

BANKING AGENCY OF REPUBLIKA SRPSKA

**INSTRUCTION
FOR IMPLEMENTATION OF THE
DECISION ON MANAGEMENT OF
INTEREST RATE RISK IN THE BANKING BOOK**

Banja Luka, December 2017

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1. Introduction

Instruction for the implementation of the Decision on management of interest rate risk in the banking book is issued pursuant to Article 5, Paragraph 1, Item b, Article 22, Paragraph 1, Item f and Article 37 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" No. 59/13 and 4/17), Article 6, Paragraph 1, Item b and Article 22, Paragraph 4, item m of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" No. 63/17) and Article 10 of the Decision on management of interest rate risk in the banking book ("Official Gazette of Republika Srpska" No. 75/17).

This Instruction shall stipulate the method of reporting to the Banking Agency of Republika Srpska (hereinafter: the Agency) in accordance with the provisions of the Decision on management of interest rate risk in the banking book (hereinafter: the Decision).

2. General provisions

In accordance with Article 9 of the Decision, the bank is obliged to include in the report on exposure to interest rate risk in the banking book (hereinafter: the Report) all positions in the banking book that are sensitive to changes in interest rates.

The bank is obliged to compile the Report on an individual and consolidated basis, by significant currencies individually and for other currencies in total.

The bank is obliged to compile and submit the Report to the Agency on the following templates, which are published on the official website of the Agency:

- 1) change in the economic value of the banking book for positions with a fixed interest rate (template KR BK-EV FKS),
- 2) change in the economic value of the banking book for positions with a variable interest rate (template KR BK-EV PKS),
- 3) change in the economic value of the banking book for positions where interest rates change based on the decision of the governing body (template KR BK-EV KSOU),
- 4) total weighted position (template KR BK-EV UPP) and
- 5) the impact of interest rate risk in the banking book on net interest income (template KR BK-EV NKP).

The bank is obliged to submit the Report to the Agency electronically, in the format and in the manner stipulated by a special instruction of the Agency.

The bank shall submit the Report on a quarterly basis, i.e. shall enter in templates the positions of the banking book with the balance on the last day of the reporting quarter.

The deadline for submitting the Report is 30 days after the last day of the reporting quarter, and for the last quarter of the previous year, based on the final data, no later than March 5 of the current year.

The report referred to in the previous Paragraph for the last quarter of the previous year, prepared on the basis of preliminary data, shall be submitted by the bank no later than January 31 of the current year.

The report on a consolidated basis is prepared by the parent bank in the banking group or the bank with head office in Republika Srpska which is controlled by the parent holding company or parent company, and the same is submitted on the same templates as the report on an individual basis, noting that in the upper left corner after the template mark, "on a consolidated basis" is added.

Also, in the upper right corner of each template from this Instruction, the following information is provided:

- 1) name of the bank - state the full or abbreviated name of the bank, and in the consolidated audited special report state the full or abbreviated name of the parent bank of the banking group

or bank with its head office in Republika Srpska controlled by the parent holding company or parent company,

2) registration number and

3) date - the last day of the reporting quarter.

When submitting the report, all amounts in monetary units are stated in thousands of convertible marks (hereinafter: KM).

Amounts expressed in foreign currencies are converted into KM by applying the middle exchange rate of the Central Bank of Bosnia and Herzegovina (hereinafter: the CBBH) valid on the reporting date. Amounts expressed in foreign currencies that are not listed on the CBBH exchange rate list are converted into euros using the middle exchange rates of the reference markets, and then converted into KM by applying the CBBH middle exchange rate valid on the day of compiling the report.

Positions in KM with an agreed foreign exchange clause against a specific currency are treated as positions in the respective currency.

Positions marked in grey color in the templates are not to be filled.

3. Calculating exposure to interest rate risk in the banking book

3.1. Templates KR BK-EV FKS, KR BK-EV PKS and KR BK-EV KSOU

The allocation of positions in time zones shall be determined according to the number of days remaining to maturity, i.e. until the next change in the interest rate from the reporting date.

Positions with a fixed interest rate are included in the **KR BK - EV FKS** template and are allocated to time zones according to the remaining maturity.

Positions with a variable interest rate are included in the **KR BK - EV PKS** template and are allocated to time zones according to the remaining maturity until the next interest rate change.

The template **KR BK - EV KSOU** includes positions with an interest rate that is variable based on the decision of the governing body in accordance with the provisions of Article 5 of the Decision.

When calculating the change in the economic value of the banking book, the bank shall fill in the templates as follows:

1) for each significant currency individually and for other currencies in total, shall fill in the templates depending on the type of interest rate (KR BK - EV FKS, KR BK - EV PKS and KR BK - EV KSOU),

2) in the above templates, all positions of assets and liabilities (balance sheet and off-balance sheet) are summed up, taking into account the sign for each time zone in order to obtain a net position for each zone "Total net position". For the purposes of calculating the "Total net position", asset positions are considered to have a positive sign, while liability positions have a negative sign,

3) the obtained total net position for each time zone is multiplied by the stipulated weights specified in the templates in the row "Weights" in order to obtain the "Weighted position" for each time zone, and

4) then, the obtained weighted positions by all time zones are summed up in order to obtain a net long or net short position "Net weighted position by currency - KR BK - EV FKS / PKS / AKS" by each type of interest rate for each currency.

Positions in the templates KR BK-EV FKS, KR BK - EV PKS and KR BK - EV KSOU for the purposes of simplified calculation of the change in the economic value of the banking book referred to in Article 5 of the Decision shall be treated as follows:

- 1) classic off-balance sheet items: guarantees, letters of credit, bills of exchange, framework loans, financing obligations and other classic off-balance sheet items are not considered interest rate sensitive positions,
- 2) derivatives referred to in Article 7 of the Decision shall be included in accordance with Chapter IV of the Decision on calculating capital in banks,
- 3) received and given funds at the sight of money market participants: transaction accounts and sight deposits are allocated in the time zone of up to 1 month,
- 4) received and given funds on transaction accounts and revolving loans are allocated in the time zone from 6 to 12 months,
- 5) required reserve funds allocated with the CBBH shall be included in the EVKI PKS template in the time zone from 6 to 12 months,
- 6) repo/reverse repo transactions and securities lending transactions (hereinafter: securities) to the counterparty/from the counterparty shall be included as respective positions in the received/granted loan,
- 7) investments in debt securities shall be allocated to time zones in nominal amounts of principal according to the agreed dynamics,
- 8) investments in other debt securities include securities that are in the portfolio of loans and receivables,
- 9) investments in investment funds shall be allocated depending on the structure of the fund's investments in interest rate sensitive instruments. If the bank is not familiar with the actual structure of the fund's investments, it estimates the share and structure of interest rate sensitive items based on the fund's prospectus,
- 10) assets and liabilities with repayment in installments shall be allocated to time zones in accordance with the agreed repayment plan in the amount of the installment of the principal or annuity of the principal and
- 11) due positions in the banking book shall not be considered as interest rate sensitive.

3.2. Template KR – BK – EV UPP

The bank shall fill in the template **KR BK - EV UPP** by entering the amount from the templates KR BK - EV FKS, KR BK - EV PKS and KR BK - EV KSOU. Obtained net weighted positions (net long and net short positions) by individual type of interest rate in the templates KR BK - EV FKS, KR BK - EV PKS and KR BK - EV KSOU, calculated for each significant currency and for other currencies in total, shall be summed up to obtain a net weighted position by currency. The obtained net weighted position by currency shall be entered in the template **KR BK - EV UPP** in rows under ordinal number 1 for each significant currency individually and for other currencies in total. Net long and net short positions in different currencies listed in the template **KR BK - EV UPP** in rows under ordinal number 1 shall be summed up to obtain the total weighted position of the banking book, which makes a change in the economic value of the banking book and is expressed in absolute amount under ordinal number 2 of the template **KR BK - EV UPP**.

In the template **KR BK - EV UPP** in the row under ordinal number 4, the ratio of change in economic value and regulatory capital of the bank is calculated.

3.3. Template NKP – Impact of interest rate risk in the banking book on net interest income

The **KR BK - NKP** template shows the impact of changes in interest rates on the bank 's net interest income. In row under the ordinal number 1, the impact of changes in interest rates on net interest income calculated on the basis of the internal measurement methodology applied by the bank for the purposes of interest rate risk management is shown, which is used to calculate internal capital requirements.

The ordinal number 2 in the row indicates the period of observation of the impact of interest rates on net interest income on the basis of the applied internal measurement methodology. The observation period is expressed and entered in months. For example, for a period of 6 months a value of 6 is entered, for a period of 2 years a value of 24 is entered and similar.

The ordinal number 3 in the row indicates the value of the amount of internal capital requirements for interest rate risk in the banking book due to the impact of interest rate risk in the banking book on net interest income.

The ordinal number 4 in the row indicates the calendar year and the month from which the coverage of internal capital requirements for interest rate risk in the banking book was executed.

4. Transitional and final provisions

This instruction shall enter into force on the day of its adoption.

The bank is obliged to submit the first Report in accordance with the provisions of this Instruction with financial data as of 31 December 2017.

Number: D-11/17

Date: 18 December 2017

Director

Rade Rastoka