketability or possibility of protection of the given position or the risks arising from it, including the assessment of quality and accessibility of entry market information that are being used in the process of valuation, i.e. the assessment of the level of sales in the market and the size of the positions being traded with on the market,

6. active procedures and controls for preventing fraud;

3) clearly defined policies and procedures for the monitoring of positions in compliance with the trading strategy, including the monitoring of sales and positions for which the initially envisaged period of holding was exceeded.

Inclusion of Positions in Trading Book Article 112

(1) The bank shall be under obligation to have clearly defined policies and procedures for determination of positions that shall be included in the trading book in compliance with the requirements referred to in Article 110 of this Decision and the definition of the trading book under Article 2, Item 76 of this Decision, taking into account the procedures established in risk management in the bank. The bank shall be under obligation to fully document the compliance with those policies and procedures, whose application shall be assessed continuously within the program of internal audit in the bank.

(2) The bank shall be under obligation to have clearly defined policies and procedures for comprehensive management of the trading book. Those policies and procedures shall have to include the following, at the minimum:

1) activities that the bank deems as trading and that represent an integral part of the trading book necessary for the calculation of the capital requirement,

2) the extent to which the position can be marked-to-market daily by reference to an active, liquid two-way market,

3) for positions that are valued at the internal methodology for determination of the value, the degree to which the bank can:

1. identify all significant risks of the position,

2. protect itself from all significant risks of the positions with instruments for which there is an active, liquid, two-way market,

3. perform reliable assessments of key assumptions and parameters that are being used in the internal methodology for assessment of the value,

4) the degree to which the bank may, and is under obligation, to realize the valuation of the position that may be externally valued in a principled manner,

5) the degree to which the legislated constraints or other operational requirements could reduce the capacity of the bank to perform the liquidation of positions or to hedge the positions within a short period of time,

6) the degree to which the bank can and is under obligation to manage actively the risks that result from positions within its trading activities,

7) the degree to which the bank may transfer risk or positions between the banking book and the trading book, as well as criteria for such transfers.

Regulatory Requirements for Valuation Article 113

(1) All items in the trading book shall be subject to the standards of regulatory requirements for valuations referred to in this Article. The bank shall especially be under obligation to ensure that regulatory valuation of their positions from the trading book shall achieve the corresponding level of reliability in relation to the dynamic nature of positions from the trading book, the requirements for regulatory correctness, and the manner of treatment with the aim of adequate calculation of capital requirements for the positions from the trading book.

(2) The bank shall establish and maintain appropriate systems of internal controls that shall facilitate reasonable and reliable assessments of values. Those systems of internal controls shall include the following elements:

1) documented policies and procedures for the process of assessment of values, including clearly defined responsibilities of various participants involved in the process of determination of values, the source of market information, and checks of their appropriateness, guidelines for utilization of internally defined parameters by the bank that reflect the assumptions of the bank as to what the participants in the market are using for determination of price of the position, the frequency of independent assessments, the timeframe for taking over the prices of other market

parameters for the requirements of valuation, conditions and procedures for adjustment of assessments of value, processes of continuous monthly and ad hoc confirmation,

2) establishment of adequate organizational structure that ensures the separation of incompatible functions in view of contracting, operational processing, bookkeeping recording, reporting and decision making, as well as clear definition of competencies of members of bank management for the aforementioned functions,

3) establishment of the system of reporting of the organizational part responsible for valuation of positions in the trading book independently from the organizational part that is performing the activities of trading operationally, as well as regular reporting to the management of the bank.

(3) The bank shall value the positions in the trading book at least once a day.

(4) Banks shall mark their positions to market whenever possible, including when applying trading book capital treatment. Marking to current market price shall be at least once a day at readily available close out prices of positions that are sourced independently. Examples include exchange prices.

(5) When marking to market, the bank shall use offered or requested price, whichever is lower, except if the bank may conclude the trading at the medium market price. If the bank is using that discrepancy, it shall report to the Agency once every six months on those positions and shall submit evidence (for example, closing notes) of the fact that it may conclude the trading at the medium market price. The value of financial derivatives shall be held at the lower value of basic financial instruments on which they are based, regardless of whether that is a nominal value or a market price, and the value of other financial instruments shall be held at their lower value, regardless of whether it is the nominal value or the market price.

(6) If marking to market is not possible, the banks shall conservatively mark on the basis of internal methodology for determination of values of its positions and portfolios, including also the situations in which it is calculating capital requirements for positions in the trading book.

(7) In the course of application of valuation according to internal methodology for determination of the value, the bank shall be under obligation to meet the following requirements:

1) the bank management shall have to be acquainted with the elements of the trading book or with other positions at fair value for which valuation according to internal methodology for determining the value is being applied, and understand the meaning of uncertainty that, in such manner, onsets in reporting on risk / performance of business operations,

2) the bank shall adjust market input parameters with market prices if that is possible, and frequently assess the adequacy of input market parameters for a specific position that is being valued, as well as parameters for internal methodology for valuation of positions,

3) the bank shall use methodologies of valuation, if they are available, that represent accepted market practice for individual financial instruments or commodities,

4) if the bank develops on its own an internal methodology for determination of value, it shall have to be based on adequate assumptions that have been assessed and checked by appropriately qualified entities that did not participate in the development of internal methodology for determination of value. The internal methodology for determination of value of positions shall have to be developed or approved independently of those who assume positions for trading and it shall have to be independently tested, including the verification of mathematical calculation, assumptions and its programming implementation,

5) the bank shall be under obligation to have official procedures for controlling changes and to have a secure copy for internal methodology for determination of value of positions, and to use it periodically for checking the valuation,

6) in the course of risk management, the bank shall have to undertake measures on elimination of identified weaknesses of the internal methodology for determination of value

that it is using and to know how to take them into account, in the best way, relating to results of valuation,

7) internal methodologies for determination of value shall be subject to regular assessments with the objective of determination of accuracy of their functioning, whereas those assessments shall include the assessment of continuous adequacy of assumptions, analysis of profit and losses compared to risk factors and comparison of the final values with the results of the internal methodology for determination of value.

(8) In addition to daily marking to market or internal methodology for determination of value, the bank shall be under obligation to implement independent checks of prices. The checking of market prices and input parameters for the internal methodology for determination of value shall be performed by a person or an organizational unit that is independent from the persons or organizational units that execute benefits from the trading book, at least once a month or more frequently, depending on the nature of the market or the activity of trading. If the independent sources for forming prices are not accessible or are unrealistic, there shall be a need to apply reasonable judgement, such as the adjustment of valuation.

(9) The bank shall be under obligation to establish and maintain procedure for consideration of adjustment of values.

(10) When using the valuation implemented by a third person or valuation based on internal methodology for determination of value, the bank shall assess on its own whether it shall implement adjustment to valuation. In addition to that, the bank shall consider the existence of need to adjustment for less liquid positions and shall regularly assess its continuous appropriateness. The bank shall assess the need to adjust valuation of uncertain input parameters that are being used in the internal methodology for determination of value, whereas the bank shall be under obligation to document to the Agency, in an adequate and reliable manner, the assessment performed of the need for adjustments in the internal methodology.

Internal Hedges Article 114

(1) Internal hedge shall, especially, have to meet the following requirements:

- 1) the basic purpose is not to avoid or reduce capital requirements,
- 2) it is adequately documented and subject to special processes of internal approval and audit,
- 3) market conditions shall apply to internal hedge,
- 4) the market risk that onsets with internal hedge shall be dynamically managed in the trading book in compliance with approved limits,
- 5) it shall be carefully monitored in compliance with appropriate processes that are stipulated in internal enactments of the bank.

(2) The requirements under Paragraph 1 of this Article shall be applied without putting under a question mark the requirements that concern hedged positions in the banking book.

(3) Only the instrument whose value may be determined in a recognized market may be subject to internal hedge.

Capital Requirements for Market Risk on Consolidated Basis Article 115

The bank shall implement calculation of capital requirement for market risk on consolidated basis in compliance with the regulation that regulates supervision on consolidated basis.

2. Capital Requirements for Position Risk

Capital Requirements for Position Risk
Article 116

The capital requirement for position risk of a bank shall be the sum of capital requirements for general and specific risk of its positions in debt and equity instruments.

Specific and General Risks
Article 117

(1) Position risks for debt or equity financial instrument (or debt or equity financial derivative) shall be divided into two integral parts for the purpose of calculation of capital requirements for specific and general risk.

(2) Specific risk shall relate to the risk of changes in the price of individual financial instruments due to factors relating to its issuer or in case of a financial derivatives of the issuer of the main financial instrument, to which the financial derivative relates.

(3) General risk shall be the risk of changes in the price of individual financial instruments due to changes in the level of interest rates (in case of debt or derivative debt instruments that are being traded) or due to developments of prices in the capital market (in case of equity or derivative equity instruments) that are not related to special characteristics of individual financial instruments.

Netting
Article 118

(1) The absolute amount of long (/short) positions of the bank that exceeds the amount of its short (/long) positions in equity, debt, and convertible securities of the same type and identical financial futures, options, warranties, shall be deemed as its net position in each of those different instruments. In the course of calculation of the net position with positions in financial derivatives, actions shall be undertaken as stipulated in Articles 120 - 122 of this Decision. Investments of the bank in own debt instruments shall not be included in the calculation the capital requirement for specific risk in compliance with Article 125 of this Decision.

For the requirements of netting the positions, instruments of the same type shall pertain to instruments that have the same issuer, bear the same interest rate, have the same maturity, are denominated in the same currency, and have the same legal position in case of implementation of bankruptcy proceedings.

(2) All net positions, independently of the sign, shall have to be converted on the daily basis into the reporting currency of the bank at the current medium exchange rate of the CBBiH, before being added.

General Rules for breaking down Position of Individual Instruments
Article 119

Positions of individual instruments stipulated in Articles 120 - 122 of this Decision shall be broken down into basic positions in the following manner:

- 1) if the main financial instrument is a debt instrument:
 1. to the debt instrument, where the price (interest rate) of individual instrument depends on the specifically defined basic debt instrument to which it relates, and / or
 2. to the hypothetical instrument¹ that covers the interest rate risk that onsets due to future

¹Hypothetical instruments – reflect general position risk (non-specific position risk)

payments and receipts of cash flows (including hypothetical payment and receipts),

3. to debt instruments and hypothetical debt instruments together,
- 2) if the main financial instrument is an equity instrument, to hypothetical positions in individual equity instruments, baskets of equity instruments, or indices of equity instruments,
- 3) if the main instrument is a commodity to hypothetical positions in commodities to which they relate.

Treatment of Futures and Forward Agreements **Article 120**

(1) Futures and forward agreements on interest rates and future obligations of purchase or sale of debt instruments shall be treated as combinations of long and short positions. A long position in futures agreements on interest rates shall be treated as a combination of the position of a liability with maturity equal to the date of delivery of futures, and the position of assets with the date of maturity equal to the maturity of the instrument or the perceived position to which the subject futures relates. Similar to that, a sold futures agreement on interest rates shall be treated as a long position with maturity equal to the date of settlement increased by the agreed period, and the short position with maturity equal to the date of settlement. Both the liability and the asset shall be included in the first category provided in Table 21 of Article 125 of this Decision that shall be applied for the calculation of capital requirement for specific risk for futures and forward agreements on interest rates. The future obligation of purchase of a debt instrument shall be treated as a combination of the liability with the maturity as of the date of delivery of that long (prompt/spot) position in the debt instrument itself. The aforementioned liability shall be included in the first category provided in Table 21 of Article 125 of this Decision, for the requirements of specific risk, while the debt instrument shall be included in the corresponding related column from the same table.

(2) For the requirements of this Article, a “long position” shall be a position of the bank in which the interest rate that shall be received in a certain moment in future is determined in a fixed manner, while the “short position” shall be the position in which the interest rate that shall be paid in a certain moment in future is determined in a fixed manner.

Options and Warrants **Article 121**

(1) For the requirements of this part of the Decision, options and warrants on interest rates, debt and equity instruments, share indices, financial futures, swaps and foreign currencies shall be treated as if they were positions whose value is equal to the product of amounts of reference instruments to which the options relate and the corresponding delta coefficient. Netting may be performed for aforementioned positions with all counter positions in the same relevant securities or derivatives. For options and warrants that are traded at the stock exchange, the bank shall apply the delta coefficient that was calculated by that stock exchange. When such delta coefficient is not available, the bank may apply the delta coefficient calculated in compliance with internal methodology approved by the Agency. The approval shall be issued if the internal methodology adequately assesses the rate of change in the value of the option or the warranty caused by small changes in the market value of the main instrument.

Treatment of Swaps **Article 122**

Interest swaps shall be treated in the same manner as the balance sheet instruments. Interest swaps on the basis of which the bank receives a variable interest rate and is paying a fixed

interest rate shall be treated as the same long position in the instrument with a variable interest rate with maturity equal to the period until the following determination of the interest rate and the short position in the instrument with the fixed interest rate with the same maturity of the swap agreement itself.

**Treatment of Securities Sold on Basis of Repurchase Agreements or Borrowed Securities
and Treatment of Repurchase, Reserve Repurchase Agreements and Agreements on
Borrowing
Article 123**

The transferor of securities or guaranteed rights relating to securities within the framework of a repurchase agreement and the lender of securities as a loan shall include the stated securities in the calculation of capital requirement for position risk, under the condition that the aforementioned securities are positions from the trading book.

**Net Positions in Debt Instruments
Article 124**

The bank shall be under obligation to classify net positions according to the currency in which they are denominated, and therefore the capital requirements for general and specific risk shall be calculated separately for each individual currency.

**Capital Requirement for Debt Instruments
Article 125**

(1) The bank shall be under obligation to classify its net positions in the trading book in instruments that shall be calculated in compliance with Article 118 of this Decision into corresponding categories provided in Table 21 on the basis of their issuers or debtors, external or internal credit assessments and the remaining timeframe to maturity, and then multiply them with the weights provided in the aforementioned table.

The bank shall sum its weighted position resulting from the application of this Article, independently on whether they are long or short, in order to calculate its capital requirements for specific risk.

The following table provides the categories of debt financial instruments and the stipulated weights for the calculation of capital requirement for specific risk for debt financial instruments:

Table 21.

Categories	Capital requirement for specific risk
Debt securities to which, in compliance with the standardized approach for credit risk, the risk weight of 0% would be awarded	0%
Debt securities to which, in compliance with the standardized approach for credit risk, the risk weights of 20% or 50% would be awarded and other qualifying items referred to in Paragraph 4 of this Article	0.25% (remaining timeframe until final maturity of 6 months at most) 1.00% (remaining timeframe until final maturity of 6 to 24 months) 1.60% (remaining timeframe until final maturity exceeding 24 months)
Debt securities to which, in compliance with the standardized approach for credit risk, the risk weight of 100% would be awarded	8.00%
Debt securities to which, in compliance with the standardized approach for credit risk, the risk weights of 150% would be awarded	12.00 %

(2) The bank shall be under obligation calculation to calculate the capital requirement for

specific risk for covered bonds that meet the conditions for the risk weight of 10% in compliance with Article 63, Paragraphs 4 and 5 of this Decision, as one half of the effective capital requirement for specific risk for the second category in Table 21 in Paragraph 1 of this Article.

(3) The bank shall be under obligation to use the maximum weight provided in Table 21 in Paragraph 1 of this Article, i.e. 12% for debt financial instruments for which there is an increased risk due to insufficient solvency of the issuer or liquidity of the instrument itself.

(4) Other qualifying items shall be the following:

1) long and short positions in assets for which a credit assessment of the selected ECAI is not available and which meet all following conditions:

1. the subject bank deems them sufficiently liquid,

2. their investment quality is, according to the assessment of the bank itself, at least equal to the investment quality of assets from the second line of Table 21, Paragraph 1 of this Article,

3. they are listed in at least one regulated market of a state member of the European Union or in a stock market of a third country, under the condition that those stock markets are recognized by the competent regulatory authorities of the subject state member or in a recognized stock exchange listed in Attachment 3 of this Decision,

2) long and short positions in assets that are issued by the banks that are subject to capital requirements under this Decision, which the relevant bank deems sufficiently liquid and whose investment quality is, according to the assessment of the bank itself, at least equal to the investment quality of assets from the second line of Table 21,

3) securities that are issued by banks for which it is deemed that they have the level of credit quality that is equal or higher than the one that is associated with 2nd level of credit quality in compliance with the standardized approach for credit risk, and that are subject to supervisory and regulatory measures that are being applied in BiH or the European Union.

The banks that shall be applying Item 1 or 2 shall be under obligation to have established documented methodology for assessing in the context of whether the assets are meeting the requirements under the aforementioned Items and to report to the Agency on the aforementioned methodology.

General Risk Article 126

The bank may use an approach to the calculation of capital requirements for general risk based on maturity in compliance with Article 127 of this Decision, or based on duration in compliance with Article 128 of this Decision. The bank shall have to apply the selected approach in a principled manner.

Calculation of General Risk Based on Maturity Article 127

(1) For the calculation of capital requirement for general risk, all the positions shall be weighted according to maturity in compliance with Paragraph 2 of this Article in order to calculate of the amount of capital requirement for those positions. The aforementioned requirement shall be reduced when the weighted position is being held together with the weighted position with the opposite sign within the same class of maturity. That requirement shall also be reduced in case of weighted positions with opposing signs belonging to different classes of maturity, whereas the size of reduction shall depend on whether both of the aforementioned positions belong to the same zone, and on the actual zones to which they belong.

(2) The bank shall classify its net positions, as the case may be, into corresponding classes

of maturity in column 2 or in column 3 in Table 22 in Paragraph 4 of this Article. In case of instruments with a fixed interest rate, the positions shall be classified in accordance with their remaining timeframe until maturity, and in case of instruments with variable interest rate, according to the timeframe remaining until the next determination of interest rate. The bank shall also differentiate debt instruments with the coupon of 3% or higher from those with a coupon lower than 3%, and shall classify them on that basis into column 2 or column 3 in Table 22 in Paragraph 4 of this Article. Then, each of them shall be multiplied with the weight for the subject class of maturity in column 4 in Table 22 in Paragraph 4 of this Article.

(3) For each maturity class, the bank shall calculate the sum of all weighted long positions and, separately, all weighted short positions. The amount of the sum of weighted long positions that is matched with the sum of weighted short positions in each class of maturity shall be deemed as matched weighted position in that class of maturity, while the remaining long or short position shall be deemed as unmatched weighted position for the same class of maturity. The sum of matched weighted positions in all classes shall then be calculated.

(4) The bank shall calculate the sum of unmatched weighted long positions for classes of maturity included in an individual zone provided in Table 22 in Paragraph 4 of this Article, in order to acquire unmatched weighted positions for each zone. Similar to that, the sum of unmatched short positions for each class of maturity in an individual zone shall be used for calculating unmatched weighted short position for that zone. The part of unmatched weighted long position that is matched with unmatched weighted short position in the same zone shall be deemed as matched weighted position of that zone. The part of unmatched weighed long position or unmatched weighted short position for the zone that is not possible to be matched in that manner shall be unmatched weighted position for that zone.

Table 22.

Zone	Maturity class		Weight (%)	Assumed change in interest rate in %
	Coupon of 3% or more	Coupon lower than 3%		
One	0 ≤ 1 month	0 ≤ 1 month	0.00	—
	> 1 ≤ 3 months	> 1 ≤ 3 months	0.20	1.00
	> 3 ≤ 6 months	> 3 ≤ 6 months	0.40	1.00
	> 6 ≤ 12 months	> 6 ≤ 12 months	0.70	1.00
Two	> 1 ≤ 2 years	> 1.0 ≤ 1.9 years	1.25	0.90
	> 2 ≤ 3 years	> 1.9 ≤ 2.8 years	1.75	0.80
	> 3 ≤ 4 years	> 2.8 ≤ 3.6 years	2.25	0.75
Three	> 4 ≤ 5 years	> 3.6 ≤ 4.3 years	2.75	0.75
	> 5 ≤ 7 years	> 4.3 ≤ 5.7 years	3.25	0.70
	> 7 ≤ 10 years	> 5.7 ≤ 7.3 years	3.75	0.65
	> 10 ≤ 15 years	> 7.3 ≤ 9.3 years	4.50	0.60
	> 15 ≤ 20 years	> 9.3 ≤ 10.6 years	5.25	0.60
	> 20 years	> 10.6 ≤ 12.0 years	6.00	0.60
		> 12.0 ≤ 20.0 years	8.00	0.60
	> 20 years	12.50	0.60	

(5) The amount of unmatched weighted long or short position in zone one that is matched with unmatched weighted short or long position in zone two shall be matched weighted position between zone one and zone two. The same calculation shall then be applied to the part of unmatched weighted position in zone two that remains and unmatched weighted position in zone three, in order to calculate matched weighted position between zone two and zone three.

(6) The bank may reverse the sequence under Paragraph 5 of this Article in such manner that it calculates matched weighted position between zone two and zone three before calculating the aforementioned position between zone one and zone two.

(7) The remaining portion of unmatched weighted position in zone one shall then be matched with what remains in zone three, after it was matched with zone two, in order to achieve matched weighted position between zone one and zone three.

(8) After the harmonization in compliance with Paragraphs 5 - 7 of this Article, the remaining positions shall be added.

- (9) The capital requirement of the bank shall be calculated as the sum of the following:
- 1) 10% of the sum of matched weighted positions for all classes of maturity,
 - 2) 40% of matched weighted position in zone one,
 - 3) 30% of matched weighted position in zone two,
 - 4) 30% of matched weighted position in zone three,
 - 5) 40% of matched weighted position between zones one and two and between zones two and three,
 - 6) 150% of matched weighted position between zones one and three,
 - 7) 100% of remaining unmatched weighted positions.

**Calculation of General Risk Based on Duration
Article 128**

(1) Instead of the approach for the calculation of capital requirement for general risk of debt instrument referred to in Article 127 of this Decision, the bank may apply the approach that is based on duration, under the condition that it shall be applying the aforementioned approach in a principled manner.

(2) Under the approach that is based on duration referred to in Paragraph 1 of this Article, the bank shall calculate the yield up to maturity for debt instruments with a fixed interest rate on the basis of their market value, which represents the assumed discount rate for that instrument. For instruments with a variable interest rate, the bank shall calculate the yield on the basis of the market value of the instrument, under the assumption that the principal shall mature as of the date on the next change in interest rate.

(3) The bank shall then calculate the modified duration of each debt instrument on the basis of the following formula:

$$\text{modified duration} = \frac{D}{1 + R}$$

where:

D = duration calculated in compliance with the following formula:

$$D = \frac{\sum_{t=1}^M \frac{t \cdot C_t}{(1 + R)^t}}{\sum_{t=1}^M \frac{C_t}{(1 + R)^t}}$$

where:

R = yield until maturity,

C_t = cash payment in the moment in time t ,

M = total maturity.

(4) The bank shall then classify each debt instrument in the corresponding zone provided in Table 23. The aforementioned shall be implemented on the basis of modified duration for each of the instruments.

Table 23.

Zone	Modified duration (in years)	Assumed change in interest rate in %
One	$> 0 \leq 1.0$	1.0
Two	$> 1.0 \leq 3.6$	0.85
Three	> 3.6	0.7

(5) The bank shall then calculate position weighted with duration for each debt instrument in such manner that is multiplies its market value with its modified duration and the corresponding assumed change in interest rate for the instrument with aforementioned modified duration (column 3 in Table 23 in Paragraph 4 of this Article).

(6) The bank shall calculate its long and short position weighted with duration within each zone. The amount of the sum of all long positions weighted with duration that are matched with the sum of all short positions weighted with duration in the same zone shall be deemed as matched position weighted with duration for that zone. The bank shall then calculate unmatched positions weighted with duration for each of the zones. After that, it shall apply the processes for unmatched weighted positions under Article 127, Paragraphs 5 - 8 of this Decision.

- (7) The capital requirement of the bank shall be calculated as the sum of the following:
- 1) 2% of matched position weighted with duration for each of the zones,
 - 2) 40% of matched position weighted with duration between zones one and two and zones two and three,
 - 3) 150% of matched position weighted with duration between zones one and three,
 - 4) 100% of remaining unmatched positions weighted with duration.

Net Positions in Equity Instruments
Article 129

(1) The bank shall separately calculate the sum of all its net long position and all its net short position in compliance with Article 118 of this Decision. The sum of absolute values of net long and net short positions shall represent the total gross position of the bank.

(2) The bank shall calculate, separately for each of the markets, the difference between the sum of net long and net short positions. The sum of absolute values of aforementioned differences shall represent the total net position of the bank.

(3) Positions in a specific equity instrument shall be expressed in accordance with its market value.

(4) Financial derivatives shall be classified by countries in which markets the equity securities are listed that are subject to contracts and/or in whose markets those securities are traded.

Specific Risk of Equity Instruments
Article 130

The capital requirement for specific risk of the bank shall be calculated by multiplying its total gross position with 12%.

General Risk of Equity Instruments
Article 131

The capital requirement for general risk shall be the total net position of the bank multiplied with by 12%.

Stock Indices
Article 132

(1) Futures on the basis of stock index, delta weighted equivalents of options on stock-index futures and options on stock index under the common name of “stock-index futures” may be classified to positions in each of the equity instruments within their structure.

(2) When the stock-index futures are not divided into main positions, they shall be treated as if it concerned a separate equity instrument. However, the specific risk of that individual equity instrument may be neglected if the aforementioned stock-index futures are being traded on the stock exchange, and if they represent a relevant index that is diversified in the corresponding manner.

Underwriting
Article 133

(1) The bank shall be under obligation to use, in case of underwriting, the following process for the calculation of its own capital requirement. The bank shall first calculate the net position in such manner that they reduce the positions resulting from the provision of the service of underwriting or that they are a subject to sub-underwriting of third parties on the basis of official agreements. Then it shall reduce the net position by the factors of reduction provided in Table 24 in this Paragraph, and calculate the capital requirement by using the reduced positions resulting from the provision of the service of underwriting. Table 24 shall provide the reduction factors:

Table 24.

working day 0	100%
working day 1	90%
working days 2 to 3	75%
working day 4	50%
working day 5	25%
After working day 5	0%

“Working day zero” shall be the working day from which the bank shall be unconditionally committed to accept the known amount of securities at the agreed price.

(2) The bank shall have to ensure continuously that it has sufficient capital to cover the risk of losses that are possible in the course of the period from the initial commitment and the first working day.

(3) The bank shall be under obligation to inform the Agency on the method of application of Paragraph 1 of this Article.

Capital Requirements for Positions in Investment Fund Article 134

(1) Positions in an investment fund shall be subject to the capital requirement for position risk, which shall include specific and general risk of 32%. Notwithstanding the provisions of Article 139, together with Article 138, Paragraph 4 of this Decision, which determines the treatment of gold, positions in the investment fund shall be subject to capital requirement for position risk which shall include specific and general risk, as well as foreign exchange risk, at the level of 40%.

(2) Unless otherwise prescribed in Article 136 of this Decision, netting between relevant investments of the investment fund and other positions of the bank shall not be allowed.

General Criteria for Investment Fund Article 135

(1) The approach referred to in Article 136 of this Decision may be applied to an investment fund if the following conditions are met:

1) the investment fund possesses a prospectus or a document similar to it that contains the following:

1. categories of assets in which the investment fund is allowed to invest,
2. if investment limits, relative limits, and the methodology of their calculation are being applied,
3. if it is allowed to invest, contract repurchase agreements and agreements of borrowing securities, as well as policies for constraining of the risk of the other contractual party that results from the aforementioned transactions,

2) results of operations of the investment fund shall be disclosed on semi-annual and annual basis for the requirements of assessment of assets and liabilities, income and activities of the investment fund in the course of the reporting period,

3) shares or stocks in the investment fund are redeemable in cash, from the assets of the fund, on the daily basis, upon a request of persons holding the shares,

4) investments in the investment fund shall have to be separated from the assets of the company for the management of the investment fund,

5) there has to be an assessment of riskiness of the investment fund on the part of the investor bank itself,

6) the investment fund is being managed by persons that are subject to supervision of

competent regulatory authorities in BiH or the European Union.

(2) The methods stipulated in Article 136 of this Decision may also be used for the calculation of capital requirements for the investment fund positions from recognized third countries, if they meet the conditions stipulated in the provisions of Items 1 - 6 of Paragraph 1 of this Article and if they are deemed as acceptable by the Agency.

Special Methods for Investment Fund Article 136

(1) If the bank has available data on the daily basis with relevant investments to which the investment fund positions relate, it may have an insight into the aforementioned basic investments for the requirements of calculation of capital requirement for position risk, which includes specific and general risk. In compliance with this approach, the positions in the investment fund shall be treated as positions in basic investments of the investment fund.

(2) The bank shall be under obligation to calculate the capital requirement for position risk, which includes specific and general risk for positions in the investment fund on the basis of assumed positions that represent the structure and effects of external indices or the fixed basket of equity or debt securities referred to in Item 1, pending compliance with the following conditions:

1) the investment policy of the investment fund prescribes the representing of the structure and effects of the external index of equity or debt securities,

2) the minimum coefficient of correlation between daily developments of the yield of the investment fund and the index or the basket of equity or debt securities it is following, amounting to 0.9, may be determined clearly within the period of at least six months.

(3) If the bank is not informed on the structure of relevant investments of the investment fund on the daily basis, it may calculate the capital requirement for position risk, which includes specific and general risk, pending compliance with the following conditions:

1) it is assumed that the investment fund first invests up to the highest allowed amount in compliance with its investment policy in the category of assets that bear the highest capital requirement for specific and general risk separately, and then invests in other categories of assets according to the cascading sequence until reaching the total investment limit. Position in the investment fund shall be treated as direct investment in the assumed position,

2) if the capital requirement for special and general risk, together in compliance with this Paragraph, exceeds the amount referred to in Article 134, Paragraph 1 of this Decision, the capital requirement shall be constrained on the aforementioned level.

(4) For calculating the capital requirement and reporting on the capital requirement for position risk, that is for positions in investment fund referred to in Paragraphs 1 - 3 in compliance with methods under this Article, the bank may lean on the depositary of the investment fund, under the condition that the investment fund is investing exclusively into securities and deposits all securities with the aforementioned depositary.

(5) The accuracy of the calculation shall be confirmed by an external auditor.

CHAPTER X CAPITAL REQUIREMENT FOR FOREIGN EXCHANGE RATE RISK

“De minimis” and Foreign Exchange Risk Weighting Article 137

(1) Bank shall be under obligation to calculate the capital requirement for foreign exchange rate risk if the sum of its total net open foreign exchange position and its net open position in gold, which is calculated in compliance with Article 138 of this Decision, exceeds 2% of its regulatory capital.

(2) The capital requirement for foreign exchange risk shall be calculated by multiplying the sum of total net open foreign exchange position and its net open position in gold with 12%.

Calculation of Total Net Foreign Exchange Position Article 138

(1) Bank shall calculate the net open foreign exchange position for each currency individually, including the reporting currency, without calculating the capital requirements for the reporting currency, and the net open position in gold as the sum of the following elements (with positive or negative sign):

1) net spot position in the currency (balance between the assets and liabilities in that currency, including not yet matured calculated interest in that currency), and the net spot position in gold,

2) net forward position, which represents the balance between all amounts that shall be received and all amounts that shall be paid on the basis of foreign currency forwards or forwards on gold, as well as foreign exchange futures or futures on gold, as well as nominal amounts of foreign exchange swaps that are not included in the prompt/spot position,

3) irrevocable guarantees and similar instruments on the basis of which the bank shall have to execute payment, when there is a probability that the banks shall not be able to settle for those assets,

4) net delta equivalent or the equivalent based on delta values of the total book of foreign exchange options and options on gold.

5) delta equivalent of the position in an option shall be calculated by multiplying the amount of basic instrument to which the option relates and the corresponding delta coefficient. For options that are traded on the stock exchange, the bank shall apply the delta coefficient that was calculated by that stock exchange. When such a delta coefficient is not available, the bank may apply the delta coefficient calculated in compliance with internal methodology, which was approved by the Agency. The approval shall be issued if the internal methodology for determination of the value is adequately assessing the rate of change in the value of option caused by small changes in the market value of the basic instrument.

6) market value of other options, which are not foreign exchange options or options on gold, and whose subject of contract (basic instrument) is expressed in a foreign currency.

The bank may include in the net open position in a certain currency or net open position in gold the future net income / expenses that have not been recorded in accounting yet, but are fully hedged (for example with foreign exchange forward contracts or similar contracts), if they apply such a treatment in a principled manner in compliance with the international accounting standards.

(2) When calculating the net open foreign exchange position, pending prior approval of the Agency, the bank may exclude the instruments that serve only for the protection from negative effects of changes of exchange rates to rates of capital under Article 34, Paragraph 1 of this Decision. The aforementioned instruments must not be intended for trading and at any change in the conditions for their exclusion in the course of the calculation of the net open foreign exchange position, a separate approval of the Agency shall be necessary. The bank shall be under obligation to prescribe in its internal enactments the types and characteristics of instruments that it shall be using exclusively for protection from negative effects of changes in exchange rates of currencies on the rates of capital.

The same treatment shall also apply to positions that represent items that are deducted in the course of calculation of regulatory capital.

(3) The bank shall use, in the principled manner, the net present value approach, i.e. in the course of calculation of the net open foreign exchange position it shall reduce the items of balance sheet assets by the corresponding corrections of values, and the items from off-balance sheet assets by the provisioning for losses under off-balance sheet items.

(4) The open foreign exchange position in a certain currency may be short or long. The bank shall have a long position in a certain currency (or gold) when the sum of items referred to in Paragraph 1 of this Article is positive, and a short position when that sum is negative. The open net short or net long position in a certain foreign currency shall be recalculated in BAM under the medium exchange rate of the CBBiH.

Then, the bank shall calculate the total open net long position as the sum of all open net long positions in individual currencies, and the total open net short position as the sum of all open net short positions in individual currencies. The larger of the two amounts referred to shall represent the total net foreign exchange position of the bank for the needs of calculation of capital requirements for foreign exchange rate risk in compliance with Article 137, Paragraph 2 of this Decision.

Foreign Exchange Risk for Positions in Investment Funds **Article 139**

(1) For the requirements of Article 138 of this Decision, banks shall be under obligation to treat stocks in investment funds in compliance with the actual foreign exchange structure of investments of that investment fund and to include the resulting foreign exchange positions in the course of the calculation of net open foreign exchange position in the corresponding foreign currency.

(2) If the investment fund is investing exclusively in securities, the bank may rely on the reports of the depository bank of the specific investment fund on the foreign exchange structure of investments of that investment fund. The accuracy of reports shall be confirmed by an external auditor.

(3) If the bank is not acquainted with the foreign exchange structure of investments of the investment fund, it shall be assumed that the investment fund has the largest allowed amount of investments in assets in foreign currency. If the stocks of the bank in the investment fund are classified in the trading book, the bank shall be under obligation to take into account the highest exposure that may result from the stock in the investment fund, so that it increases, proportionally, the assumed investments up to the level of the highest possible exposure on the basis of a certain assumed investment in compliance with the investment policy of the investment fund.

Open foreign currency position of the bank in the assumed investments of the investment fund shall be equal to the sum of absolute amounts of individual assumed investments of that investment fund. The open foreign currency position of the bank in the assumed investments of the investment fund shall be included in the calculation of the total open foreign currency position in compliance with the treatment of investments in gold. Exceptionally, if the direction of the assumed investments of the investment fund is known, the bank may treat the stocks in investment funds as long or short foreign currency positions in assumed investments, wherein the netting of the aforementioned positions shall not be allowed.

The open long or short foreign exchange position in assumed investments of the investment fund shall be treated as a separate currency and shall be added to the total long or total short open foreign exchange position of the bank.

CHAPTER XI **CAPITAL REQUIREMENT FOR COMMODITY RISK**

Selection of Method for Commodity Risk **Article 140**

In compliance with Articles 141 and 142 of this Decision, the bank shall calculate the capital requirement for commodity risk according to the following methods:

- 1) simplified approach,
- 2) maturity ladder approach,

Positions in Commodities **Article 141**

(1) Each individual position in commodity or commodity derivatives shall have to be expressed in standard measurement units for that type of commodity. The prompt market price for the aforementioned commodity shall be expressed in the reporting currency.

(2) For positions in gold or derivatives on gold it shall be deemed that they are exposed to foreign exchange risk, and they shall be treated in compliance with the capital requirements for foreign exchange risk, if necessary, for the requirements of calculating the commodity risk.

(3) For the requirements of Article 143, Paragraph 1 of this Decision, the net position of the bank in each commodity shall be the surplus of its long position over its short position, or vice versa, in the same commodity or in identical commodity futures, options, or warranties. Financial derivatives shall be treated in compliance with Article 142 of this Decision as positions in the relevant commodity.

(4) For the requirements of calculation of positions in commodity, the following positions shall be treated as positions in the same commodity:

- 1) positions in different sub-categories of commodities in cases in where the sub-categories are mutually exchangeable,
- 2) positions in similar commodity, if they are close substitutes, and when it is possible to clearly determined the minimum correlation of 0.9 between the development of the price in the course of the period of one year at minimum.

Particular Instruments **Article 142**

(1) Commodity futures and future liabilities of purchasing or selling of individual commodities shall be included into the system of measurement as perceived amounts in standard measurement units with maturity in compliance with the date of contract expiration.

(2) Commodity swaps with which on one side of the transaction there is a fixed price, and on the other the current market price, shall be treated as a set of positions equal to the perceived amount of the contract, whereas, if necessary, each of the positions shall correspond to one payment under the swap contract and shall be classified in classes of maturity in compliance with Article 144, Paragraph 1 of this Decision. The position shall be long positions if the bank is paying fixed price, and receiving variable price, and short if the bank is receiving fixed price, but paying variable price. Commodity swap contracts where different sides of transaction are in different commodities, shall, in the maturity scale approach, be expressed in the relevant reporting scale.

(3) For the requirements of this part of the Decision, options and warranties on commodity or commodity derivatives shall be treated as if they were positions whose value is equal to the product of the amount of the reference instrument to which the option relates and the corresponding delta-coefficient. Setting off may be performed with preceding positions on all the positions in the same relevant commodity or commodity derivative. The delta being used is the delta of the relevant stock exchange. When the delta of the relevant stock exchange is not available, the delta may be calculated by the bank itself, by using the corresponding internal methodology for determination of value, pending approval of the Agency. The approval shall be issued if the internal methodology for determination of value adequately assesses the rate of change in the value of option or warranty which is related to small changes in the market price of the reference instrument of the bank in the course of calculation of capital requirements.

(4) The bank shall include the relevant commodity in the calculation of its capital

requirement for commodity risk when it is performing one of the following functions:

- 1) transferor of commodities or guaranteed rights relating to the right on the commodity within the framework of a repo agreement,
- 2) provider of commodities within an agreement on borrowing commodities.

Simplified Approach Article 143

(1) The capital requirement of the bank for each type of commodity shall be calculated as the sum of the following:

- 1) 15% of net position, long or short, multiplied by prompt market price of the commodity,
- 2) 3% of gross position, long plus short, multiplied by the prompt market price of the commodity.

(2) The total capital requirement of the bank for commodity risk shall be calculated as the sum of capital requirements for commodity risk for individual types of commodities in compliance with Paragraph 1 of this Article.

Maturity Ladder Approach Article 144

(1) The bank shall, for each commodity, apply a separate ladder of maturity in compliance with Table 25 of this Article. All positions in the aforementioned commodity shall be allocated into corresponding classes of maturity. Physical inventory of commodities shall be allocated into the class of maturity from 0 to 1 month, including 1 month.

Table 25.

Maturity class (1)	Rate of difference (%) (2)
$0 \leq 1$ month	1.50
> 1 month ≤ 3 months	1.50
> 3 months ≤ 6 months	1.50
> 6 months ≤ 12 months	1.50
> 1 year ≤ 2 years	1.50
> 2 years ≤ 3 years	1.50
> 3 years	1.50

(2) For the following positions in the same commodity, the netting may be performed and they may be allocated to corresponding classes of maturity in their net amounts:

- 1) positions in agreements that mature on the same date,
- 2) positions in agreements that mature within 10 days from each other, at most, if the contracts they result from are traded in markets that have daily dates of delivery.

(3) In each of the classes of maturity the bank shall then sum up all long and all the short positions. The amount of the sum of long positions that shall be adjusted with the sum of short positions within a certain class of maturity shall be deemed as matched position in that class of maturity, while the remaining long and short position shall be deemed as unmatched position for the same class of maturity.

(4) That part of unmatched long position of a certain class of maturity that is matched with unmatched short position, or vice versa, of the class with a later maturity, shall be matched position of two classes of maturity. The part of unmatched long or unmatched short position that cannot be adjusted in this manner shall be unmatched position.

(5) The capital requirement of the bank for all types of commodities shall be calculated on the basis of the relevant maturity scale, as the sum of the following:

- 1) the sum of matched long and short positions within individual classes of maturity, multiplied by the corresponding rate of mismatch in compliance with the second column in

Table 25 from Paragraph 1 of this Article and the prompt market price for that commodity,

2) matched positions between two classes of maturity for each class of maturity in which unmatched position is being transferred into the next class of maturity, multiplied by the rate of transfer of 0.6% and the prompt market price of that commodity,

3) remaining unmatched positions, multiplied by the direct rate of 15% and the prompt market price for that commodity.

(6) Total capital requirement of the bank for commodity risk shall be calculated as the sum of capital requirements for commodity risk for individual types of commodities in compliance with Paragraph 5 of this Article.

CHAPTER XII TRANSITIONAL AND FINAL PROVISIONS

Article 145

(1) This Decision shall enter into force as of the eighth day from the date of its publication in the “Official Gazette of Republika Srpska”.

(2) The bank shall be under obligation to harmonize its operations with the provisions of this Decision within the timeframe of nine months from the date of entry into effect of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 4.17), excluding the provisions under Article 21, Paragraph 2, and Article 34, Paragraph 1, Item 2, which shall be applied from July 26, 2018.

(3) As of the beginning of application of provisions of this Decision, the following shall cease to be effective:

1) Decision on Minimum Standards for Management of Capital of Banks and Capital Conservation (“Official Gazette of Republika Srpska”, No.: 57/14 and 21/17),

2) Decision on Minimum Standards for Management of Market Risks in Banks (“Official Gazette of Republika Srpska”, No.: 61/08, 116/08, 112/09, 100/10, 127/11, 123/12, 01/14, 01/15, 107/15 and 115/16), as well as the corresponding Instructions for application of the aforementioned Decision, and

3) Decision on Minimum Standards for Management of Operating Risk in Banks (“Official Gazette of Republika Srpska”, No.: 61/08 and 09/10).

(4) With the objective of adequate application of provision of this Decision, the bank shall be under obligation, starting from December 31, 2017, to report to the Agency on the calculation of regulatory capital and capital requirements under the existing by-laws (Decisions listed in Paragraph 3 of this Article) and calculation of capital requirements by applying the provisions of this Decision.

(5) The bank shall be under obligation to implement, for the instruments of Common Equity Tier 1, Additional Tier 1, and Tier 2 capital, the verification of the fulfillment of conditions for inclusion into the calculation of Tier 1, i.e. Tier 2 capital under this decision by the beginning of implementation of the Decision.

(6) Obligations of the bank in view of reporting on capital and capital requirements for credit, market, and operating risk, the financial leverage rate and capital conservation buffers, and other necessary information stipulated under this Decision, shall be prescribed by the Agency in a special by-law regulation that shall stipulate in more detail the uniform forms for reporting, the frequency and dates for reporting.

(7) For Attachments 3 and 4 of this Decision the Agency shall publish web pages that shall represent the relevant source for the banks to take over data contained in those attachments.

Date: July 25, 2017

OF THE MANAGEMENT BOARD
Mira Bjelac

ATTACHMENT 1. CLASSIFICATION OF OFF BALANCE SHEET ITEMS

(1) High risk:

- 1) guarantees having the character of credit substitutes (for example, guarantee for securing credit repayment),
- 2) acceptance notes,
- 3) endorsements of bills of exchange on which no other bank is referred to,
- 4) transactions that provide the right to regress (for example, factoring, redemption of receivables at a discount),
- 5) irrevocable “stand-by” letters of credit with a character of credit substitutes,
- 6) assets bought on the basis of agreement on direct termed purchase,
- 7) agreements on termed deposits,
- 8) agreements on sale and re-purchasing of assets.

(2) Medium risk:

- 1) off balance sheet items on the basis of trade financing, i.e. issued or confirmed documentary letters of credit (also see items of medium/low risk),
- 2) other off-balance sheet items:
 1. guarantees for payment for delivered commodities, guarantees for payment of customs and tax debt,
 2. unutilized credit lines (agreements on lending, redemption of securities, issuance of guarantees or acceptance orders) with original maturity exceeding one year,
 3. off balance sheet liabilities taken over on the basis of issuance of short-term bonds (note issuance facilities, NIF) and renewable liabilities on the basis of provision of services of underwriting, i.e. sale of mid-term bonds with obligation of redemption (revolving underwriting facilities, RUF).

(3) Medium/low risk:

- 1) off balance sheet items on the basis of trade financing:
 1. documentary letters of credit, whereas commodities that are subject to letters of credit serve as collateral and other transactions with which there is a possibility of self-reconciliation,
 2. warranties (including guarantees for bid security and bid performance and relating guarantees for advanced payments and retained amounts and guarantees not having the character of credit substitutes),
 3. irrevocable “standby” letters of credit not having the character of credit substitutes.
- 2) other off-balance sheet items:
 1. unutilized credit lines that include agreements on lending, redemption of securities, issuance of guarantees or acceptance orders with original maturity of up to one year, including that year also, which cannot be irrevocably revoked at any time, in the absence of notification, or which effectively do not facilitate automatic termination because of worsening of credit worthiness of debtors.

(4) Low risk:

- 1) unutilized credit lines that include agreements on lending, redemption of securities, issuance of guarantees or acceptance orders which can be irrevocably revoked at any time, in the absence of notification, or which effectively facilitate automatic termination because of worsening of credit worthiness of debtors,
- 2) unutilized credit lines for guarantees for bid security and bid performance which may be irrevocably revoked at any time or that effectively facilitate automatic termination because of worsening of credit worthiness of debtors.

ATTACHMENT 2. FINANCIAL INSTRUMENTS

I - Financial derivatives:

- (1) Agreements for interest rate:
 - 1) single-currency interest rate swap
 - 2) basis-swap,
 - 3) interest rate forward,
 - 4) interest rate futures,
 - 5) interest rate options bought,
 - 6) other agreements of similar legal nature.

- (2) Financial derivatives whose relative variables are currency and gold:
 - 1) inter-currency interest rate swap,
 - 2) foreign exchange currency forward,
 - 3) foreign exchange currency futures,
 - 4) foreign exchange currency options bought,
 - 5) other agreements of similar nature,
 - 6) agreements with nature similar to the nature of agreements referred to in items 1 - 5, which relate to gold.

- (3) Options, futures, swaps, forward agreements on interest rate and all other financial derivatives relating to securities, currencies, interest rates or yields, or other financial derivatives, financial indices or financial measurement quantities that can be collected physically or in cash.

- (4) Options, futures, swaps, forward agreements on interest rate and all other financial derivatives relating to commodities, and that have to be collected in cash or may be settled in cash upon a request of one of the contractual parties (except for non-payment or another reason for termination of contract).

- (5) Options, futures, swaps, forward agreements on interest rate and all other financial derivatives relating to commodities, and that may be collected physically, under the condition that they are traded at regulated market.

- (6) Options, futures, swaps, forward agreements on interest rate and all other financial derivatives relating to commodities, and that may be settled physically, and that have not been included in the preceding point and that do not have commercial purpose, but have feature of other financial derivatives, taking into account, *inter alia*, whether they are reconciled and collected through recognized clearing firms or are subject to regular margin calls.

- (7) Options, futures, swaps, forward agreements on interest rate and all other financial derivatives relating to climatic variables, road tolls, emission quotas, inflation rates, or official economic statistical data, which have to be collected in cash or may be collected in cash upon a request of one of the contractual parties (except for non-payment or another reasons for termination of contract), as well as all other financial derivatives, relating to assets, rights, liabilities, indices, and measurement quantities, which are otherwise not listed, and which have features of other financial derivatives, taking into account, *inter alia*, whether they are traded at regulated market, and whether they are reconciled and collected through recognized clearing firms or are subject to regular margin calls.

II - Other financial instruments:

- (1) Transferrable securities,
- (2) Money-market instruments,
- (3) Units in investment funds.

ATTACHMENT 3 - RECOGNIZED STOCK EXCHANGES AND CLEARING FIRMS

Recognized stock exchanges at which financial derivatives referred to in Attachment 2 to this Decision are not being traded

Name	Designation
EURONEXT PARIS	XPAR
BOERSE BERLIN (REGULIERTER MARKT)	BERA
BOERSE BERLIN (BERLIN SECOND REGULATED MARKET)	BERC
BOERSE DUESSELDORF (REGULIERTER MARKT)	DUSA
BOERSE DUESSELDORF - QUOTRIX (REGULIERTER MARKT)	DUSC
BOERSE BERLIN EQUIDUCT TRADING (REGULIERTER MARKT)	EQTA
BOERSE BERLIN EQUIDUCT TRADING (BERLIN SECOND REGULATED MARKET)	EQTB
HANSEATISCHE WERTPAPIERBOERSE HAMBURG (REGULIERTER MARKT)	HAMA
NIEDERSAECHSISCHE BOERSE ZU HANNOVER (REGULIERTER MARKT)	HANA
BOERSE MUENCHEN (REGULIERTER MARKT)	MUNA
BOERSE MUENCHEN - MARKET MAKER MUNICH (REGULIERTER MARKT)	MUNC
BADEN-WUERTTEMBERGISCHE WERTPAPIERBOERSE (REGULIERTER MARKT)	STUA
FRANKFURTER WERTPAPIERBOERSE (REGULIERTER MARKT)	FRAA
TRADEGATE EXCHANGE (REGULIERTER MARKT)	XGRM
IRISH STOCK EXCHANGE - MAIN SECURITIES MARKET	XDUB
EURONEXT LISBON	XLIS
BOLSA DE BARCELONA	XBAR, XMCE
BOLSA DE BILBAO	XBIL, XMCE
BOLSA DE MADRID	XMAD, XMCE, MERF
BOLSA DE VALENCIA	XVAL, XMCE
BONDVISION MARKET	BOND
ELECTRONIC OPEN-END FUNDS AND ETC MARKET	ETFP
MARKET FOR INVESTMENT VEHICLES (MIV)	MIVX
ELECTRONIC BOND MARKET	MOTX
ELECTRONIC SHARE MARKET	MTAA

MTS GOVERNMENT MARKET	MTSC
MTS CORPORATE MARKET	MTSM
SECURITISED DERIVATIVES MARKET	SEDX
MERCADO DE DEUDA PUBLICA EN ANOTACIONES	XDPA
AIAF - MERCADO DE RENTA FIJA	XDRF, SEND
BOURSE DE LUXEMBOURG	XLUX
CYPRUS STOCK EXCHANGE	XCYS
SPOT REGULATED MARKET - BMFMS	SBMF
SPOT REGULATED MARKET - BVB	XBSE
RM-SYSTEM CZECH STOCK EXCHANGE	XRMZ
PRAGUE STOCK EXCHANGE	XPRA
BATS EUROPE REGULATED MARKET	BATE, CHIX
ISDX MAIN BOARD	ISDX
EURONEXT LONDON	XLDN
LONDON STOCK EXCHANGE - REGULATED MARKET	XLON
NASDAQ RIGA	XRIS
NASDAQ STOCKHOLM	XSTO
NORDIC GROWTH MARKET NGM	XNGM
NASDAQ COPENHAGEN	XCSE
OSLO AXESS	XOAS
OSLO BØRS	XOSL
NASDAQ TALLINN	XTAL
NASDAQ HELSINKI	XHEL
VIENNA STOCKEXCHANGE OFFICIAL MARKET (AMTLICHER FREIVERKEHR)	WBAH
VIENNA STOCKEXCHANGE SECOND REGULATED MARKET	WBGF
BULGARIAN STOCK ECXHANGE – SOIFA JSC	XBUL
NASDAQ OMX ICELAND HF	XICE
BUDAPEST STOCK EXCHANGE	XBUD
BRATISLAVA STOCK EXCHANGE	XBRA
NASDAQ VILNIUS	XLIT
EURONEXT BRUSSELS	XBRU
ZAGREB STOCK EXCHANGE	XZAG
ELECTRONIC SECONDARY SECURITIES MARKET	HDAT
ATHENS EXCHANGE SECURITIES MARKET	XATH
EUROPEAN WHOLESALE SECURITIES MARKET	ewsm
MALTA STOCK EXCHANGE	XMAL
EURONEXT AMSTERDAM	XAMS
BONDSPOT SECURITIES MARKET	RPWC
WARSAW STOCK EXCHANGE	XWAR
LJUBLJANA STOCK EXCHANGE OFFICIAL MARKET	XLJU
GIBRALTAR STOCK EXCHANGE	GSXL
Banja Luka Stock Exchange (Banjalučka berza)	BLSE
Sarajevo Stock Exchange (Sarajevska berza)	SASE
Belgrade Stock Exchange (Beogradska berza)	BELEX

Recognized stock exchanges that have a clearing mechanism, taking into account that the agreements listed in Attachment 2 to this Decision are subject to requirements for determination, on a daily basis, of the margin that ensures adequate protection

Name	Designation
MATIF	XMAT
MONEP	XMON
POWERNEXT DERIVATIVES	XPOW
EUROPEAN ENERGY EXCHANGE	XEEE
EUREX DEUTSCHLAND	XEUR
MERCADO DE FUTUROS E OPCOES	MFOX
MERCADO REGULAMENTADO DE DERIVADOS DO MIBEL	OMP
MEFF EXCHANGE	XMRV, XMPW
MERCADO DE FUTUROS DE ACEITE DE OLIVA - S.A	XSRM
DERIVATIVES REGULATED MARKET – BMFMS	BMFM
POWER EXCHANGE CENTRAL EUROPE	XPXE
CME EUROPE LIMITED	CMED
INTERCONTINENTAL EXCHANGE - ICE FUTURES EUROPE	IFEU
ICE FUTURES EUROPE - FINANCIAL PRODUCTS DIVISION	IFLL
ICE FUTURES EUROPE - EQUITY PRODUCTS DIVISION	IFLO
ICE FUTURES EUROPE - AGRICULTURAL PRODUCTS DIVISION	IFLX
THE LONDON INTERNATIONAL FINANCIAL FUTURES AND OPTIONS EXCHANGES (LIFFE)	XLIF
THE LONDON METAL EXCHANGE	XLME
LONDON STOCK EXCHANGE DERIVATIVES MARKET	XLOD
ITALIAN DERIVATIVES MARKET	XDMI
NASDAQ OMX STOCKHOLM AB	XSTO
FISH POOL ASA	FISH
NASDAQ OMX OSLO ASA	NORX
OSLO BØRS ASA	XOSL
EURONEXT BRUSSELS DERIVATIVES	XBRD
ATHENS EXCHANGE DERIVATIVES MARKET	XADE
VIENNA STOCKEXCHANGE OFFICIAL MARKET (AMTLICHER HANDEL)	WBAH
BUDAPEST STOCK EXCHANGE	XBUD
EUROPEAN ENERGY DERIVATIVES EXCHANGE N.V.	NDEX
EURONEXT EQF - EQUITIES AND INDICES DERIVATIVES	XEUE
WARSAW STOCK EXCHANGE/FINANCIAL DERIVATIVES	PLPD
http://www.esma.europa.eu/content/Final-Report-draft-Implementing-Technical-Standards-main-indices-and-recognised-exchanges-un Source: http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32016R1646	

Recognized Clearing Firms

1. Austrian Kontroll Bank (OKB)
2. Board of Trade Clearing Corporation
3. Cassa di Compensazione e Garanzia S. p. A (CCG)
4. Commodity Clearing Corporation
5. Central Securities Clearing Corporation (KDD Centralna Klirinško Depotna Družbad.d.)
6. The Emerging Markets Clearing Corporation
7. European Options Clearing Corporation Holding BV (EOCC)
8. Guarantee Fund for Danish Options and Futures (Garantifonden for Danske Optioner OG Futures) (FUTOP)
9. Kansas City Board of Trade Clearing Corporation
10. Hong Kong Futures Exchange Clearing Corporation Ltd
11. Hong Kong Securities Clearing Company Ltd
12. London Clearing House (LCH)
13. Norwegian Futures & Options Clearing House (Norsk Opsjonsentral A.S.)
14. N.V. Nederlandse Liquidatiekas (NLKKAS)
15. OM Stockholm AB (OM)
16. Options Clearing Corporation
17. OTOB Clearing Bank AG (OTOB)
18. Société de Compensation des Marchés Conditionnels (SCMC)
19. Sydney Futures Exchange Clearing House (SFECH Ltd)

ATTACHMENT 4 – LIST OF THIRD COUNTRIES IN WHICH REGULATORY AND SUPERVISION REQUIREMENTS ARE APPLIED THAT ARE EQUIVALENT TO THE REQUIREMENTS BEING APPLIED IN THE EUROPEAN UNION

(The Agency shall update the list when and if necessary)

Regulatory and supervisory requirements for banks (in connection with Articles 43, 50, and 52 of this Decision)

- (1) Australia
- (2) Brazil
- (3) Canada
- (4) China
- (5) Faroe Islands
- (6) Greenland
- (7) Guernsey
- (8) Hong Kong
- (9) India
- (10) Isle of Man
- (11) Japan
- (12) Jersey
- (13) Mexico
- (14) Monaco
- (15) New Zealand
- (16) Saudi Arabia
- (17) Singapore
- (18) South Africa
- (19) Switzerland
- (20) Turkey
- (21) USA

Regulatory and supervisory requirements for investment companies (in connection with Article 43 of this Decision)

- (1) Australia
- (2) Brazil
- (3) Canada
- (4) China
- (5) Hong Kong
- (6) Indonesia
- (7) Japan
- (8) Mexico
- (9) South Korea
- (10) Saudi Arabia
- (11) Singapore
- (12) South Africa
- (13) USA

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