

Pursuant to Article 37 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 04/17, 19/18 and 54/19), Article 5, Paragraph 1, Item b), Article 20, Paragraph 2, Item b) and Article 37 of the Law on the Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 59/13 and 4/17) and Article 6, Paragraph 1, Item b) and Article 19, 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 Republika Srpska, at the 4th session, held on 26 December 2023, adopted the

DECISION ON CALCULATING CAPITAL IN BANKS

CHAPTER 1 GENERAL PROVISIONS

Subject of the Decision

Article 1

(1) Decision on calculating capital in banks (hereinafter: the 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) leverage ratio requirements,
- 4) capital buffers and capital conservation measures of banks and
- 5) capital requirements and the methodology for calculating capital requirements.

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

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

Definitions

Article 2

Definitions used in this Decision shall have the following meaning:

- 1) **Accumulated other comprehensive income** – shall have the same meaning as in the International Accounting Standard 1, excluding revaluation reserves for real-estate, plant, equipment, intangible assets, and when calculating regulatory capital shall be disclosed in the same manner as in the bank's financial statements, netted for 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 dependent on future profitability** – deferred tax assets whose future value shall be realizable only if the bank generates taxable profit in the future.
- 4) **Distribution** – the pay-out 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 generate 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 have to be disclosed in compliance with the applicable accounting framework, 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** – profit and losses brought forward stemming from the profit of previous years or uncovered losses from previous years, in compliance with the applicable accounting framework.

14) **Share premium account** – in this account the positive difference is disclosed between the sales value of shares achieved and their nominal value, i.e. shall have the same meaning as under the applicable accounting framework.

15) **Distributable items** – the amount of profit at the end of the last financial year increased by any profit 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 the bank's statute. Such profit, losses and reserves shall be determined on the basis of the bank's reports on an individual basis and not on the basis of reports on a consolidated basis.

16) **Credit institution** – an undertaking whose activity is to receive 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 legislation, credit institutions in Bosnia and Herzegovina (hereinafter: BiH) shall be banks. Credit institutions outside of BiH are defined in compliance with the regulations of the European Union (hereinafter: EU) or national legislation of that country.

17) **Institution** – in BiH shall mean a bank, and outside of BiH shall mean a credit institution and an investment company authorised in compliance with the relevant EU regulation or national legislation of that country.

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 EU regulations or national legislation of that country.

19) **Reinsurance 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. Reinsurance undertakings outside of BiH are defined in compliance with the EU regulations or national legislation of that country.

20) **Investment fund (CIU)** - a legal person defined in compliance with legislated

regulations in Republika Srpska and the Federation of BiH (hereinafter: FBiH) that regulate operations of CIUs. CIUs outside of BiH are defined in compliance with the EU regulations or national legislation of that country.

21) **Central government** – shall include state bodies and authorities of legislative, executive and judicial authorities financed from the state budget and that are, as such, defined by the competent authority – enactment of the relevant country. In BiH, only the term Council of Ministers of BiH shall be used.

22) **Central bank** - shall mean the Central Bank of Bosnia and Herzegovina (hereinafter: CBBiH), the European Central Bank, the central banks of the EU Member States and central banks of third countries.

23) **Regional governments and local authorities** – shall include the bodies that are, as such, defined by the competent authority – enactment of the relevant country and that are financed from their budgets. In BiH, it shall include the following authorities and bodies:

1. legislative and executive authorities of Republika Srpska, FBiH, and Brčko District of BiH
2. legislative and executive authorities of cantons,
3. municipal and city administration,
4. judicial authorities and judiciary of Republika Srpska, 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.

24) **Public sector entities (PSE)** – shall include the entities that are, as such, defined by the competent authority of the relevant country, and if such definition does not exist, then those shall mean the following:

1. non-commercial administrative entities responsible to central governments, regional governments or local authorities,
2. non-commercial legal entities 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).

25) **Multilateral development banks (MDB)** – legal entities 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 and social development of all state members, or only a selected group of state members.

26) **Asset Management Company** – shall mean a legal entity defined in compliance with legislated regulations in Republika Srpska and FBiH that regulate operations of asset management companies. Asset management companies outside of BiH shall be defined in compliance with the EU regulations or national legislation of that country.

27) **Financial sector entity** - shall mean 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 company with headquarters outside of BiH whose core activity is comparable with any entity listed in Items 1 - 10,

28) **Financial institution** – a legal entity that is not an institution and other than a sole industrial holding company, whose core activity is the acquisition of stock in capital or

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 unmatured receivables secured with financial instruments (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 related to the issuance of those securities;
10. management of clients' assets and advising in relation to that;
11. custodial deals with securities, as well as services of securities management;
12. counseling of legal entities relating to capital structure, business strategy, and similar issues, as well as the provision of services related to the 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 include investment company, financial holding, mixed financial holding, investment holding company and asset management company, but shall not include an insurance holding or a mixed insurance holding.

- 29) **Regulatory institution (competent authority)** – pursuant to Article 2, Paragraph 1, Item 5) of the Banking Law of Republika Srpska.
- 30) **Independent appraiser** – pursuant to Article 2, Paragraph 1, Item 11) of the Decision on credit risk management and determination of expected credit losses.
- 31) **Credit risk mitigation** (hereinafter: CRM) – a technique the bank uses to mitigate credit risk relating to exposure or exposures that the relevant bank has, which includes funded and unfunded credit protection.
- 32) **Funded credit protection** – a credit risk mitigation technique under which the mitigation of credit risk per exposure of the bank results from the right of that bank, in case of onset of the default status in liabilities of the counterparty or the onset of other specific credit events relating to the counterparty, to realize or transfer onto itself or take possession of or retain certain assets or amounts, or reduce the amount of exposure down to the amount of the balance between the amount of exposure and the amount of credit protection.
- 33) **Unfunded credit protection** – a credit risk mitigation technique under which the mitigation of credit risk per exposure of the bank results from the liability of the third party to pay a certain amount in case of onset of the default status in liabilities of the debtor or onset of other specific credit events.
- 34) **Cash assimilated instrument** – a certificate of deposit, a bond, including a covered bond or any other non-subordinated instrument issued by the bank or an investment company, for which the bank or an investment company was already paid in full and which the bank or an investment company would reimburse unconditionally at its nominal value.
- 35) **Marking to market** – valuation of items under immediately accessible closing prices

acquired from independent sources, such as prices from the stock exchanges.

- 36) **Market value of immovable property** – the estimated amount for which the property could be exchanged in an open and competitive market, where the interested buyer and the interested seller act reasonably and voluntarily, whereby each party is well informed and assuming that there is no undue influence on the price.
- 37) **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 space shall be deemed as residential real estate, if the mortgage was based on the garage, i.e. parking space, together with the family house, apartment, and accompanying parts of the apartment in condominium ownership that are intended for housing. A vacation house shall not be deemed as residential real estate.
- 38) **Commercial property** – a commercial building, business premises, garage, and garage/parking space, 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 mainly being used for those purposes. 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 space shall be deemed as commercial property if they are intended for the performance of business activity or are mainly used for that purpose, or if the mortgage was based on the garage, i.e. garage/parking space, 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 mainly used for that purpose.
- 39) **Defaulting exposures** – exposures for which one or both of the following conditions are fulfilled:
- 1) the debtor is late in repayment of overdue liabilities to the bank for more than 90 days in material amount,
 - 2) the bank considers it certain that the debtor will not fully settle its obligations to the bank without considering the possibility of collateral (Unlikeliness to pay – UTP).

The materially significant amount referred to in Item 1 of this Paragraph shall mean the total receivables due from:

- 1) private individual in the amount of more than 200 KM and 1% of total debtor balance sheet exposure, and
- 2) legal person in the amount of more than KM 1,000 and 1% of total debtor balance sheet exposure.

The bank shall determine the status of default for legal persons at the level of total receivables from that person. Exceptionally, in the case of exposures to private individuals, the bank may determine the default status at the level of an individual exposure and not at the level of the bank's total receivables from that individual person. Moreover, if the gross carrying amount of an exposure to the private individual in default status exceeds 20% of the total gross carrying amount of the exposure to that private individual, the default status on all exposures to that person shall be deemed to have occurred.

- 40) **Small and medium enterprises (SME)** – entities that are performing economic activities independently in order to generate profit through manufacturing, sale, or provision of services in the market, irrespective of their legal form. For the requirements of application of this Decision, entities may be deemed as a small and medium enterprise only if they meet the conditions under the Law on Accounting and Auditing in Republika Srpska.
- 41) **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.

42) **Credit risk adjustment** – the amount of book-recorded expected credit losses.

43) **External credit assessment institution, i.e. “ECAI”** – an agency for credit rating assessment that is registered or certified in compliance with the EU regulations on credit rating agencies.

44) **Nominated ECAI** – the ECAI nominated by the bank.

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

46) **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.

47) **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.

48) **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 include other types of loans secured by collateral in the form of securities.

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

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

51) **Financial instrument** – one of the following:

1. a contract from which financial assets result for one contractual party, and financial liabilities or an equity instrument for the other contractual party,
2. derivatives under Attachment 2 of this Decision,
3. any other financial instrument under Attachment 2 of this Decision,
4. primary financial instrument, 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 the primary (underlying) financial instrument or another underlying item, rate, or index.

52) **Financial derivatives** – a 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 it could be expected 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.

53) **Underlying instrument** – shall be a security or another instrument to which the financial derivative refers.

54) **Forward foreign-exchange contract** shall be a contract on purchase or sale of a certain amount of foreign currencies under advanced agreed price on advanced maturity contracted date (longer than two working days). A forward contract does not have a price that would need to be paid upon concluding the contract (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 forward price.

- 55) **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 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.
- 56) **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).
- 57) **Currency futures** – 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 maturity date in future.
- 58) **Swap agreement** – a contract between two parties on exchange of cash flows in the same or different currencies.
- 59) **Foreign currency (FX) swap** – a contract between two parties on exchange of specific amounts in different currencies, under advanced agreed exchange rates.
- 60) **Interest rate swap** – a contract between two parties on exchange of periodic payments of interest. It shall serve as a protection from interest rate risk. Swapping of interest rates shall imply the exchange of variable interest rates for fixed ones, and vice versa. The instrument shall serve for adjustment of asset and liability interest rate mismatch, protection of interest rate increase (exchange of a variable interest rate on a long-term loan for a fixed one), as well as potential reduction of interest rate expense (exchange of a fixed interest rate on a long-term loan for a variable one) in case of decline in reference interest rates (EURIBOR and similar).
- 61) **Option** – a contract that grants to the buyer the right to execute purchase, but not an obligation *per se* (call options) or to sell (put options) underlying asset under advanced agreed price on a certain date or within a certain timeframe. Options may represent independent instruments or may be embedded into certain other financial instruments.
- 62) **Call option** – a contract that grants to the buyer (call option holder) the right to, but not an obligation *per se*, buy a certain asset under advanced agreed fixed price or a price that may be calculated by using an agreed formula, on a certain date or within a certain timeframe.
- 63) **Put option** – a contract that grants to the buyer (put option owner) the right to, but not an obligation *per se*, sell a certain asset under advanced agreed fixed price or a price that may be calculated by using an agreed formula, on a certain date or within a certain timeframe.
- 64) **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.
- 65) **Warrant** – derivative securities that entitle the holder to purchase the underlying instrument by the date, or on the date of expiry of the warranty, under advanced agreed price.
- 66) **Hedge** – a financial technique for mitigation of risk of losses caused by fluctuation of value of the financial instrument in the market, i.e. 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.
- 67) **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.
- 68) **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 refers.

69) **Recognized stock exchange and recognized clearing house** – the stock exchange and clearing house indicated in Attachment 3 of this Decision.

70) **Stock exchange index** – a numerical indicator of developments in the prices of the index basket of securities at an individual stock exchange.

71) **Regulated market** – a multi-lateral system that is managed and/or governed by a market operator, and that facilitates and assists the merger of interests of third parties for purchasing and selling of financial instruments in compliance with its binding rules in a manner that leads to the conclusion of a contract on financial instruments embedded in trading under its rules and/or system, and which has an operating license and is operating in a regular and timely manner in compliance with relevant regulations.

72) **Market operator** – an entity that manages, i.e. governs the operations in a regulated market. Market operator may be the regulated market itself.

73) **Convertible securities** – securities that, based on the choice of the holder, may be exchanged for other securities.

74) **Repurchase transaction** – any transaction that is regulated under a repurchase agreement or a reverse repurchase agreement.

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

76) **Repurchase agreement and reverse repurchase agreement** – shall mean any agreement under which the bank or its counterparty is transferring securities or commodities or guaranteed rights that concern the right to ownership over securities or commodities, whereby 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 counterparty at the same time, with an obligation to repurchase the aforementioned securities or commodities or replacement securities or commodities that fit the same description at a price determined in advance, on a certain date in the future that is determined, or is yet to be determined by the entity performing the transfer, whereby, for the bank which is selling the securities, it shall mean a repurchase agreement, and for the bank that is buying thereof it shall mean a reverse repurchase agreement.

77) **Agreement on lending securities or commodities and borrowing securities and commodities** – shall mean all transactions under which the bank or counterparty 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 on a certain date in future or when that is requested by the person performing the transfer.

78) **Share index and its development** – an indicator of behavior of a specific share market. 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 the 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 by 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 the EU Member States shall have to be included into the list of covered bonds, which also includes the list of authorized issuers and the type of security instruments, which the members of the European Union are submitting to the European Union Commission, which submits those data to other members of the European Union.

80) **Market maker** – an entity operating 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 BiH and not a member of the EU.

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 additionally increase 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 additionally increase 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 collateral value.

87) **Investment firm** – for the purpose of this Decision it shall mean any legal entity whose ongoing operations are either the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis excluding credit institutions.

88) **Leverage** – the relative size of a bank's asset, off-balance sheet liabilities and contingent liabilities of the bank to pay or deliver or provide collateral, including liabilities from received funding, made commitments, derivatives or repurchase agreements, but excluding liabilities which can only be enforced during the liquidation of a bank in compliance with legislated regulations, compared to that bank's own funds.

89) **Speculative immovable property financing** – loans granted for the purposes of the acquisition of or development of a land, or construction on land in relation to immovable property, or for the acquisition of such property, and in relation with that property, with the intention of reselling for profit, where the repayment of the loan solely depends on the future sale of underlying property.

90) **Securities financing transaction** – a repurchase transaction, transactions of lending or borrowing securities or commodities to the counterparty or from the counterparty, and a margin lending transaction.

91) **Netting set** – a group of transactions between a bank and a single counterparty that is subject to a legally enforceable bilateral netting arrangement and each transaction that is not subject to a legally enforceable bilateral netting arrangement shall be treated as its own netting set.

92) **Minority interest** – the amount of Common Equity Tier 1 capital of a bank subsidiary that is attributable to private individuals or legal entities other than those included in the prudential scope of the bank consolidation.

CHAPTER II

REGULATORY CAPITAL AND CAPITAL REQUIREMENTS FOR BANKS

Regulatory capital (own funds)

Article 3

(1) Regulatory capital of a bank shall represent the amount of assets that the bank is obliged 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 capital of the bank shall represent the sum of Common Equity Tier 1 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 of the 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. When calculating own funds, the bank shall perform adjustments in compliance with Paragraph 2 of this Article relating to the 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 the 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, when calculating own funds, shall not include the following items:

- 1) the fair value reserves that refer to 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 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 derivatives of the bank, valued at fair value that onset as a result in the change of the credit rating of the bank itself, whereby the bank shall not offset the fair value profit or losses arising from the bank's own credit risk with those arising from its counterparty credit risk.

(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 117 of this Decision on all assets measured at fair value.

Common Equity Tier 1 items
Article 6

- (1) Common Equity Tier 1 items shall be:
- 1) capital instruments, if the requirements for recognition listed in Article 7 of this Decision are met,
 - 2) share premium accounts referring to the instruments of capital under Item 1 of this Paragraph,
 - 3) retained profit,
 - 4) accumulated other income,
 - 5) other provisioning,
 - 6) funds for general banking risks.
- (2) Retained profit, accumulated other income, other provisioning, and provisioning for general banking risks shall be recognized as Common Equity Tier 1 items 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 may be included in the Common Equity Tier 1 items – retained profit, if the following conditions are met:
- 1) that this profit was audited by an independent external auditor who obtained a 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.
- Exceptionally, 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 a prior approval of the Agency. The bank shall, when submitting the request for the issuance of the prior approval, be obliged to submit to the Agency evidence:
- 1) that this profit was verified by an independent external auditor who received a 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) Capital instruments that meet the conditions under Article 7 of this Decision may be included in the 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) Capital instrument referred to in Article 6, Paragraph 1, Item 1 shall be recognized as the Common Equity Tier 1 instrument only if all the following conditions are met:
- 1) the bank is issuing the instrument directly in compliance with a prior implemented procedure, stipulated by legislated regulations in Republika Srpska, the by-laws of the Agency, founding and other internal enactments of the bank;
 - 2) the instrument is paid in full, and the acquisition of ownership of that instrument, directly or indirectly, is not funded by the bank, whereby only the part of the capital instrument that is paid in full is eligible as the Common Equity Tier 1 instrument;
 - 3) the instrument meets all the following conditions in connection with its classification:

1. it qualifies as equity capital in compliance with legislated regulations of Republika Srpska,
2. it is classified as equity capital in the context of the applicable accounting framework,
3. it is classified as equity capital for the purpose of determination of insolvency or liquidation of the bank when that is applicable in compliance with legislated regulations governing insolvency or liquidation;
- 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 stipulated conditions for reduction of regulatory capital, if that is applicable pursuant to current legislated regulations and if the bank has obtained a 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 repaid, 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 hierarchy of distribution, nor in relation to other Common Equity Tier 1 instruments,
 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 when issuing,
 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 the default status 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 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 receivables 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 receivables 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 is closely connected with the entities listed under Sub-items 1-5;

- 13) the instrument is not subject to any contractual or other agreements that would improve the subordinated status of the claims on the basis of the instrument in case of insolvency or liquidation.
- (2) Notwithstanding Paragraph 1, Item 6 of this Article, the principle of instrument may be reduced in the bank resolution procedure or due to the reduction in the value of capital instrument upon an order of the bank resolution authority.
- (3) Notwithstanding Paragraph 1, Item 7 of this Article, the provisions that regulate instruments may specify, explicitly or implicitly, that the principal of the instrument may be reduced in the bank resolution procedure or due to the reduction in the value of capital instrument upon an order of the bank resolution authority.

Consequences of the cessation of meeting the conditions for recognition of Common Equity Tier 1 instruments
Article 8

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

- 1) that instrument shall immediately cease to meet the conditions for Common Equity Tier 1 instrument,
- 2) share premium accounts that refer to such instrument shall immediately cease to qualify as Common Equity Tier 1 item.

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 previous 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) direct or indirect holdings of the bank into its own Common Equity Tier 1 instruments (for example, repurchased 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 this entity has 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 bank own funds in compliance with laws and by-laws,
 - 8) the amount of direct or indirect holdings of the bank in Common Equity Tier 1 instruments of a financial sector entity, if the bank has a significant holding in that entity, in compliance with Article 12 of this Decision,
 - 9) the amount of direct or indirect holdings of the bank in Common Equity Tier 1 instruments of a financial sector entity, if the bank does not have a significant holding in that entity, in compliance with Article 13 of this Decision,
 - 10) the amount of items that, in compliance with Article 19, Paragraph 1 of this Decision need to be deducted from items of Additional Tier 1, which exceeds the Additional Tier 1 of the bank,

- 11) the amount of the qualifying holding/share in a legal entity outside of the financial sector. If the bank opts not to disclose this item as a deductible item from capital, it shall be obliged to assign the risk weight of 1.250% to the relevant exposure,
 - 12) free deliveries in compliance with Article 104, Paragraph 2 of this Decision. If the bank opts not to disclose this item as a deductible item from capital, it shall be obliged to assign the risk weight of 1.250% to the relevant exposure,
 - 13) the amount of exposure arising from the securitization operations. If the bank opts not to disclose this item as a deductible item from capital, it shall be obliged to assign the risk weight of 1.250% to the relevant exposure.
- (2) The bank shall implement deductions of bank holdings in the Common Equity Tier 1 instruments on the basis of gross principle, and the exemptions for application of the net principle may be stipulated by the Agency through a separate by-law, pending the fulfillment of conditions.

Deduction from intangible assets

Article 10

- (1) 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 related deferred tax liability that would cease to exist if the intangible assets were reduced or were ceased to be recognized in compliance with the applicable accounting framework,
 - 2) the amount being deducted shall cover the goodwill that is included in the valuation of significant bank holdings,
 - 3) the amount being deducted shall be reduced by the amount of the accounting revaluation of the subsidiaries' intangible assets derived from the consolidation of subsidiaries attributable to entities other than the undertakings included in the prudential scope of consolidation, given the provisions of Articles 34 and 35 of this Decision.
- (2) The exemption from Paragraph 1 of this Article, shall be prudently valued software assets, the value of which is not negatively affected by resolution, insolvency or liquidation of the bank, and the calculation of which shall be stipulated by the Agency's separate enactment.

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 related 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 relevant deferred tax funds with related deferred tax liabilities, in compliance with Items 1 and 2 of this Paragraph.
- (4) Related deferred tax liabilities of the bank 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 the own funds and shall be assigned the risk weight in compliance with Chapter IV of this Decision, that relates to the calculation of capital

requirements for credit risk according to the standardized approach:

- 1) prepayment of the bank taxes 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 of the following conditions are met:
- 1) in case the bank discloses a loss once the stipulated procedure for adoption of an annual financial statement of the bank is adopted, or in the case of liquidation or insolvency of the bank, it shall be, without any delay, automatically and mandatorily replaced with a receivable of the bank based on taxes,
 - 2) in case the bank, in compliance with tax regulations, has the option of netting the receivables 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 a consolidated basis,
 - 3) when the amount of receivables 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 receivable from the central government or 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 holding in financial sector entities

Article 12

For the purpose of deduction, the bank shall have a significant holding 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 related to that 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, whereby the entity is not included in consolidation for the requirements of supervision, but it is included in the accounting consolidation as the bank is also, for the requirements of financial reporting in compliance with the applicable accounting framework.

Deduction of holding in Common Equity Tier 1 instruments when the bank has no significant holding in financial sector entities

Article 13

(1) If a bank has no significant holding in financial sector entities, the total amount of holding in Common Equity Tier 1 instruments 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 holdings in instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 that exceed 10% of Common Equity Tier 1 of the bank, is multiplied by the ratio of direct and indirect holdings of the bank in instruments of Common Equity Tier 1 of those entities and total direct and indirect holdings in all capital instruments of those entities.

(2) The portion of the total amount of direct and indirect holdings in instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 of financial sector entities in which the bank has no significant holding 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 holdings that corresponds to them in compliance with the standardized approach for calculation of capital requirements for credit risk.

(3) The total amount of holdings 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 by the proportion of each Common Equity Tier 1 instrument held of the total amount of the bank's direct and indirect holdings in Common Equity Tier 1 instruments of financial sector entities in which the bank has no significant holdings.

(4) For the requirements of Paragraphs 1 and 3 of this Article, the Common Equity Tier 1 shall be calculated so that the sum of items of the 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, 12 and 13 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

(1) For the purposes of calculating own funds on an individual basis and a sub-consolidated basis, the bank subject to consolidation for the requirements of supervision, when calculating capital, shall not deduct holdings of instruments of own funds of financial sector entities included in the scope of consolidated supervision, unless the Agency determines that such deductions are required for specific purposes, such as structural separation of banking activities or resolution planning.

(2) For the requirements of calculation of own funds on individual, sub-consolidated or consolidated basis, the Agency may, based on a legislated regulation governing the supervision on consolidated basis, stipulate by a special by-law additional conditions on the basis of which the banks will be allowed not to perform, during the calculation of capital, deduction of holdings in instruments of own funds of the financial sector entity in which the parent company of the credit institution, the parent financial holding or the parent mixed financial holding have a significant holding.

Additional Tier 1 (AT1) Article 15

Additional Tier 1 of the bank shall comprise of items of Additional Tier 1 referred to in Article 16 of this Decision 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) Additional Tier 1 items 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 directly issued by a bank and fully paid up, whereby only the portion of the capital instrument that is fully paid up is eligible as Additional Tier 1 instrument;

- 2) the instruments are not owned by any of the following entities:
 1. the bank or its subsidiaries,
 2. an undertaking in which the bank has an ownership share, directly or indirectly through control over 20% or more of voting rights or capital of that undertaking;
- 3) the acquisition of ownership of the instruments, directly or indirectly, is not funded by the bank;
- 4) the instruments are subordinated compared to the instruments of Tier 2 in case of bankruptcy of the bank;
- 5) the instruments are not secured or covered by a guarantee that would improve the subordinated status of claims on the part of any of the following entities:
 1. the bank or its subsidiaries,
 2. the parent company of the bank or its subsidiaries,
 3. the parent financial holding or its subsidiaries,
 4. the mixed holding or its subsidiaries,
 5. the mixed financial holding or its subsidiaries,
 6. any companies closely related to 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 early redemption options, including call options, such options 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 stipulated for the reduction of own funds in compliance with Article 29 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 governing the instruments do not indicate explicitly or implicitly that the instruments would be called, redeemed or repurchased by the bank, other than in the case of the insolvency or liquidation of the bank, and the bank does not otherwise provide such an possibility;
- 11) the bank does not indicate, explicitly or implicitly, that the competent body would consent to a request to call, redeem or repurchase 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 right 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. cancellation of distribution by instrument does not constitute an event of default of the bank,
 5. the bank has no limitations for cancellation 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) the 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) the instruments are not subject to set-off or netting arrangements that would undermine their capacity to absorb losses.
- (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) the requirement for distribution by instruments in case the distribution is performed upon the instrument that is issued by the bank and that is equally ranked or subordinated compared to the Additional Tier 1 instrument, including the Common Equity Tier 1 instrument,
 - 2) the 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) Capital instruments 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 relation to 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 ratio of Common Equity Tier 1 of the bank, referred to in Article 38 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 the triggers, in addition to the ones indicated in Item 1 of this Paragraph;
 - 3) if the provisions that regulate the instruments require their conversion into the Common Equity Tier 1 instruments upon the onset of the event that is the trigger, those provisions should indicate in more detail one of the following:
 1. the ratio of such conversion and the limitation for the amount allowed for conversion,
 2. the span within which the instruments would be converted into the Common Equity Tier 1 instruments;
 - 4) if the provisions that regulate the instruments require that upon the onset of the event that is the trigger, the value of their principal is reduced, the following shall be reduced upon the reduction in value:
 1. receivable of the owner of the instrument in case of insolvency or liquidation of the bank,
 2. the amount that should be paid up in case of execution of the call option or redemption of the instrument,
 3. distribution under the instrument.
- (2) Where the Additional Tier 1 instruments have been issued by a subsidiary undertaking in the EU or third country, the trigger amounting to 7.687% or higher, referred to in Paragraph 1, Item 1 of this Article, shall be calculated in accordance with the national law of that country or contractual provisions, provided that the Agency confirmed minimum requirements of

compliance of those regulations or contractual provisions.

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

(4) 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 the Common Equity Tier 1 that would onset when the value of the principal of the Additional Tier 1 instrument would be written down or converted into the Common Equity Tier 1 instruments.

(5) The total amount of Additional Tier 1 instruments whose value needs to be written down or converted upon the onset of an event that is the trigger, shall not be lower than the following two amounts:

- 1) the amount required to fully restore the Common Equity Tier 1 ratio of the bank to 7.687%,
- 2) the total principal of the instrument.

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

- 1) inform the Agency immediately,
- 2) inform the owners of Additional Tier 1 instruments,
- 3) write down the value of the principal of the instruments or convert the instruments into the Common Equity Tier 1 instruments without any delay, but no later than within one month, in compliance with the requirement of this Article.

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

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

Consequences of ceasing to meet the conditions for Additional Tier 1 instruments

Article 18

In case of Additional Tier 1 instrument ceasing to meet the stipulated conditions for the 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 the items of Additional Tier 1:

- 1) direct and indirect holdings 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 based on the existing contracts,
- 2) direct and indirect holdings in the 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 holdings of the bank into Additional Tier 1 instruments of financial sector entities, if the bank does not have a significant holding in those entities, where the amount shall be calculated in compliance with Article 20 of this Decision,
 - 4) the amount of direct and indirect holdings of the bank into Additional Tier 1 instruments of financial sector entities, if the bank has a significant holding in those entities, excluding positions that as the sponsor of the issuance 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 Tier 2 which exceeds the Tier 2 of the bank,
 - 6) tax liabilities related 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 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 holdings of the bank into instruments of Additional Tier 1 on the basis of the gross principle, and exceptions for the application of the net principle, the Agency may stipulate by a separate by-law, along with meeting the relevant conditions.

Deductions of holdings into instruments of Additional Tier 1 when the bank has no significant holding in financial sector entities

Article 20

- (1) If the bank has no significant holding in financial sector entities, the total amount of holdings into the instruments of Additional Tier 1 of those entities that shall be deducted from the Additional Tier 1 of the bank shall be calculated so that the portion of the total amount of direct and indirect holdings into the instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 that exceeds 10% of the Common Equity Tier 1 of the bank is multiplied by the ratio of direct and indirect holdings of the bank into the instruments of Additional Tier 1 of those financial sector entities and total direct and indirect holdings into all capital instruments of those entities.
- (2) The portion of the amount of direct and indirect holdings into the instruments of Common Equity Tier 1, Additional Tier 1 and Tier 2 of financial sector entities in which the bank has no significant holding that is lower or equal to 10% of the Common Equity Tier 1 of the bank, shall not be deducted from the capital, but instead the risk weight shall be applied to those holdings that corresponds to them in compliance with the standardized approach for the calculation of capital requirement for credit risk.
- (3) The total amount of holdings into the instruments of Additional Tier 1 of financial sector entities in which the bank has no significant holding 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 by the proportion of each AT 1 instrument held of the total amount of the bank's direct and indirect holdings in AT 1 instruments of financial sector entities in which the bank has no significant holdings.
- (4) For the requirements referred to in Paragraphs 1 and 3 of this Article, the Common Equity Tier 1 shall be calculated so that the sum of items of the 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, 12 and 13 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 under Article 22 of this Decision 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, if the conditions are met as stipulated 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 53 of this Decision,

(2) Capital instruments shall meet the conditions for Tier 2 capital instruments if the following conditions are met:

- 1) the instruments are directly issued by the bank and fully paid up, whereby only that part of the capital instrument that is fully paid up is eligible as Tier 2 capital instrument;
- 2) the instruments are not owned by any of the following entities:
 1. the bank or its subsidiaries,
 2. an undertaking 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 undertaking;
- 3) the acquisition of ownership over the instruments is not funded directly or indirectly by the bank;
- 4) the receivables on the principal amount of the instruments, under the provisions governing that instruments, are subordinated in relation to the receivables by instruments which are eligible liabilities;
- 5) the instruments are 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 subsidiaries,
 2. the parent company of the bank or its subsidiaries,
 3. the parent financial holding or its subsidiaries,
 4. the mixed holding or its subsidiaries,
 5. the mixed financial holding or its subsidiaries,
 6. any company that is closely related to the entities referred to in Sub-items 1 - 5;
- 6) the provisions of contracts that regulate instruments do not contain a provision which, in any manner, may improve the status of subordination of receivables on the basis of that instrument;
- 7) the instruments have the initial maturity period of at least five years;
- 8) the provisions that regulate the instruments do not include any incentive for the bank to redeem or repay their principal before maturity;
- 9) where the instruments include one or more early repayment options, including call options, the options are exercisable at the sole discretion of the issuer, taking into account the fulfillment of condition under Item 10 of this Paragraph;
- 10) the instruments may be called, redeemed, or repurchased only where the conditions, stipulated for the reduction of own funds, set out in Article 29 of this Decision are met, and not before five years after the date of issuance, except where the conditions set out in Article 30, Paragraph 3 of this Decision are met;

- 11) the provisions governing the instruments do not define explicitly or implicitly that the instruments can be called, redeemed, repurchased or repaid before the contractual maturity date of them, nor accelerate the future scheduled payment of interest or principal, other than in the case of the insolvency or liquidation of the bank, and the bank does not otherwise provide such an indication;
 - 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) the instruments are not subject to set-off or netting arrangements that would undermine their capacity to absorb losses.
- (3) Capital instruments that meet the conditions under Paragraph 2 of this Article may be included in Tier 2 capital only after the bank receives a prior approval of the Agency.

Amortization of Tier 2 capital instruments **Article 23**

- (1) The full amount of Tier 2 instruments with a residual maturity of more than five years shall qualify as Tier 2 capital instruments.
- (2) The amount of item of Tier 2 capital 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 carrying amount of the instrument on the first day of the final five-year period of their contractual maturity divided by the number of calendar days in that period,
 - 2) the number of remaining calendar days of contractual maturity of the instrument.

Consequences of ceasing to meet the conditions for Tier 2 capital instruments **Article 24**

- (1) In case that the 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 qualify as the Tier 2 capital instrument,
 - 2) the part of the share premium accounts that relate to that instrument shall immediately cease to qualify as the Tier 2 capital item.

Tier 2 capital – Regulatory adjustments **Article 25**

- (1) The following shall be deducted from the items of Tier 2 capital:
 - 1) direct or indirect holdings by the bank in own Tier 2 capital instruments, including own Tier 2 capital instruments that the bank could be obliged to purchase as a result of existing contractual obligations,
 - 2) direct or indirect holdings in the 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 own funds,
 - 3) the amount of direct and indirect holdings of the bank in Tier 2 capital instruments of financial sector entities, if the bank in those entities has no significant holding, determined in compliance with Article 26 of this Decision,
 - 4) the amount of direct and indirect holdings of the bank in Tier 2 capital instruments of financial sector entities, if the bank in those entities has a significant holding, 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 holdings of the bank in Tier 2 capital instruments on the gross principle basis, and exceptions for application of the net principle the Agency may stipulate by a separate by-law, along with meeting the relevant conditions.

Deductions from holdings in Tier 2 capital instruments when the bank has no significant holding in financial sector entities

Article 26

(1) If a bank has no significant holding in financial sector entities, the total amount of holding in Tier 2 capital instruments of those entities, that shall be deducted from the Tier 2 capital of the bank, shall be calculated so that the portion of the total amount of direct and indirect holdings 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 by the ratio of direct and indirect holdings of the bank in Tier 2 capital instruments of those financial sector entities and total direct and indirect holdings in all capital instruments of those entities.

(2) The portion of the total amount of direct and indirect holdings in instruments of Common Equity Tier 1, Additional Tier 1, and Tier 2 capital of financial sector entities in which the bank has no significant holding, which is lower than 10% of Common Equity Tier 1 of the bank or is equal to it, shall not be deducted from the capital but, instead, a risk weight shall be applied to those holdings that corresponds to them in compliance with the standardized approach for calculation of capital requirement for credit risk.

(3) The total amount of holdings in Tier 2 capital instruments 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 by the proportion of each Tier 2 instrument held of the total amount of the bank's direct and indirect holdings in Tier 2 instruments of financial sector entities in which the bank has no significant holdings.

(3) 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, 12 and 13 of this Decision, and an adjustment is performed in compliance with Article 5, Paragraphs 2 and 3 of this Decision.

Distribution by 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 the instrument of own funds, shall not meet the conditions for instruments of Common Equity Tier 1, Additional Tier 1, or Tier 2 capital, without 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 relation to the instrument,
- 2) that would not have an adverse effect on the capacity of the capital instrument to cover the losses,
- 3) that would not in any other way reduce the quality of capital instrument.

(3) Capital instruments in relation to 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 the instrument of own funds, shall not meet the conditions for instruments of Common Equity Tier 1, Additional Tier 1, or Tier 2 capital.

Holdings in capital instruments of financial sector entities under supervision and not meeting the conditions for own funds

Article 28

The bank shall not deduct from any of the elements of own funds direct and indirect holdings 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 own funds of that entity. The bank shall apply appropriate risk weights to such holdings 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 obliged to request from the Agency a prior approval for any of the following activities:

- 1) reduce, redeem or repurchase Common Equity Tier 1 instruments issued by the bank in a in compliance with applicable legislation,
- 2) reduce, distribute or reclassify the share premium accounts related to own funds instruments into another form of own funds;
- 3) execute the call, redemption, repayment or repurchase option of Additional Tier 1 or Tier 2 capital instrument prior to the date of their contractual maturity.

Supervisory approval for reduction of own funds

Article 30

(1) The Agency shall issue an approval to the bank to reduce, repurchase, redeem, early repay or execute the call option for Common Equity Tier 1, Additional Tier 1 or Tier 2 capital instruments, and an approval to reduce, distribute or reclassify share premium accounts related to those instruments of own funds, where either of the following conditions is met:

- 1) if the bank, before or in the moment of execution of the activity that concerns reduction of own funds in compliance with conditions stipulated under Article 29, Itmes 1-3 of this Decision, replaces those instruments or share premium accounts related to those own funds instruments of the equal or higher quality at terms that are sustainable for the capacity of the bank to generate profit,
- 2) if the bank proves to the Agency that the own funds of the bank, following the execution of the relevant activity, would exceed the stipulated capital requirements defined under Article 38 of this Decision, the requirement for the combined buffer defined under Article 45 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 consider 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 capital instruments or share premium accounts that would be replaced.

(3) The Agency may allow the bank to call, redeem, repay or repurchase Additional Tier 1 or Tier 2 capital instruments or related share premium accounts during the five years following their date of issuance where the conditions set out in Paragraph 1 of this Article and one of the following conditions is 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 own funds 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 instrument issuance,
- 3) if the bank, before or in the moment of execution of the activity referred to in Article 29, replaces the capital instruments or share premium accounts related to own funds instruments of equal or higher quality, at terms that are sustainable for the capacity of the bank to generate profit and the if Agency has permitted such activity on the basis of the conclusion that it would be beneficial from a prudential point of view and justified by exceptional circumstances;
- 4) the Additional Tier 1 or Tier 2 capital instruments are repurchased for market making purposes, the Agency may, provided that conditions are met, stipulate subsequently.

Temporary waiver of deductions from own funds

Article 31

- (1) If the bank is temporarily holding capital instruments which meet the conditions for own fund instruments in a financial sector entity, and the regulatory authority, in compliance with the legislated regulation, considers that as an investment for the purposes of a financial assistance designed to reorganise and restore the sustainability of that entity, the Agency may allow temporary waiver from provisions on deduction that would otherwise relate to those instruments.
- (2) In relation to the application of Paragraph 1 of this Article, the Agency shall act in compliance with the legislated regulation governing the procedure of financial assistance for the purpose of reorganization and restoring the sustainability of the financial sector entity.

Requirement for own funds

Article 32

Own funds of the bank must not fall below the amount of paid founding capital which is, in compliance with the provisions of the legislated regulation, required in the procedure of operating license issuance.

Continuous quality assessment of own funds

Article 33

The Agency shall perform continuous assessment of quality of own funds in compliance with laws or by-laws.

Minority interests that qualify for inclusion in consolidated Common Equity Tier 1 capital

Article 34

- (1) Minority interests shall comprise of the sum of Common Equity Tier 1 items of a subsidiaries, where the following conditions are met:
 - 1) the subsidiary is one of the following entities:
 1. an institution;
 2. an intermediary financial holding company or intermediary mixed financial holding company that is subject to the prudential requirements for credit institutions in EU on a sub-consolidated basis, or an intermediary investment holding company that is subject to the prudential requirements for investment firms in EU on a consolidated basis;
 3. an investment firm;

4. an intermediary financial holding company in a third country, provided that such financial holding company is subject to the prudential requirements as stringent as those applied to credit institutions of that third country and provided that the European Commission has adopted a decision that those prudential requirements are approximately equivalent to those applicable in the EU;
 - 2) the subsidiary is included fully in the consolidation for supervision purposes;
 - 3) the Common Equity Tier 1 items, referred to in the introductory part of this Paragraph, are owned by entities other than the undertakings included in the consolidation for the supervision purposes.
- (2) Minority interests that are funded directly or indirectly, by the parent undertaking of the bank, or its subsidiaries, shall not qualify as consolidated Common Equity Tier 1 capital.
 - (3) Qualifying Additional Tier 1, Tier 1, Tier 2 capital and qualifying own funds shall include the minority interest, Additional Tier 1 or Tier 2 capital instruments, plus the related share premium accounts of subsidiaries, where the conditions set out in Paragraph 1, Items 1 and 2 of this Article are met, and if the stated items of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital are owned by entities other than the undertakings included in the consolidation for the supervision purposes.

Minority interests included in consolidated Common Equity Tier 1 capital

Article 35

- (1) The bank may, for the subsidiaries referred to in Article 34, Paragraph 1, Item 1, determine the calculation of the amount of minority interests that are included in the consolidated Common Equity Tier 1 capital.
- (2) The amount of minority interests of a subsidiary that is included in the consolidated Common Equity Tier 1 capital is determined by subtracting from the minority interests of that undertaking the result of multiplying the amount referred to in Item 1 by the percentage referred to in Item 2 as follows:
 - 1) the Common Equity Tier 1 capital of the subsidiary minus the lower of the following amounts:
 1. the amount of Common Equity Tier 1 capital of the subsidiary required to meet the following:
 - required Common Equity Tier 1 capital ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Common Equity Tier 1 capital,
 - where the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by Common Equity Tier 1 capital;
 2. the amount of consolidated Common Equity Tier 1 capital that relates to that subsidiary, which is required on a consolidated basis to meet required Common Equity Tier 1 capital ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Common Equity Tier 1 capital,
 - 2) the minority interests of the subsidiary expressed as a percentage of all Common Equity Tier 1 capital items of that undertaking.
- (3) The calculation referred to in Paragraph 1 and 2 of this Article shall be performed on a sub-consolidated basis for each subsidiary referred to in Article 34, Paragraph 1, Item 1.
- (4) In case the bank decides not to perform this calculation as referred in this Article, the minority interest of that subsidiary may not be included in consolidated Common Equity Tier 1 capital.

Qualifying Tier 1 instruments included in consolidated Tier 1 capital
Article 36

(1) The amount of qualifying Tier 1 capital of a subsidiary that is included in consolidated own funds shall be calculated by subtracting from the qualifying Tier 1 capital of that undertaking the result of multiplying the amount referred to in Item 1 by the percentage referred to in Item 2 as follows:

- 1) the Tier 1 capital of the subsidiary minus the lower of the following amounts:
 1. the amount of Tier 1 capital of the subsidiary required to meet the following:
 - required Tier 1 capital ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Tier 1 capital,
 - if the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by Tier 1 capital;
 2. the amount of consolidated Tier 1 capital that relates to the subsidiary, which is required on a consolidated basis to meet required Tier 1 capital ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH insofar as those requirements are to be met by Tier 1 capital,
- 2) the qualifying Tier 1 capital of the subsidiary expressed as a percentage of all Tier 1 capital items of that undertaking.

(2) The calculation referred to in Paragraph 1 of this Article shall be performed on a sub-consolidated basis for each subsidiary referred to in Article 34, Paragraph 1, Item 1.

(3) In case the bank decides not to perform the calculation in compliance with this Article, the qualifying Tier 1 capital of that subsidiary may not be included in consolidated Tier 1 capital.

(4) The bank shall determine the amount of qualifying Tier 1 capital of the subsidiary that is included in consolidated Additional Tier 1 capital, by subtracting from the qualifying Tier 1 capital of that undertaking, included in consolidated Tier 1 capital, the minority interests of that undertaking that are included in consolidated Common Equity Tier 1 capital.

Qualifying instruments of own funds included in consolidated own funds
Article 37

(1) The amount of qualifying own funds of a subsidiary that is included in consolidated own funds shall be calculated by subtracting from the qualifying own funds of that undertaking the result of multiplying the amount referred to in Item 1 by the percentage referred to in Item 2 as follows:

- 1) the own funds of the subsidiary minus the lower of the following amounts:
 1. the amount of own funds of the subsidiary required to meet the following:
 - required own fund ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH,
 - where the subsidiary is an investment firm, the sum of all requirements insofar as those requirements are to be met by own funds;
 2. the amount of own funds that relates to the subsidiary, that is required on a consolidated basis, to meet the required own fund ratio, additional capital requirements based on supervisory assessment, requirements for combined buffer and all additional supervisory regulations in countries outside BiH,
- 2) the qualifying own funds of the undertaking, expressed as a percentage of the sum of all own funds items of that undertaking, excluding the general credit risk adjustments of up to 1.25% of risk-weighted exposure amount referred to that undertaking.

- (2) The calculation referred to in Paragraph 1 of this Article shall be performed on a sub-consolidated basis for each subsidiary referred to in Article 34, Paragraph 1, Item 1.
- (3) In case the bank decides not to perform the calculation in compliance with this Article, the qualifying own funds of that subsidiary may not be included in consolidated own funds.
- (4) The bank shall determine the amount of qualifying own funds of the subsidiary, that is included in consolidated Tier 2 capital, by subtracting from the qualifying own funds of that undertaking, included in consolidated own funds, the qualifying Tier 1 capital of that undertaking that is included in consolidated Tier 1 capital.

Capital requirements for banks
Article 38

- (1) Acting in compliance with Article 32 of this Decision and stipulated requirements in relation to divergence for small scale operations under the trading book, referred to in Article 39 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 own funds of 12%,
 - 4) the leverage ratio of 6%.
- (2) The bank shall calculate the capital ratios stipulated in Paragraph 1, Items 1-3 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 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 own funds shall be the ratio of own funds 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 - 6 of this Paragraph upon complying with the provisions under Paragraph 4 of this Article:
 - 1) the 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 104 of this Decision, for all business activities of the bank, except for the amounts of risk weighted exposures for activities from the bank trading book;
 - 2) the capital requirements for activities from the bank trading book for the following:
 1. market risk in accordance with Chapter IX of this Decision,
 2. large exposures that exceed the limitations defined under the Decision on large exposures;
 - 3) the capital requirements determined in compliance with the provisions from the part of this Decision relating to the market risk for all business activities that are subject to capital requirement calculation:
 1. foreign exchange risk,
 2. commodity risk;
 - 4) the capital requirements for settlement risk, in accordance with Chapter VII of this Decision, with the exception of Article 104 of this Decision;
 - 5) the capital requirements for operational risk, in compliance with Chapter VIII of this Decision;
 - 6) the amount of risk weighted exposure determined in compliance with Article 50 and 51 of this Decision relating to the calculation of capital requirements for counterparty credit risk, which derives from the activities from the trading book and relates to derivatives under Attachment 2 of this Decision, repurchase transactions, transactions of borrowing securities or commodities to the counterparty or by the counterparty on the basis of securities or commodities, transactions with long settlement period, and margin loans.

(4) The following provisions shall apply when calculating the total amount of exposure under Paragraph 3 of this Article:

- 1) the capital requirements referred to in Paragraph 3, Items 3 and 5 shall include those risks deriving from all bank business activities,
- 2) the banks shall multiply the capital requirements referred to in Items 2 - 5 of that Paragraph with 8.33.

(5) The calculation of capital requirements, in compliance with the provisions of this Decision, shall be subjected to an independent review by internal and external audit, and in compliance with the laws and by-laws regulating the function of internal and external audit in banks.

Derogation from capital requirements for small scale trading book business activities **Article 39**

(1) By way of derogation from Article 38, Paragraph 3, Item 2 of this Decision, the bank may calculate the capital requirements for the bank trading-book business activities in accordance with Paragraph 2 of this Article, provided that the volume of its on- and off-balance-sheet trading-book business activities is equal to or less than both of the following thresholds, on the basis of an assessment carried out on a monthly basis using the data as of the last day of the month:

- 1) 5% of the bank's total assets,
- 2) 50 million EUR (or equivalent in local currency).

(2) Where both conditions set out in Paragraph 1 of this Article are met:

- 1) the bank may exempted the derivatives listed in Attachment 2, Item 1, and derivatives related to equity investments from Items 3-8 of Attachment 2 of this Decision from the calculation of the capital requirement for the trading book business activities referred to in Article 38, Paragraph 3, Item 2,
- 2) for trading book positions other than those referred to in Item 1 of this Paragraph, the bank may replace the capital requirement for the trading book business activities with the calculated capital requirement for credit risk.

(3) For the purposes of Paragraph 1, the bank shall calculate the volume of on- and off-balance-sheet trading book business activities on the basis of data as of the last day of each month, in accordance with the following requirements:

- 1) all positions assigned to the trading book in accordance with Article 116 of this Decision shall be included in the calculation, except for the positions relating to foreign currencies and commodities;
- 2) all positions included in the calculation in accordance with Item 1 of this Paragraph shall be valued at their market value on a given date. Where the market value of the position is not available on a given date, the bank shall use a fair value for that position on that date. Where the market value and fair value of the position are not available on a given date, the bank shall use the most recent market value or fair value for that position;
- 3) the absolute value of long positions shall be summed with the absolute value of short positions.

(4) Where the conditions set out in Paragraph 1 of this Article are met, Article 114, Paragraph 5 and Article 115 of this Decision shall not apply.

(5) The bank shall notify the Agency when calculating, or ceases to calculate the capital requirements for its business activities from the trading-book in accordance with Paragraph 2 of this Article.

(6) The bank that no longer meets one or both of the conditions set out in Paragraph 1 of this Article, shall immediately notify the Agency thereof.

(7) The bank shall cease to calculate the capital requirements for its business activities from the trading-book in accordance with Paragraph 2 of this Article within three months from the occurrence of one of the following events:

- 1) the bank does not meet the condition 1. or 2 set out in Paragraph 1 of this Article for three consecutive months;
 - 2) the bank does not meet the condition 1. or 2 set out in Paragraph 1 of this Article during more than 6 out of the last 12 months.
- (8) Where the bank has ceased to calculate the capital requirements for its business activities from the trading-book, in accordance with this Article, it shall only be permitted to re-calculate the capital requirements for its business activities from the trading-book in accordance with this Article if it demonstrates to the Agency that all the conditions set out in Paragraph 1 of this Article have been met for an uninterrupted full-year period.
- (9) The bank shall not enter into, buy or sell a trading-book position for the sole purpose of complying with any of the conditions set out in Paragraph 1 of this Article during the monthly assessment.
- (10) As an exception, the Agency may adopt a decision in which it shall require from the bank to calculate the capital requirements for market risk even if the bank does not exceed the limits under Paragraph 7 of this Article.

Reporting on capital requirements and financial information

Article 40

- (1) The bank shall be obliged to report to the Agency on calculation of the capital requirements referred to in Article 38 of this Decision in compliance with the by-law that regulates in more detail singular templates, the frequency, and the reporting dates.
- (2) The Agency may also require from the bank additional reports on financial information that are necessary for acquiring a full review of the bank risk profile, and stipulate other special requirements for reporting.

CHAPTER III

LEVERAGE, CAPITAL BUFFERS AND CAPITAL CONSERVATION MEASURES

1. Leverage

Calculating leverage ratio

Article 41

- (1) The bank shall calculate the leverage ratio referred to in Article 38, Paragraph 1, Item 4 of this Decision in compliance with the methodology stipulated in Paragraphs 2 - 12 of this Article.
- (2) The leverage ratio shall be calculated in such a manner that the measure of bank capital shall be divided by the measure of bank total exposure, and then the resulting ratio shall be expressed in percentages. The bank shall calculate the 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,
 - 2) derivatives under Paragraph 10 of this Article,
 - 3) add-ons for counterparty credit risk of securities financing transactions, in accordance with Paragraph 11 of this Article;
 - 4) off-balance sheet items under Paragraph 12 of this Article.
- (5) For the purposes of Paragraph 4, Item 1 of this Article, exposure value of assets is the one defined in Article 49 Paragraph 1 of this Decision, and securities financing transactions shall not

be netted, except in the case of meeting all conditions listed in Article 60, Paragraph 2 of the Decision on liquidity risk management.

(6) By way of derogation from Paragraph 4, Item 4 of this Article, an off-balance-sheet item treated as derivative in accordance with the applicable accounting framework, shall be treated as derivative in accordance with Paragraph 4, Item 2 of this Article;

(7) The bank shall calculate the measure of total exposure in accordance with the following principles:

1) credit risk mitigation techniques shall not be used to reduce the measure of total exposure;

2) netting of asset and liabilities shall not be allowed.

(8) By way of derogation from Paragraph 7, Item 2 of this Article, the bank may reduce the exposure value of a pre-financing loan or an intermediate loan by the positive balance on the savings account of the debtor to whom the loan was granted and only include the resulting amount in the measure of total exposure, provided that all the following conditions are met:

1) the granting of the loan is conditional upon the opening of the savings account at the bank granting the loan, and both the loan and the savings account are regulated by the regulation governing the opening of savings accounts and granting of loans;

2) the balance on the savings account cannot be withdrawn, in part or in full, by the debtor for the entire duration of the loan;

3) the bank can unconditionally and irrevocably use the balance on the savings account to settle any claim originating under the loan agreement in cases regulated by the regulation referred to in Item 1 of this Paragraph, including the case of non-payment by or the insolvency of the debtor.

(9) Pre-financing loan or intermediate loan under Paragraph 8 of this Article shall mean a loan that is granted to the debtor for a limited period of time in order to bridge the debtor's financing gaps, until the final loan is granted in accordance with the criteria laid down in the regulation governing such transactions.

(1) The bank shall determine the value of exposures for derivatives under Attachment 2 of this Decision, including the off-balance sheet ones, in compliance with the method referred to in Article 50 and 51 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.

(11) In addition to the calculation of the exposure value for securities financing transactions in accordance with Paragraph 5 of this Article, the bank shall calculate the value of add-on for counterparty credit risk for securities financing transactions on a transaction-by-transaction basis, in accordance with the following formula:

$$E_i^* = \max \{0, E_i - C_i\}$$

where:

E_i = the fair value of securities or cash lent to the counterparty under transaction i ; and

C_i = the fair value of securities or cash received from the counterparty under transaction i .

(12) The bank shall calculate the exposure value of off-balance-sheet items, in accordance with Article 49, Paragraph 1 of this Decision, to which the following conversion factors shall be applied:

1) conversion factor for low-risk off-balance-sheet items, referred to in Attachment I of this Decision, shall amount to 10%,

2) conversion factor for low to medium-risk off-balance-sheet items, referred to in Attachment I of this Decision, shall amount to 20%,

3) conversion factor for medium-risk off-balance-sheet items, referred to in Attachment I of this Decision, shall amount to 50%,

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

Exposures excluded from the measure of total exposure
Article 42

(1) The bank may exclude any of the following exposures from its measure of total exposure referred to in Article 41, Paragraph 4 of this Decision:

- 1) the assets deducted in the calculation of the capital measure referred to in Article 41, Paragraph 3 of this Decision;
- 2) the guaranteed parts of exposures arising from export credits that meet both of the following conditions:
 1. the guarantee is provided by an eligible provider of unfunded credit protection in accordance with Articles 84 and 85 of this Decision, including export credit agencies or central governments;
 2. a 0% risk weight shall be applied to the guaranteed part of the exposure in accordance with Article 54, Paragraph 2 or 4 and Article 56, Paragraph 6 of this Decision.

Reporting on leverage
Article 43

The bank shall be obliged to report to the Agency on the leverage ratio and its integral parts in compliance with the by-laws regulating in more details the singular templates, the frequency, and the reporting dates.

2. Capital buffers

Requirement for maintaining capital buffers
Article 44

(1) The capital buffer shall be the own funds that the bank has to maintain in the form of Common Equity Tier 1 in the amount of 2.5% of the total amount of risk exposure, calculated in compliance with Article 38, Paragraph 3 of this Decision.

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

(3) If the Agency, for a certain bank, based on 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 stipulated minimum, which amounts to 6.75% of the total amount of risk exposure, then the capital buffer 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 as under Article 46, Paragraphs 2 and 3 of this Decision shall be applied and the plan for capital conservation referred to in Article 47 of this Decision should be developed.

Requirement for other capital buffers
Article 45

(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 3% of the total amount of risk exposure, calculated in compliance with Article 38, 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 38, Paragraph 3 of this Decision) that is intended for complying with

the requirements for the capital buffer, increased for the following buffers, depending on which of the following is applicable:

- 1) counter-cyclical capital buffer bank 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 stipulated by a separate enactment.
- (5) If the bank is not meeting the requirements referred to in Paragraph 3 of this Article, the constraints to distribution as under Article 46, Paragraphs 2 and 3 of this Decision shall be applied.

3. Capital conservation measures

Capital conservation measures - constraints to distribution

Article 46

- (1) The bank that is meeting the requirements for the combined buffer cannot perform the distribution of profit in relation to the Common Equity Tier 1, if that would lead to the reduction of the Common Equity Tier 1 down to a level at which it would no longer comply with the combined buffer.
- (2) The bank that is not meeting the requirement for the combined buffer shall be obliged to calculate the maximum distribution amount (MDA) and inform the Agency thereof.
- (3) Before the calculation of the MDA 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 remuneration or discretionary pension benefits or perform payout of variable remuneration, if at that moment in time, the bank is not complying with the combined buffer under Article 45 of this Decision,
 - 3) perform the payments under instruments of Additional Tier 1.
- (4) The MDA 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 MDA shall be reduced for all activities relating to 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 generated in the course of the business year, that is not included in the Common Equity Tier 1 in compliance with Article 6, Paragraphs 2 and 3 of this Decision, and which was generated 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 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 generated following the most recent decision on distribution of profit or any of the activities pertaining to Paragraph 3, Items 1 - 3 of this Article, reduced by:
 - 3) the amounts that would be paid on the basis of taxes, if the Items 1 and 2 of this Paragraph were to be 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 38, Paragraph 1, Items 1 - 3 of this Decision and additional capital requirements following the supervisory review and evaluation process of banks, expressed as the percentage share in the total amount of risk exposure, calculated in compliance with Article 38, Paragraph 3 of this Decision, falls under

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 38, Paragraph 1, Items 1 - 3 of this Decision and additional capital requirements following the supervisory review and evaluation process of banks, expressed as the percentage share in the total amount of risk exposure, calculated in compliance with Article 38, Paragraph 3 of this Decision, falls under 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 38, Paragraph 1, Items 1 - 3 of this Decision and additional capital requirements following the supervisory review and evaluation process of banks, expressed as the percentage share in the total amount of risk exposure, calculated in compliance with Article 38, Paragraph 3 of this Decision, falls under 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 38, Paragraph 1, Items 1 - 3 of this Decision and additional capital requirements, following the supervisory review and evaluation process of banks, for risks except the risk of excessive leverage, expressed as the percentage share in the total amount of risk exposure, calculated in compliance with Article 38, Paragraph 3 of this Decision, falls under 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 distribution quartile.

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

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

- 1) the 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 from the current year generated at the end of the business year;
- 3) the amount of the MDA calculated in compliance with Paragraph 4 of this Article;
- 4) the amount of available profit it intends to distribute to the following:
 1. pay out of dividends,
 2. redemption of shares,
 3. payments under Additional Tier 1 capital instruments,

4. pay out of the variable remuneration 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 when the bank did not meet the requirement for combined buffer.
- (9) The bank shall be obliged to maintain adequate internal systems ensuring accurate calculation of the amount of available profit and the MDA, and it shall have to be competent to prove that accuracy upon the Agency's request.
- (10) For the requirements of Paragraphs 1 and 2 of this Article, the distribution relating to the Common Equity Tier 1 shall include the following:
 - 1) pay out of dividends in cash,
 - 2) distribution of fully or partially paid bonus shares 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 Article 6, Items 2 – 5 of this Decision.

Capital conservation plan

Article 47

- (1) If the bank is not meeting the requirement for maintenance of capital buffers, it shall be obliged to develop the plan for conservation of capital and submit it to the Agency within five working days at the latest upon ascertaining that it would not be to meet 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) the assessment of income and expenses and the planned balance sum and the structure of balance sheet items,
 - 2) measures for increasing the stipulated ratios of the bank capital,
 - 3) the plan and the framework for increasing the capital ratios in order to comply fully with the requirement for maintaining the capital buffers,
 - 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 for maintaining the capital buffers within the timeframe that the Agency deems as appropriate.
- (4) If the Agency fails to approve the capital conservation plan 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 own funds up to a certain level within certain timeframes,
 - 2) stipulate for that bank stricter rules for distribution than the ones stipulated in Article 46 of this Decision.

CHAPTER IV

CAPITAL REQUIREMENTS FOR CREDIT RISK

Approaches to credit risk Article 48

- (1) When calculating the amount of risk weighted exposures for the requirements of Article 38, Paragraph 3, Items 1 and 6 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 firms from third countries, exposures towards third-country credit institutions and towards third-country stock exchange, shall be treated as exposures towards institutions only if the third country, in relation to that entity, is applying regulatory and supervisory requirements that are approximately equal to the ones being applied in Republika Srpska and BiH, i.e. the EU.
- (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 EU, and provide a list of those countries in Attachment 4 of this Decision.

Exposure value Article 49

(1) The calculation of exposure value for items of balance sheet assets shall be performed so that the value adjustment, additional value adjustment in compliance with Article 5, Paragraph 3 of this Decision are deducted from the carrying amount, and the reduction of own funds relating to the item of assets. The exposure value of the off-balance sheet items listed in Attachment 1 of this Decision shall represent the amount of its carrying amount reduced by provisions for expected credit losses for off-balance sheet exposures, multiplied by the following conversion factors:

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

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 92 of this Decision, the exposure value of securities or commodities, sold, offered as collateral or given under lease on the basis of a repurchase transaction or as a transaction of lending securities or commodities to the counterparty or from the counterparty or margin loans, shall be increased by the corrective factor appropriate for such securities or commodities as stipulated under Articles 92 and 93 of this Decision.

(3) The exposure value of derivatives listed in Attachment 2 of this Decision shall be determined in compliance with the method for calculation of exposure value provided under Articles 50 and 51 of this Decision, in case of derivatives representing trading book positions. If the derivatives from Attachment 2 of this Decision represent banking book positions, then the replacement cost from Article 51, Paragraph 3 of this Decision shall be used in the calculation of the amount of exposure of the relevant positions.

(4) The exposure value of repurchase transactions, transaction of lending securities or commodities to the counterparty or from the counterparty, transactions with long settlement period and margin loans may be determined in compliance with Chapter VI of this Decision, relating to the credit risk mitigation techniques (CRM) or as stipulated under Articles 50 and 51

of this Decision.

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

Methods for calculation of derivative exposure value Article 50

(1) The bank shall determine the exposure value for derivatives listed in Attachment 2 of this Decision on the basis of the original exposure method referred to in Article 51 of this Decision, based on the thresholds listed in Paragraph 3 of this Article.

(2) The bank may determine the exposure value of repurchase transaction, transaction of lending of securities or commodities to or from the counterparty, transaction with a long settlement period and margin loans, in accordance with Article 51 of this Decision, instead of in accordance with Chapter VI of this Decision.

(3) The bank shall calculate the exposure value of its derivatives from Attachment 2 of this Decision, in accordance with the original exposure method referred to in Article 51 of this Decision, provided that the amount of its on- and off-balance-sheet derivative business activities is equal to or less than both of the following thresholds, based on the assessment carried out on a monthly basis using the data as of the last day of the month:

- 1) 5% of the bank's total assets;
- 2) 100 million EUR (or equivalent in local currency).

(4) For the purposes of Paragraph 3 of this Article, the banks shall calculate the size of their on- and off-balance-sheet derivative business activities on the basis of data as of the last day of each month in accordance with the following requirements:

- 1) derivative positions shall be valued at market values on that given date, where the market value of a position is not available on a given date, banks shall take a fair value for the position on that date; where the market value and fair value of a position are not available on a given date, banks shall take the most recent market or fair value for that position;
- 2) the absolute value of long derivative positions shall be summed with the absolute value of short derivative positions;
- 3) all derivative positions shall be included, except credit derivatives that are recognised as internal hedges against non-trading book credit risk exposures.

(5) Where the derivative business activities on a consolidated basis do not exceed the thresholds set out in Paragraph 3 of this Article, but the bank which is included in the consolidation exceeds those thresholds on an individual basis, this bank, depending on the approval of the Agency, may apply the method that would be applied on a consolidated basis.

(6) The bank which is not meeting the conditions set out in Paragraph 3 of this Article shall immediately notify the Agency thereof and cease to apply the method stipulated in Article 51 of this Decision, within three months of one of the following occurring:

- 1) is not meeting the conditions set out in Paragraph 3, Item 1 or Item 2 of this Article for three consecutive months,
- 2) is not meeting the conditions set out in Paragraph 3, Item 1 or Item 2 of this Article for more than six of the preceding 12 months.

(7) The Agency can subsequently stipulate additional requirements in terms of the approach for the calculation of exposure value of derivatives, in case of exceeding the thresholds defined in Paragraph 3 of this Article, and reporting according to the same, depending on the justification of the introduction of such requirements.

(8) Where the bank has ceased to calculate the exposure values of derivatives in accordance with Paragraph 3 of this Article, the recalculation of the exposure of derivatives using the same method requires continuous fulfillment of the conditions defined in Paragraph 3 of this Article for a period of one year.

(9) The bank shall not enter into a derivative transaction or buy or sell a derivative instrument for the sole purpose of complying with any of the conditions set out in Paragraph 3 of this Article during the monthly assessment.

(10) In calculating the amount of exposure weighted by credit risk for the risk of counterparty positions from the trading book, the bank shall apply the following principles:

- 1) the bank must not apply the simple method of financial collateral from Article 91 of this Decision to recognize the effect of financial collateral,
- 2) in the case of repurchase transactions and securities or commodities lending transactions to or from the counterparty that are allocated into the trading book, the bank may recognize as eligible collateral all financial instruments and commodities that meet the conditions for inclusion in the trading book,
- 3) for the purposes of calculating corrective factors when financial instruments or commodities, that do not meet the requirements set out in Chapter VI of this Decision, are lent, sold or given as collateral, i.e. borrowed, bought or received as collateral or otherwise based on that transaction, and when the bank applies the approach of regulatory corrective factors from Article 93 of this Decision, the bank shall apply the same treatment that it applies to shares that are not included in the main stock market index, but which are listed on a recognized stock exchange.

Original exposure method

Article 51

(1) The bank shall be obliged to treat each derivative transaction as its own netting set and shall calculate an exposure value separately for each transaction.

(2) The bank shall calculate the exposure value of a transaction under the original exposure method for counterparty credit risk as follows:

$$\text{Exposure value} = 1,4 \cdot (\text{RC} + \text{PFE})$$

where:

RC = the replacement cost calculated in accordance with Paragraph 3 of this Article;

PFE = the potential future exposure calculated in accordance with Paragraph 4 of this Article.

(3) The bank shall calculate the replacement cost as follows:

$$\text{RC} = \max\{\text{CMV}, 0\}$$

where:

RC = the replacement cost,

CMV = current market value.

In order to determine the current replacement cost, the bank shall update current market value of derivative at least monthly.

(4) The potential future exposure of an individual transaction is its notional amount multiplied by:

- 1) the product of 0.5% and the residual maturity of the transaction expressed in years for interest-rate derivative contracts;
- 2) the product of 6% and the residual maturity of the transaction expressed in years for credit derivative contracts;
- 3) 4% for foreign-exchange (currency) derivatives;
- 4) 18% for gold and commodity derivatives other than electricity derivatives;
- 5) 40% for electricity derivatives;
- 6) 32% for equity derivatives.

(5) The notional amount for derivative contracts referred to in Paragraph 4 of this Article shall be determined as follows:

1) where the notional amount a transaction is not fixed until contractual maturity:

1. for deterministic notional amounts, the notional amount shall be the weighted

- average of all deterministic values of notional amounts until the contractual maturity of the transaction, where the weights shall be the proportion of the time period during which each value of notional amount applies in the total time period;
2. for stochastic notional amounts, the notional amount shall be the amount determined by fixing current market values within the formula for calculating the future market values;
 - 2) for contracts with multiple exchanges of the notional amount, the notional amount shall be multiplied by the number of remaining payments still to be executed in accordance with the contract provisions;
 - 3) for contracts that provide for a multiplication of the cash-flow payments, the notional amount shall be adjusted by the bank to take into account the effects of the multiplication on the risk structure of those contracts.
- (6) The notional amount for derivative contracts referred to in Paragraph 4, Item 3 of this Article, the bank shall calculate as follows:
- 1) where the transaction consists of one payment leg, the adjusted notional amount shall be the notional amount of the derivative contract,
 - 2) where the transaction consists of two payment legs and the notional amount of one payment leg is denominated in the bank's reporting currency, the adjusted notional amount shall be the notional amount of the other payment leg,
 - 3) where the transaction consists of two payment legs and the notional amount of each payment leg is denominated in a currency other than the bank's reporting currency, the adjusted notional amount shall be the largest of the notional amounts of the two payment legs after those amounts have been converted into the bank's reporting currency at the prevailing spot exchange rate.
- (7) The notional amount for derivative contracts referred to in Paragraph 4, Items 4-6 of this Article, the bank shall calculate as the product of the market price of one unit of the underlying instrument of the transaction and the number of units in the underlying instrument referenced by the transaction. If the transaction is contractually expressed as the notional amount, the bank shall use the notional amount of the transaction rather than the number of units in the underlying instrument as the adjusted notional amount.
- (8) If it has calculated the notional amount in accordance with this Article based on the contracted notional amount denominated in another currency, the bank shall be obliged to convert the notional amount of the transaction into its reporting currency at the valid mid-exchange rate of the CBBiH.
- (9) Exceptionally from Paragraph 4, Items 1 and 2 of this Article, the bank may choose to use the original maturity of derivative contracts instead of the residual maturity of the transaction.

Exposure classes **Article 52**

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) defaulted exposures,
- 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 53

(1) For the purpose of calculating risk weighted exposure amounts, unless those exposures represent a deductible item when calculation own funds, appropriate risk weights shall apply to all exposures, in compliance with the provisions of this Decision. The application of risk weights shall depend on the exposure classes, 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: ECAI) or the Export Credit Agency (hereinafter: ECA), in compliance with Chapter V of this Decision relating to the 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 99 of this Decision.

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

(5) Holdings in instruments of own funds of financial sector entities, referred to in Article 14, Paragraph 1 of this Decision, the bank shall treat as exposures in the form of equity investments.

Exposures towards central governments or central banks

Article 54

(1) Except in cases listed in Paragraphs 2 - 6 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 1, that corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 1

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 the EU member states denominated in domestic currency of that central government and central bank shall be awarded the risk weight of 0%.

(5) For exposures to the Council of Ministers of BiH and CBBiH in euros or with a foreign currency clause in euros, 0% risk weight shall be applied for the duration of the currency board in BiH.

(6) If the regulatory authorities of the third country, that is applying the supervisory and regulatory framework that is, at least, approximately on par with the one being applied in the EU, 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 of this Decision.

Exposures towards regional governments or local authorities

Article 55

- (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 59, Paragraph 2 and Article 60, Paragraph 2 of this Decision shall not apply.
- (2) Exposures towards the Government of Republika Srpska, the Government of the Federation of BiH, and the 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 Article, if the religious communities, in compliance with public law, are founded as legal entities and collect taxes in compliance with the legislation that grants them such right.
- (4) When regulatory authorities of a third country, which applies supervisory and regulatory framework that is, at least, approximately on par with the one being applied in the EU, treat exposures to regional governments or local authorities as exposures to their central governments, and there is no difference in risk between such exposures because of the specific revenue-raising powers of regional government or local authorities, and due to the specific institutional arrangements to reduce the risk of default, the bank may award the weight to such exposures in the same manner. The list of those third countries shall be provided in Attachment 4 of this Decision.

Exposures towards public sector entities

Article 56

- (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 2 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 2

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) Notwithstanding Paragraphs 1 and 2 of this Article, exposures to the Guarantee Fund of Republika Srpska with an initial maturity of more than three months shall be assigned a risk weight of 50%.
- (4) Exposures towards public sector entities for which there is a credit assessment of the selected ECAI shall be treated in compliance with Article 60 of this Decision. The privileged treatment referred to in Article 59, Paragraph 2 and Article 60, Paragraph 2 of this Decision for short-term exposures shall not apply to those entities.
- (5) For exposures towards public sector entities with the initial maturity of up to three months or less, the risk weight shall amount to 20%.
- (6) In exceptional cases, exposures to public sector entities may be treated as exposures to central governments or regional governments and local authorities due to the legal obligation of the central government, regional government or local authority to meet all obligations of that entity.

(7) When the regulatory authorities of the third country, that are applying the supervisory and regulatory framework that is, at least, on par with the one being applied in the EU, treat the exposures towards public sector entities in compliance with Paragraphs 1 or 2 of this Article, 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 of this Decision.

Exposures towards multilateral development banks

Article 57

(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 59, Paragraph 2, Article 60, Paragraph 2 and Article 61, Paragraph 3 of this Decision shall not apply for short-term exposures.

The Inter-American Investment Corporation, 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,
- 14) Islamic Development Bank,
- 15) International Development Association,
- 16) Asian Infrastructure Investment 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 58

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

- 1) European Union and European Atomic Energy Community,
- 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 EU 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 59

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

shall be weighted in compliance with Article 60 of this Decision. Exposures towards institutions for which there is no credit assessment of the selected ECAI shall be weighted in compliance with Article 61 of this Decision.

(2) Exposures towards institutions whose remaining 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 54, Paragraphs 4 - 6 of this Decision, which is awarded to the exposures towards the central government in which the institution has its headquarters.

(3) Exposures whose remaining 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 operations 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 institutions shall also include exposures to stock exchange and investment companies in BiH, that are operating in compliance with legislated regulations that regulate business operations of stock exchange and investment companies, investment companies from the EU member states that are operating in compliance with the EU regulations, as well as recognized stock exchange and investment companies from third countries that are meeting the following conditions:

1) a company that would, if founded in the EU, be covered by the definition of the stock exchange or 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 EU regulations.

Exposures towards institutions with rating awarded

Article 60

(1) Exposures towards institutions whose remaining 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 3, which corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 3

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

(2) Exposures towards institutions whose remaining maturity is equal to or 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 4, which corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 4

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

(3) The ratio between the treatment of short-term assessment referred to in Article 68 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 to in Paragraph 2 of this Article shall apply to all exposures towards institutions whose remaining maturity is equal to or 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 well as the application of general privileged treatment for short-term exposures referred to 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 to 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 the application of general privileged treatment for short-term exposures referred to 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 with no rating awarded

Article 61

(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 the exposures towards central governments of the country in which the bank has headquarters, in compliance with Table 5.

Table 5

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

(2) For exposures towards institutions that have not been awarded a rating, and that have headquarters in countries 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 maturity is three months or shorter, the risk weight shall equal 20%.

Exposures towards companies

Article 62

(1) Exposures towards companies which there is a credit assessment of the selected ECAI shall be awarded the risk weight provided in Table 6, that corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 6

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 the exposures towards central governments in countries in which the company has headquarters, depending on which of the weights is higher.

Exposures towards retail

Article 63

- (1) Exposures towards retail that meet the following criteria shall be awarded the risk weight of 75%:
- 1) exposure that is either towards one private individual or several of them or towards a small or medium enterprise (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 exposures with the default status, but excluding exposures fully and completely secured by real estate, does not exceed 250,000 KM. The bank shall have to undertake reasonable measures to obtain such information.
- (2) Securities shall not be classified into the category of exposures towards retail.
- (3) Exposures that do not meet the criteria from Paragraph 1, Items 1-3 of this Article, as well as the conditions for allocation to other exposure categories in accordance with the decision tree, shall be allocated to:
- 1) the exposure category towards retail, if it is a private individual, and they are assigned a risk weight of 100%,
 - 2) the exposure category towards companies, in the case of small and medium-sized companies, and they are assigned a risk weight of 100%.
- (4) The current value of minimum payments of leasing may be classified into the category of exposures towards retail.

Exposures secured with real estate

Article 64

- (1) Exposure or any part of exposure that is secured in total with residential and commercial real estate shall be awarded the risk weight of 100% unless they meet the requirements under Paragraphs 3 and 4 of this Article, unless they are classified into another category of exposures.
- (2) Part of the exposure deemed to be fully secured by real estate may amount to a maximum of 80% of the market value of the residential real estate, i.e. 60% of the market value of the commercial real estate, and for the part of exposure exceeding the stated percentages the same risk weight which is assigned to unsecured exposures of that counterparty shall be assigned to this part.
- (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 that 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 commercial real estate that meet the requirements 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 loan contract, as well as registered in a timely and appropriate manner,
 2. all legal requirements 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 requirements shall have to be met for the monitoring of the value and assessment of real estate value:
 1. following the initial assessment of an independent appraiser, the bank shall be obliged to continuously monitor the value of real estate, specifically once a year,

at least for commercial real estate, and once every three years for residential real estate. The banks 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 re-assessed 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 1 million KM, or represent more than 5% of regulatory capital of the bank, the relevant appraiser shall perform subsequent assessment at least once every three years.

For the monitoring of the 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 obliged to clearly document the types of residential and commercial real estate that it accepts as collateral and credit policies relating to that.
- (6) In order for the exposure or part of the exposure to be deemed as fully secured by real estate, apart from meeting the requirements from Paragraph 5 of this Article, it is necessary to also meet the following requirements:
- 1) the value of the real estate must not significantly depend on the debtor's creditworthiness. When determining the importance of dependency, the bank can exclude situations where exclusively macroeconomic factors affect both the value of the real estate and the fulfillment of the debtor's obligations;
 - 2) the debtor's risk must not significantly depend on the return on the respective asset or project, but on the debtor's ability to settle the obligation from other funding sources. Debt repayment, therefore, must not significantly depend on the cash flow generated by the respective real estate that serves as collateral. For those other sources, the bank shall determine the maximum loan-to-income ratio within its credit policy, and when approving the loan shall collect appropriate evidence of the relevant income.
- (7) The exposure which, in accordance with other provisions of this Decision, would be assigned a more favorable risk weight than the weight assigned if the exposure was secured by real estate, is assigned a more favorable risk weight.

Defaulted exposures

Article 65

- (1) Unsecured part of any exposure in default status shall be awarded the following risk weights:
- 1) 150% when the expected credit losses are below 20% of the unsecured part of the amount of exposure, before expected credit loss impairment,
 - 2) 100% when the expected credit losses are not below 20% of the unsecured part of the amount of exposures, before expected credit loss impairment.
- (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) Exposures in default status that are fully secured by residential and/or commercial real estate are assigned a risk weight of 100%.
- (4) The status of default is considered to have occurred when one or both of the conditions referred to in Article 2, Paragraph 1, Item 39 are fulfilled, or when:
- 1) the debtor is late in repayment of overdue liabilities to the bank for more than 90 days in a material amount, unless the bank proves that the delay was due to a technical error,
 - 2) the bank considers it certain that the debtor will not fully settle its obligations to the bank without considering the possibility of collateral collection.
- (5) The materially significant amount referred to in Paragraph 4, Item 1 of this Article shall mean a materially significant amount as defined in Article 2, Paragraph 1, Item 39 of this Decision.
- (6) For the purposes of Paragraph 4, Item 1 of this Article, the counter of the day of delay shall

be included on the date when the total overdue receivables from that debtor exceed the material amount referred to in Paragraph 5 of this Article, and shall be excluded when the total receivables fall below that level.

Wherein, counting the delay days for:

- 1) account overdraft starts on the day when the debtor exceeds the approved limit, when it makes payments from the transaction account without coverage or when the approved limit is reduced and is lower than the amount currently used, and their amount is materially significant in accordance with Paragraph 5 of this Article. Wherein, an approved limit is any credit limit specified by the bank and notified to the debtor thereof.
 - 2) credit card exposures begin on the day the minimum payment obligation is due.
- (7) The bank is required to have documented policies regarding the counting of delay days, especially with regard to the extension of the deadline for fulfillment of obligations, the renewal of exposures and similar. These policies must be applied consistently over time and be consistent with the risk management system in place.
- (8) The delay due to a technical error referred to in Paragraph 4, Item 1 of this Article, and the conditions when it is considered certain that the debtor will not fully meet its obligations to the bank referred to in Paragraph 4, Item 2 of this Article, have the same meaning as in the Decision on credit risk management and determining expected credit losses.
- (9) It is considered that the condition for assigning exposures to the defaulted exposure category is terminated only when all conditions for reclassifying exposures from credit risk level 3 to lower credit risk levels are met as defined by the Decision on credit risk management and determining expected credit losses. If some of the conditions are met subsequently from the definition of the defaulted exposure, it will be considered that the new default has accrued.

High risk exposures

Article 66

- (1) The bank shall assign the risk weight of 150% to high-risk related exposures, including high-risk exposures in the form of shares or stocks in investment funds.
- (2) High risk exposures shall at least cover the following exposures:
 - 1) investments in companies of risky capital, except where those investments are treated in accordance with Article 69 of this Decision,
 - 2) equity investments in private companies which are not listed on the stock exchange, except where those investments are treated in accordance with Article 69 of this Decision,
 - 3) speculative immovable property financing.
- (3) When assessing whether the exposures, that are not referred to in Paragraph 2, are 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 default status onset 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.
- (4) The bank shall be obliged to assess all exposures with the aim of identifying those associated with high risk, and at least exposures that are structurally different from other transactions or debtors of the same exposure class in terms of the level and volume of risk drivers.
- (5) In accordance with Paragraph 4 of this Article, the bank shall be obliged to consider, at a minimum, the following exposures:
 - 1) any financing of speculative investments in both financial and non-financial assets other than immovable property, and when the debtor has the intention to resell these assets for profit, and when there is a high risk of loss in cases of the default status of the debtor and when there are insufficient other income and assets of the debtor available for mitigating the bank loss,
 - 2) based on the equity investments of a certain issuer, when the risk weight for debt exposures to the same issuer is 150% or when the same issuer is assigned a risk weight of

150% based on the credit assessment of the selected ECAI, and when that issuer is in default status.

Exposures in form of covered bonds

Article 67

(1) In order to apply the privileged treatment referred to in Paragraphs 3 and 4 of this Article, covered bonds shall have to meet the requirements stipulated under Paragraph 5 and be secured with any of the following eligible assets:

1) exposures towards Council of Ministers of BiH, the Government of Republika Srpska, the Government of the Federation of BiH, the Government of Brčko District, CBBiH, central governments, central banks of the members of the European System of Central Banks (ESCB) in the EU, regional governments and local authorities in the EU, public sector entities in the EU 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 to or guaranteed by third-country public sector entities, third-country regional governments or third country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 56, Paragraphs 1 and 4, or 6 and that qualify for the 1st level of credit quality, 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 EU with maturity of 100 days or shorter shall not belong to the 1st level of credit quality, instead those institutions shall have to meet minimum conditions for the 2nd level of credit quality.

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

(3) Covered bonds for which there is a credit assessment of the selected ECAI shall be awarded the risk weight provided in Table 7, that corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 7

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

(4) 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%.

(5) 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 foreign 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 68

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 8 which corresponds to the credit assessment of the ECAI in compliance with Article 73 of this Decision.

Table 8

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 69

(1) The bank shall calculate the risk-weighted exposure amount for their exposures in the form of stock or shares in investment funds by using one of the following approaches:

- 1) look-through approach, risk weighting all exposures of the investment fund as if the bank is directly exposed to them,
- 2) mandate-based approach, in accordance with the limits set out in the investment fund policy and relevant regulation,
- 3) fall-back approach, where the risk weight of 1,250% is awarded to all exposures in the form of stock or shares in investment funds.

(2) The bank may apply the approaches set out in Paragraph 1, Items 1 and 2 of this Article, where all the following conditions are met:

- 1) the investment fund is one of the following:
 1. investment fund in the EU whose operations are regulated by the Directive for undertakings for collective investment in transferable securities (UCITS), investment fund outside the EU whose operations are regulated by a regulation equivalent to the subject directive in the EU;
 2. alternative investment fund (AIF) managed by the EU Alternative Investment Fund Manager (AIFM) registered and authorised in accordance with the EU Alternative Investment Fund Managers Directive (AIFMD);
 3. EU AIF managed by a non-EU AIFM authorised under directive under Sub-item 2 of this Item;
 4. non-EU AIF managed by a non-EU AIFM and marketed in accordance with the directive under Sub-item 2 of this Item;
 5. a non-EU AIF not marketed in the EU and managed by a non-EU AIFM headquartered outside the EU, which operates in accordance with regulations that are equivalent to the regulations defined in accordance with the directive under Sub-item 2 of this Item;
 6. an open investment fund with a public offer in BiH, which is managed by the

management company of investment funds in BiH, and which operates in accordance with the regulations applicable to the relevant investment funds in BiH:

7. BiH AIF managed by BiH AIFM, which operates in accordance with the regulations applicable to the relevant investment funds in BiH;

- 2) investment fund prospectus or equivalent document includes:
 1. categories of assets in which the investment fund is authorized to invest;
 2. where investment limits apply, the relative limits and the methodologies to calculate them;
- 3) reporting by the investment fund or the investment fund management company to the bank is in compliance with the following requirements:
 1. the exposures of the investment fund are reported at least as frequently as those of the bank;
 2. the granularity of the financial information is sufficient to allow the bank to calculate the risk weighted exposure amount in accordance with the approach chosen by the bank;
 3. where the bank applies the look-through approach, information about the underlying exposures is verified by an independent third party from Paragraph 6 of this Article.

(3) AIF for the requirements of this Article shall have the same meaning as in the Law on Investment Funds in Republika Srpska.

(4) The bank shall calculate the risk-weighted exposure amount for their exposures in the form of stock or shares in investment funds by multiplying the risk-weighted exposure amount of the investment fund exposures, calculated in accordance with the approaches referred to in the Paragraph 1, Items 1 and 2, with the percentage of stock or shares held by the bank in relation to the total fund stock and shares.

(5) Where the conditions set out in Paragraph 2 of this Article are met, if the bank has sufficient information about the individual investments of the investment fund, the bank may use the look through approach. Otherwise, where the conditions set out in Paragraph 2 of this Article are met, the bank may use a limit-based approach in accordance with set up investment policy and relevant regulations under the following conditions:

- 1) under the assumption that the investment fund first incurs exposures to the maximum extent allowed, which according to the investment policy have the highest own funds requirement,
- 2) and then continues incurring exposures in descending order until the maximum total exposure limit is reached according to its investment policy or relevant law.

(6) The bank that has no adequate data or information to calculate the risk-weighted exposure amount of the investment fund exposures in accordance with the approaches set out in Paragraph 1, Items 1 and 2 may rely on the calculations of a third party under the following conditions:

- 1) the third party is one of the following:
 1. the depository institution of the investment fund, provided that the investment fund exclusively invests in securities and deposits all securities at that depository institution or
 2. for investment funds not covered by Sub-item 1 of this Item, the investment fund management company, provided that this company meets the condition set out in Paragraph 2, Item 1 of this Article;
- 2) the third party carries out the calculation in accordance with the approaches set out in Paragraph 1, Items 1 and 2;
- 3) an external auditor has confirmed the correctness of the third party's calculation.

(7) The bank that rely on third-party calculations shall multiply the risk-weighted exposure amount of the investment fund exposure resulting from those calculations by a factor of 1.2 except where the bank has unrestricted access to the detailed calculations carried out by the third party.

- (8) The bank shall provide calculations referred to in Paragraph 7 to the Agency upon request.
- (9) If the bank uses the approach defined in the Paragraph 1, Item 2 of this Article, the reporting by the investment fund or the investment fund management company to the bank may be limited to the investment policy of the fund and any changes thereof, and may be done only when the bank incurs the exposure to the investment fund for the first time and when there is a change in the investment policy of the fund.
- (10) Where the bank applies the approaches, referred to in Paragraph 1, Items 1 and 2 of this Article, for the purpose of calculating the risk-weighted exposure amount of the CIU's exposures ('level 1 CIU'), and if any of the underlying exposures of the level 1 CIU is an exposure in the form of stock or shares in another CIU ('level 2 CIU'), the risk-weighted exposure amount of the level 2 CIU's exposures may be calculated by using any of the three approaches stated in Paragraph 1 of this Article.
- (11) The bank may use the combination of approaches defined in Paragraph 1 of this Article if all conditions for the usage of individual approaches are met.
- (12) The risk-weighted exposure amount calculated in accordance with the approaches from Paragraph 1, Items 1 and 2 of this Article, shall be capped at the risk-weighted exposure amount calculated in accordance with Paragraph 1, Item 3 of this Article.
- (13) The bank may exclude from the calculations referred to in Paragraph 1 of this Article regulatory capital instruments held by a CIU, which for the bank is a deductible item in its regulatory capital.
- (14) The Agency may stipulate subsequently the calculation method of risk-weighted exposure amount for off-balance sheet exposures, depending on the justification of introduction of such requirements.

Exposures based on equity investments

Article 70

- (1) The following exposures shall be treated as exposures based on 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 based on equity investments shall be awarded the risk weight of 100%, except if they represent a deductible item of regulatory capital, if they are treated as high risk exposures in compliance with Article 66 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 equity or regulatory capital instruments that are issued by banks shall be deemed as receivables based on equity investments, except if they represent a deductible item of regulatory capital or if they are treated as high risk exposures in compliance with Article 66 of this Decision.

Other exposures

Article 71

- (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 counterparties 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 to which the agreements refer, but not for counterparties in that business operations.

(6) The value of exposure based on the 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 during the validity of the lease contract, and payments on the basis of any call option for the lease item that would very likely be performed.

CHAPTER V

RECOGNITION OF CREDIT ASSESSMENTS OF ECAI

Utilization of credit assessments of ECAI

Article 72

- (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 Securities and Markets Authority (ESMA) shall update and publish the list of registered and certified agencies for credit risk assessment on its website whose assessments may be used by the bank.

Classification of credit assessments of ECAI

Article 73

- (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 Chapter IV of this Decision. This 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 assessments of ECAI

Article 74

- (1) For the purpose of Article 54 of this Decision, the bank may utilize credit assessments of ECAI 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 ECAI, which is participating in the design of guidelines of the Organization for Economic Cooperation and Development (OECD) for officially backed export crediting,
 - 2) ECAI 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 ECAI. 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 ECAI is recognized for the requirements of awarding the risk weights shall be awarded the risk weight provided in Table 9.

Table 9

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 75

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 consistent manner for all 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 consistent 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 a 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 particular risk weight shall be used.

Credit Assessment of issuer and issuance

Article 76

- (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 a no rating item.

- (3) The application of Paragraphs 1 and 2 of this Article shall not preclude the application of Article 67 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 77

- (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 78

(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 provisions for recognition of credit risk mitigation effects

Article 79

(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 exposure 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 obliged to treat cash, securities or commodities purchased, borrowed, or received on the basis of repurchase transactions or transactions of borrowing of securities or commodities to/from the counterparty as collateral.

(5) If the bank when calculating the amount of risk weighted exposure in compliance with Chapter IV of the Decision that relates to the calculation of capital requirements for credit risk, uses several types of instruments for credit risk mitigation that cover one exposure, it shall be obliged 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 exposure 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, when calculating the amount of risk weighted exposure in compliance with

Chapter IV of this Decision, that relates to the calculation of capital requirements for credit risk, is covering one exposure with credit protection of one protection provider, and that protection has different maturities, it shall be obliged 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 exposure 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 80

(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 obliged 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 obliged to undertake all appropriate measures to ensure that the credit protection arrangement is efficient and to manage the risks related to that arrangement.

(3) The bank may recognize funded credit protection when calculating the 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 81-83 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 amount of risk weighted exposure.

(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 asset that represents credit protection, in a timely manner, in case of onset of the default status 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 asset 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 84 of this Decision.

(6) In case of unfunded credit protection, the subject agreement on protection shall be recognized in compliance with Articles 84 and 85 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 amount of risk weighted exposure.

(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 obliged, upon a request of the Agency, to prove that it has adequate risk management processes, in order to control the risks to which it may be exposed to due to the implementation of credit risk mitigation procedures.

(9) Independently from the eligible credit risk mitigation when calculating the amount of risk weighted exposure, the bank shall be obliged to continue to implement full assessment of credit risk of basic exposures and to be competent to prove to the Agency that it meets that

requirement. For the purposes of this Paragraph, for repurchase transactions and transactions of borrowing of securities or commodities to/from the counterparty, a basic exposure shall be deemed as the net exposure amount.

2. Recognition of funded and unfunded credit protection

Eligibility of collateral according to all approaches and methods

Article 81

(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 73 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 or investment firms that have a credit assessment of the ECAI for which it was determined in compliance with Article 73 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 for which it was determined in compliance with Article 73 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 for which it was determined in compliance with Article 73 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, and debt securities of regional governments or local authorities, which are treated as exposures to the central governments under Article 55, Paragraph 4 of this Decision,
- 2) debt securities of public sector entities which are treated as exposures to the central governments in accordance with Article 56, Paragraph 6,
- 3) debt securities of multilateral development banks, to which, in compliance with Article 57, Paragraph 2 of this Decision the risk weight of 0% applies,
- 4) debt securities of international organizations to which, in compliance with Article 58 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, which are treated in compliance with Article 56, Paragraphs 1, 2 and 4 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 57, Paragraph 2 of this Decision.
- (4) The bank may use debt securities of other institutions or investment firms that do not have a credit assessment of the ECAI as eligible collateral, if those debt securities meet all of the 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 issuer institution 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 73 of this Decision that they belong to the 3rd level of credit quality, at the minimum, and which are weighted according to the rules for weighting exposures towards institutions or the rules for 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 stock or shares in investment funds as eligible collateral if all following conditions are met:
- 1) the price of stock 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,
 - 3) the CIU meets the conditions laid down in Article 69, Paragraph 2 of this Decision.
- If the investment fund is investing in shares or stock of another investment fund, conditions equal to the ones from Items 1 -3 of this Paragraph shall apply to each such underlying investment fund. If the investment fund is using derived instruments for protection of allowed investments that shall not prevent the stock 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 underlying investment funds, is also investing into instruments that cannot be recognized under Paragraphs 1 and 4 of this Article, the bank may use stock 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 this investment fund or some of its underlying investment funds have utilized the possibility of investing in assets that are not being recognized to the maximum amount allowed.
- When the underlying investment fund has underlying investment funds itself, the bank may use stock or shares in the original investment fund as eligible collateral only under the condition that it applies the methodology under the first Sub-paragraph.
- In cases when the assets, that are not being recognized, have a negative value due to liabilities or contingent liabilities deriving from ownership, the bank shall be obliged 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.
- (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 obliged to apply the less favorable assessment. If the securities have more than two credit assessments of the ECAI, the bank shall be obliged to apply the two most favorable assessments. If the two most favorable credit assessments differ, the bank shall be obliged to apply the one that is less favorable.

Additional eligibility of collateral under the financial collateral comprehensive method
Article 82

(1) The bank that is applying the financial collateral comprehensive method referred to in Article 92 of this Decision, except for collaterals referred to in Article 81 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) stock or shares in investment funds if both of the following conditions are met:
 1. the price of stock 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 81, 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 stock or shares of another investment fund, conditions equal to the ones from Items 1 and 2 of this Paragraph shall apply to each such underlying investment fund.

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

(2) If the investment fund or any of its underlying investment funds are also investing in instruments that cannot be recognized under Article 81, 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 stock 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 relevant investment fund or some of its underlying 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 due to liabilities or contingent liabilities deriving from ownership, the bank shall be obliged 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 83

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 in favor of the creditor bank,
- 3) instruments issued by another bank or by an investment firm that that bank or that investment firm will redeem upon request.

Eligibility of protection providers under all approaches
Article 84

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 58 of this Decision, are awarded the risk weight of 0%,
- 5) public sector entities, receivables that are treated in compliance with Article 56 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 59, 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 85

The bank may use guarantees as eligible unfunded credit protection.

3. Requirements for tangible and intangible credit protection

Requirements for financial collateral

Article 86

(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 67 of this Decision, if they are pledged for a repurchase transaction, pending the fulfillment of the condition under Paragraph 1 of this Article.

(3) The bank shall be obliged to fulfill all contractual and legal obligations, and 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 obliged 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 obliged to implement subsequent legal assessment in order to ensure that the contract is continuously implementable.

(4) The bank shall be obliged 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 held by 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 counterparties in transactions of financing with securities, measured by timeliness and accuracy of their outgoing margin calls and response time to incoming margin calls;

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 make up the collateral,
 3. reuse of collateral, including potential loss of liquidity that results from reuse of collateral received from counterparties,
 4. ceding of right to collateral that is given to counterparties.
- (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 maturity period of protection shall have to equal to the remaining maturity period of the exposure, at the minimum.

Requirements for other funded credit protection

Article 87

(1) The treatment referred to in Article 97, 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 eligible 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 of 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 EU 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 EU.

Requirements concerning guarantees

Article 88

(1) With respect to the conditions referred to in Article 89, 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 71, 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 obliged to prove to the Agency that it has systems established for the management of potential concentration risk that results from the utilization of guarantees. The bank shall be obliged 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 obliged to fulfill all contractual and legal obligations, and 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 obliged 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 obliged 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 89

(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 risk in terms of receivables,
- 2) both the original guarantee and the counter-guarantee meet the conditions that concern the guarantees referred to in Article 88 and Article 90, 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 that 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) regional governments and local authorities,
- 3) public sector entity, receivables that are treated in accordance with Article 56, Paragraph 6 of this Decision,
- 4) multilateral development banks or international organizations that are awarded the

risk weight of 0% in compliance with Article 57, Paragraph 2 and Article 58 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, except 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 90

(1) Guarantees may be used as eligible unfunded credit protection if all conditions are met as under Article 88 of this Decision, as well as all following conditions:

- 1) in case of an eligible onset of default status on liabilities or non-payment by the counterparty, the creditor bank shall be entitled, within a reasonable period, to request from the provider of the guarantee 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 88, 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 guarantee, the creditor bank has adjusted the value of guarantee so that it reflects such a limited coverage.

(2) In case of guarantees, i.e. counter-guarantees of entities listed in Article 89, Paragraph 2 of this Decision, it shall be deemed that the requirement referred to in Item 1, 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 obliged 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 the Agency that the effects of guarantee, which also covers losses resulting from non-payment of interest and other types of payments that the debtor is obliged to perform, justifies such treatment.

4. Calculation of effects of credit risk mitigation in funded credit protection

Financial collateral simple method

Article 91

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

(2) Under the financial collateral simple method, the bank shall award the eligible financial collateral a value that equals its market value as stipulated in Article 86, 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 it would award pursuant to the part of the

Decision that concerns the calculation of capital requirements for credit risk - when the creditor bank would have a direct exposure towards that collateral. For this purpose, the off-balance sheet exposure value of the items listed in Attachment 1 of this Decision shall be equal to the net value of the item before applying the conversion factor.

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 it would award to unsecured exposures towards to the counterparty 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 counterparty or from the counterparty, that meet the criteria referred to in Article 95 of this Decision. If the counterparty is not a participant in the main market, the bank shall be obliged to apply the risk weight of 10%.

(5) For 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 50 and 51 of this Decision. The bank shall apply the risk weight of 10% on the secured part of the value of exposure 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, are awarded 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 or when the currency of exposure and collateral is a convertible mark and euro or vice versa, and for the duration of the currency board mandate in BiH 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 54 of this Decision, the risk weight of 0% applies, and whereby 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 and 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, and debt securities issued by regional governments or local authorities, which are treated as exposures to the central governments under Article 55, Paragraph 4 of this Decision,
- 2) debt securities of multilateral development banks to which, pursuant to Article 57, Paragraph 2 of this Decision, the risk weight of 0% shall apply,
- 3) debt securities of international organizations to which, pursuant to Article 58 of this Decision, the risk weight of 0% shall apply,
- 4) debt securities issued by public sector entities which are treated as exposures to the central governments in accordance with Article 56, Paragraph 6.

Financial collateral comprehensive method

Article 92

(1) In the course of valuation of financial collateral for the requirements of the financial collateral comprehensive method, the bank shall apply volatility adjustments to the market value of financial collateral in compliance with the provisions of Articles 93-95 of this Decision, in order to take into account price volatility of collateral.

If the collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, in addition to the volatility adjustment for collateral,

determined in compliance with Articles 93-95 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 bank 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 93 and 95 of this Decision,

H_{fx} = volatility adjustment for currency mismatch, calculated in compliance with Articles 93 and 95 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 obliged 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, where the exposure was not collateralised,

H_E = the volatility adjustment for exposures, calculated in compliance with Articles 93 and 95 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 item value, instead of the value of exposure referred to in Article 49 of this Decision.

(5) The bank shall be obliged to calculate fully adjusted value of exposure (E^*), taking into account the volatility of collateral and its effects on risk mitigation 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 of this Article,

C_{VAM} = C_{VA} that is additionally adjusted for any currency mismatch in compliance with Articles 100-102 of this Decision.

(6) If the collateral comprises of a higher amount of eligible items, the bank shall be obliged 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 93

(1) The volatility adjustments that are applied by the bank according to the supervisory volatility adjustment approach, under the assumption of daily revalorizations, shall be the factors provided in Tables 10 - 13 of this Paragraph.

Volatility adjustments

Table 10

Credit quality level linked to credit assessment of debt security	Remaining maturity	Volatility adjustment for debt securities of entities referred to in Article 81, Paragraph 1, Item 2 of this Decision			Volatility adjustments for debt securities of entities referred to in Article 81, Paragraph 1, Items 3 and 4 of this Decision		
		realization period 20 days (%)	realization period 10 days (%)	realization period 5 days (%)	realization period 20 days (%)	realization period 10 days (%)	realization period 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 11

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 81, Paragraph 1, Item 2 of this Decision with short-term credit assessment			Volatility adjustments for debt securities of entities referred to in Article 81, Paragraph 1, Items 3 and 4 of this Decision with short-term credit assessment		
	realization period 20 days (%)	realization period 10 days (%)	realization period 5 days (%)	realization period 20 days (%)	realization period 10 days (%)	realization period 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

Other collateral or exposure types

Table 12

	realization period 20 days (%)	realization period 10 days (%)	realization period 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 13

Volatility adjustments for foreign currency mismatch

realization period 20 days (%)	realization period 10 days (%)	realization period 5 days (%)
11.314	8	5.657

(2) When calculating the 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 counterparty or from the counterparty, 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 10-13 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 81, Paragraph 7 of this Decision shall also be applied.

(4) For securities that are not eligible, 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 counterparty or from the counterparty, 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 stock in investment funds, the volatility adjustment shall be the weighted average volatility adjustment that would be applied to assets in which the fund is investing, whereas the bank shall be obliged to take into account the period of transaction realization 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 be applied 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 or investment firms that meet the criteria for recognition referred to in Article 81, 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.

(7) Where there is a foreign currency mismatch between the exposure and the deposit used as exposure collateral, the bank shall apply a corrective factor of 8%, except that for the mandate duration of the currency board in BiH, the corrective factor of 0% shall be applied, when the currency of the exposure and deposit is a convertible mark and the euro, or vice versa.

Scaling up of volatility adjustment under the financial collateral comprehensive method Article 94

The volatility adjustments referred to in Article 93 of this Decision shall be the volatility adjustments that the bank shall be obliged 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 obliged 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:

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

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 95

(1) The bank that is applying the regulatory volatility adjustment approach referred to in Article 93 of this Decision, may, instead of volatility adjustments calculated pursuant to Articles 93 and 94 of this Decision, apply to repurchase transactions and transactions of borrowing of securities to the counterparty or from the counterparty 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 of cash or debt securities of central governments and central banks in the sense of Article 81, Paragraph 1, Item 2 of this Decision, and that are, in compliance with Chapter IV of the Decision that concerns the calculation of capital requirements for credit risk, awarded the risk weight 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 counterparty 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 counterparty or from the counterparty,
- 7) documentation ascertains that in case the counterparty fails to meet the obligation of disbursement of cash or delivery of securities or the additional increase of collateral, or the status of default of liabilities of that counterparty onsets in any other manner, that transaction may be terminated immediately,
- 8) competent authorities for market regulation shall deem the counterparty as a participant in the recognized 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 81, 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) investment firms,
- 4) 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,
- 5) legally regulated investment funds that are subject to calculation of capital requirements or requirements that concern leverage,
- 6) legally regulated pension funds,
- 7) recognized clearing firms.

**Calculation of risk weighted exposure amount
under the financial collateral comprehensive method
Article 96**

Under the standardized approach, the bank shall be obliged to apply the “E*” that is calculated in compliance with Article 92, Paragraph 5 of this Decision, as the value of exposure for the requirements of Article 53 of this Decision. In case of off-balance sheet items referred to in Attachment 1 of this Decision, the bank shall be obliged to apply the “E*” as the value to which the percentages stipulated in Article 49, Paragraph 1 of this Decision apply, in order to obtain the values of exposures.

**Other funded credit protection
Article 97**

(1) If the conditions are met as under Article 87, 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 87, Paragraph 2 of this Decision, to the amount of exposure 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 exposure.

If there is foreign currency mismatch, the banks shall be obliged to reduce the present redemption value in compliance with Article 98, 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 obliged to award the following risk weights on the basis of risk weights that are being applied 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 83, Item 3 of this Decision, as guarantees of the bank or investment firm 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 81, 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 98

- (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 obliged 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 foreign exchange rate risk,

G = the nominal amount of credit protection,

H_{fx} = the volatility adjustment for any foreign exchange mismatch between the credit protection and the underlying liability determined in compliance with Paragraph 3 of this Article.

If there is no foreign exchange mismatch, 'Hfx' equals zero and the value of zero applies during the mandate of currency board of BiH, and in cases where the currency of exposure and unfunded credit protection is a convertible mark and the euro, or vice versa.

- (3) The bank shall be obliged to establish volatility adjustments that shall be applied 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 be calculated by using the regulatory volatility adjustment approach in the manner referred to in Article 93 of this Decision. The bank shall be obliged to scale up volatility adjustment in compliance with Article 94 of this Decision

Calculation of risk weighted exposure amounts in compliance with standardized approach

Article 99

- (1) For the requirements of Article 53, Paragraph 3 of this Decision, the bank shall be obliged 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 49 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 item value, instead of the value of exposures referred to in Article 49, Paragraph 1 of this Decision,

G_A = the amount of protection from credit risk calculated pursuant to Article 98, Paragraph 2 of this Decision (G^*), additionally adjusted for any maturity mismatch in the manner stipulated 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 bank may expand the treatment envisaged under Article 54, Paragraphs 4 and 6 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 100

(1) For the requirements of calculation of amounts of risk weighted exposures, maturity mismatch shall onset when the remaining maturity of credit protection is shorter than the maturity of the hedged exposure. If the remaining maturity of protection is shorter than three months, and if the maturity of the protection is shorter than the maturity of the underlying exposure, that protection cannot be used as a eligible credit protection.

(2) If there is a maturity mismatch, credit protection shall not be recognized if the original maturity of credit protection is shorter than one year.

Maturity of credit protection

Article 101

(1) Effective maturity of the underlying 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 obliged 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 obliged 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 102

(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 92, 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 101 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 101 of this Decision or five years, whichever is lower,
 $t^* = 0.25$.

The bank shall be obliged 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 93, Paragraph 5 of this Decision.

(3) For transactions to which unfunded credit protection applies, the bank shall be obliged 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 101 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 101 of this Decision or five years, whichever is lower,

$t^* = 0.25$.

The bank shall be obliged to apply the G_A as the value of protection for the requirements of Articles 98 and 99 of this Decision.

CHAPTER VII

CAPITAL REQUIREMENT FOR SETTLEMENT / DELIVERY RISK

Settlement / Delivery Risk

Article 103

(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 obliged to calculate the difference in the price to which it is exposed.

(2) The bank shall be obliged to calculate the capital requirement for the settlement/delivery risk on the basis of outstanding transactions if the counterparty 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 Table 14, in order to calculate the capital requirement for the settlement risk.

Table 14

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 104**

(1) The bank shall be required to hold regulatory capital (own funds) as provided in Table 15, 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 15

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 until four days after the contracted payment or delivery	From 5 working days since the date of contracted payment or delivery 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 exposure 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 15.

(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 15, 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 105**

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 counterparty 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 OPERATIONAL RISK

**Approval
Article 106**

(1) In order to apply the standardized approach and obtain an approval from the Agency, the bank shall be obliged to meet, in addition to general standards for establishment and application of the risk management system and special standards for operational risk management, also the criteria under Article 112 of this Decision, as well as to have an adopted recovery plan for operational risk.

(2) The bank shall be obliged to stipulate in policies and procedures the manner and the obligation of valuation of exposure to operational risk for the coverage of events of low

frequency with large losses. The bank shall determine what represents operational risk in the aforementioned policies and procedures.

(3) The bank shall be obliged to develop 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 107

(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 operational 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 operational 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 operational risk management.

2) the bank has obtained a prior approval from the Agency.

Basic indicator approach

Article 108

(1) Under the basic indicator approach, the capital requirement for operational risk equals to 15% of the three-year average of the relevant indicator, as stipulated in Article 109 of this Decision. The bank shall calculate the three-year average of the relevant indicator on the basis of data for the last three periods of twelve months at the financial year end.

(2) When the bank has been operating 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 operational 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 calculate the three-year average so that the sum of the positive values is divided by the number of positive values.

Relevant indicator

Article 109

(1) The bank shall disclose the relevant indicator as the sum of elements provided in Table 16 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 16

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 bank shall not include:
- 1) costs of value adjustments and provisioning for off balance sheet items, as well as income from reductions thereof, and business operating costs,
 - 2) net profit / losses from the sale of financial assets in the banking book,
 - 3) extraordinary income, and
 - 4) income from insurance.
- (3) Exceptionally, when calculating the relevant indicator, the bank shall include the costs of fees for paid outsourced services if the third party is not the bank's parent company, a subsidiary of the bank or a subsidiary of the parent company.

Standardized Approach Article 110

- (1) Under the standardized approach, the bank shall classify its activities in business lines as provided in Table 17 from Paragraph 4 in compliance with the principles under Article 111 of this Decision.
- (2) The bank shall calculate the capital requirement for operational risk as the three-year average of the sum of annual capital requirements for all business lines from Table 17. 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 bank 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 bank 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 operational risk, the Agency may approve to the banks 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 operating 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 17

Business Lines	Description of activities	Percentage (beta factor)
Corporate financing	Services of sponsoring the issuance (<i>underwriting</i>). Services relating to the provision of underwriting services. 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 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. Underwriting services without the obligation of redemption. Managing multilateral trading platform.	18 %
Brokerage activities with retail (activities involving private individuals and small and medium enterprises that meet the criteria under Article 63 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. Underwriting services 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 private individuals and small and medium enterprises that meet the criteria under Article 63 of this Decision for the category of exposures towards retail)	Receiving deposits or other returnable assets. Lending. 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 the 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 111

(1) The bank shall determine 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 110 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 mapping,

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 are being 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 account for,

5) mapping activities into business lines for the requirements of calculation of the capital requirement for operational 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 verification of the procedures of mapping activities into business lines.

Criteria for the standardized approach Article 112

The criteria under Article 106, 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 operational risk with clearly delegated responsibilities for that system. The bank shall determine its exposure to operational risk and shall monitor relevant data on operational risk, including the data on significant tangible losses. The relevant system shall be subject to regular independent verifications that shall be performed by an internal or external person that has the knowledge necessary for implementing such verifications.

2) the assessment of the bank operational risk shall have to be firmly integrated into the bank risk management processes. Its results shall represent an integral part of the procedure of monitoring and control of the bank risk profile for the operational risk.

3) the established system of reporting to the management and the supervisory board on exposures to operational risk and established procedures for undertaking appropriate activities on the basis of information from the report to the management.

Combined application of various approaches Article 113

(1) The bank shall be obliged 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 assumes 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 114

(1) The trading book shall cover all items in financial instruments and commodities that are held by the bank with intent to trade or to protect items it holds with the intention of trading. Items 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 book 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 items or portfolio in compliance with Articles 115 and 116 of this Decision.

(4) The items that are held with intent to trade shall be those items 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. These items shall cover the items in own trading and items that result from the provision of services to clients and from performance of activities of the market making.

(5) The bank shall be obliged to establish and maintain adequate systems of internal controls for the management and assessment of the values in the trading book in compliance with Article 115 of this Decision.

(6) Items in the trading book shall be subject to the requirements for prudent valuation specified in Article 117 of this Decision.

(7) 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 Article 118 of this Decision.

(8) Built in derivatives that are, in compliance with the provisions of IAS / IFRS, deemed as an independent derivative, and which does not meet the conditions under the Paragraph 1 of this Article, shall not be deemed as an item 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 derivative does not represent an item in the trading book, the bank shall be obliged to monitor, measure, and manage, in an appropriate manner, risks resulting from it or take them into account in the internal capital adequacy assessment process in banks (*ICAAP*).

Management of items in the trading book

Article 115

(1) The bank shall be obliged to have clearly defined policies and procedures for comprehensive management of the trading book, which 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 item can be marked-to-market daily by reference to an active, liquid, two-way market,
 - 3) for items that are valued under the internal methodology for determination of the value, the degree to which the bank can:
 1. identify all significant risks of the item,
 2. protect itself from all significant risks of the items 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 item that may be externally valued in a consistent 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 items or to hedge the items 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 the items within its trading activities,
 - 7) the degree to which the bank may transfer risk or items between the banking book and the trading book, as well as criteria for such transfers according to the article 116 of this Decision.
- (2) When managing its items or a set of items in the trading book, the bank shall be obliged to meet the following:
- 1) clearly documented strategy of trading for items / instruments 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 items overtaken in organizational units of the bank intended for trading. These 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 items 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 items within determined limits and in compliance with the adopted trading strategy,
 4. reporting to the supervisory board and management of the bank on items that are held in the trading book, as an integral part of the bank risk management process,
 5. active monitoring of items based on relevant sources of market information and assessment of marketability or possibility of protection of the given item 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 items being traded with on the market,
 6. active procedures and controls for preventing fraud;
 - 3) clearly defined policies and procedures for monitoring of items in compliance with the trading strategy, including the monitoring of sales and items for which the initially envisaged period of holding was exceeded.

Inclusion of items in the trading book
Article 116

- (1) The bank shall be obliged to have clearly defined policies and procedures for determination of items that shall be included in the trading book in compliance with the requirements referred to in Article 114 of this Decision and the definition of the trading book under the Law, taking

into account the established risk management procedures in the bank. The bank shall be obliged 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 banks shall have in place clearly defined policies for identifying the exceptional circumstances which justify the reclassification of a trading book item as a non-trading book item and vice versa, for the purpose of determining capital requirements in compliance with the requirements of this Decision. The bank shall review those policies at least annually.

(3) The Agency shall provide an approval to reclassify a trading book item as a non-trading book item or vice versa, for the purpose of determining capital requirements only where the bank has provided the Agency with written evidence that its decision to reclassify that item is the result of an exceptional circumstance that is consistent with the policies the bank has in place in accordance with Paragraph 2 of this Article. For that purpose, the bank shall provide sufficient evidence that the item no longer meets the condition to be classified as a trading book or non-trading book item pursuant to the requirements of this Article.

(4) The decision referred to in Paragraph 3 of this Article shall be approved by the bank supervisory board.

(5) Where the Agency has provided an approval for the reclassification of an item in accordance with Paragraph 3 of this Article, the bank which received that approval shall:

1) publicly disclose, without delay, information that the item has been reclassified, and where the effect of that reclassification is a reduction in the bank's capital requirement, the size of that reduction; and

2) where the effect of that reclassification is a reduction in the bank's capital requirement, not recognize that effect until the item matures.

(6) The bank shall calculate the net change in the amount of its capital requirements arising from the reclassification of the item as the difference between the capital requirements immediately after the reclassification and the capital requirements immediately before the reclassification, each calculated in accordance with Article 38 of this Decision. The calculation shall take into account only the effects of reclassification.

(7) The reclassification of an item in accordance with this Article shall be irrevocable.

Regulatory requirements for valuation

Article 117

(1) All items in the trading book and the banking book measured at fair value shall be subjected to the standards of regulatory requirements for valuation referred to in this Article. The bank shall particularly be obliged to ensure that regulatory valuation of its items from the trading book achieves the corresponding level of reliability in relation to the dynamic nature of the items from the trading book and the items from the banking book measured at fair value, the requirements for regulatory correctness, and the manner of treatment with the aim of adequate calculation of capital requirements for the items from the trading book and the items from the banking book measured at fair value.

(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 verification 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 the item price, 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 the bank management for the aforementioned functions,
 - 3) establishment of the system of reporting of the organizational part responsible for valuation of items independently from the organizational part that is performing the operational activities of trading, as well as regular reporting to the bank management.
- (3) The bank shall be obliged to value the items in the trading book at fair value at least once a day. Changes in the value of those items shall be reported in the bank income statement.
 - (4) The bank shall value the items at market prices whenever possible, including when applying the calculation of capital requirements for the trading book and the items in the banking book measured at fair value. Marking to current market price shall be performed at least once a day, at readily available close out prices of those items that are sourced independently. Examples include stock 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 items and shall submit evidence (for example, closing notes) of the fact that it may conclude the trading at the medium 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 items and portfolios, including also the situations in which it is calculating capital requirements for the items in the trading book and the items in the banking book measured at fair value.
 - (7) When applying the valuation according to the internal methodology for determination of value, the bank shall be obliged to meet the following requirements:
 - 1) the bank management shall have to be acquainted with the elements of the trading book or with other items at fair value for which valuation according to the 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 possible, and frequently assess the adequacy of input market parameters for a specific item that is being valued, as well as parameters for the internal methodology for item valuation,
 - 3) the bank shall use methodologies of valuation, if 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 verified by appropriately qualified entities that did not participate in the development of internal methodology for determination of value. The internal methodology for determination of item value shall have to be developed or approved independently of those who assume items for trading and it shall have to be independently tested, including the validation of mathematical calculation, assumptions and its programming implementation,
 - 5) the bank shall be obliged to have official procedures for controlling changes and to have a secure copy for the internal methodology for determination of item value, and to use it periodically for verifying 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 the results of valuation,
 - 7) internal methodologies for determination of value shall be subjected 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 obliged to implement an independent verification of prices. The verification 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 obliged 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 for adjustment of less liquid items 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 obliged 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 118

(1) Internal hedge shall, particularly, have to meet the following requirements:

- 1) the basic purpose is not to avoid or reduce capital requirements,
- 2) it is adequately documented and subjected 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) careful monitoring in compliance with appropriate processes that are stipulated in the bank internal enactments.

(2) The requirements under Paragraph 1 of this Article shall be applied without calling into question the requirements relating to the hedged items 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 Article 119

(1) The bank shall calculate capital requirements for market risk of all trading book items and non-trading (banking) book items that are subject to foreign exchange risk or commodity risk in accordance with the standardized approach, in such a way as to add up the capital requirements for:

- 1) position risk referred to in Sub-chapter 2 of this Chapter;
- 2) foreign exchange risk referred to in Sub-chapter 3 of this Chapter and
- 3) commodity risk referred to in Sub-chapter 4 of this Chapter.

(2) The Agency may stipulate additional requirements in a sense of an approach for the calculation of capital requirements for market risk and reporting thereof, depending on the justification of such requirement.

2. Capital requirements for position risk

Capital requirements for position risk Article 120

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 121

(1) Position risk for debt or equity financial instrument (or debt or equity 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 instrument due to factors relating to its issuer or in case of derivatives of the issuer of the main financial instrument, to which the derivative relates.

(3) General risk shall be the risk of changes in the price of individual financial instrument 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 122

(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. When calculating the net position with positions in financial derivatives, activities shall be undertaken as stipulated in Articles 124-126 of this Decision. Investments of the bank in own debt instruments shall not be included in the calculation of the capital requirement for specific risk in compliance with Article 129 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 123

Positions of individual instruments stipulated in Articles 124 - 126 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 instrument that covers the interest rate risk that onsets due to future payments and receipts of cash flows (including hypothetical payment and receipts),

3. to debt instruments and hypothetical debt instruments together,

2) if the main 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 124

(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 a 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 18 of Article 129 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 18 of Article 129 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 fixed, while the “short position” shall be the position in which the interest rate, that shall be paid in a certain moment in future, is fixed.

Options and warrants

Article 125

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 amount of reference instrument to which the option relates 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 price of the main instrument.

Treatment of swaps

Article 126

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, reverse repurchase agreements and agreements on borrowing
Article 127

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 128

The bank shall be obliged to classify net positions in debt instruments 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 specific risk for debt instruments
Article 129

(1) The bank shall be obliged to classify its net positions in the trading book in instruments, that shall be calculated in compliance with Article 122 of this Decision, into corresponding categories provided in Table 18 on the basis of their issuers or debtors, external or internal credit assessments and the remaining maturity, and then multiply them with the weights provided in the aforementioned table.

The bank shall sum its weighted positions resulting from the application of this Article, independently on whether they are long or short, in order to calculate its capital requirement 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 18

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 final maturity of 6 months at most) 1.00% (remaining final maturity of more than 6 to 24 months) 1.60% (remaining 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 weight of 150% would be awarded	12.00 %

(2) The bank shall be obliged 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 67, Paragraphs 3 and 4 of this Decision, as one half of the effective capital requirement for specific risk for the second category in Table 18 in Paragraph 1 of this Article.

(3) The bank shall be obliged to apply the maximum weight provided in Table 18 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. the investment quality is, according to the assessment of the bank itself, at least equal to the investment quality of assets from the second row of Table 18, in Paragraph 1 of this Article,
3. they are listed in at least one regulated market of the EU state member, BiH 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 row of Table 18,

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 EU. The bank that shall be applying Item 1 or 2 of this Paragraph shall be obliged to have in place documented methodology for assessing in the context of whether the asset is meeting the requirements under the aforementioned Items and to inform the Agency on the aforementioned methodology.

General risk Article 130

The bank may use an approach for the calculation of capital requirements for general risk based on maturity in compliance with Article 131 of this Decision, or based on duration in compliance with Article 132 of this Decision. The bank shall have to apply the selected approach in a consistent manner.

Calculation of general risk based on maturity Article 131

(1) For the calculation of capital requirement for general risk, all positions shall be weighted according to maturity in compliance with Paragraph 2 of this Article in order to calculate 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 3 in Table 19 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 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 3 in Table 19 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 19 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 19 of this Article, in order to acquire unmatched long positions for each zone. Similar to that, the sum of unmatched weighted 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 19

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 132

(1) For calculating the capital requirement for the general risk of debt instruments, instead of the approach referred to in Article 131 of this Decision, the bank may apply the approach based on duration, provided that it consistently applies the aforementioned approach..

(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 20. The aforementioned shall be implemented on the basis of modified duration for each of the instruments.

Table 20

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 20 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 131, 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 133**

(1) The bank shall separately calculate the sum of all its net long position and all its net short position in compliance with Article 122 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) 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 134**

The capital requirement for specific risk of the bank shall be calculated by multiplying its total gross position by 12%.

General risk of equity instruments **Article 135**

The capital requirement for general risk shall be the total net position of the bank multiplied by 12%.

Stock indices **Article 136**

(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 ignored if the aforementioned stock-index futures are being traded on the stock exchange, and if they represent a relevant index that is diversified in an appropriate manner.

Underwriting **Article 137**

(1) The bank shall be obliged 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 it reduces 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 21 of this Paragraph, and calculate the capital requirement by using the reduced positions resulting from the provision of the service of underwriting. Table 21 shall provide the reduction factors:

Table 21

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 period from the initial commitment at the first working day.

(3) The bank shall be obliged to inform the Agency on the method of application of Paragraph 1 of this Article.

Capital requirements for positions in investment fund

Article 138

(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 143, together with Article 142, Paragraph 4 of this Decision, which determines the treatment of gold, positions in the investment fund shall be subject to the 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 stipulated in Article 140 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 139

(1) The approach referred to in Article 140 of this Decision may be applied to an investment fund if all 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 contract repurchase agreements and agreements of borrowing securities, policies for limiting the counterparty risk that result 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 investment fund management company,
 - 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 shall be managed by persons that are subject to supervision of competent regulatory authorities in BiH or the EU.
- (2) The methods stipulated in Article 140 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 140

- (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 obliged 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 stipulates 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 specific and general risk, together in compliance with this Paragraph, exceeds the amount referred to in Article 138, 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 the investment fund referred to in Paragraphs 1 - 3 in compliance with methods under this Article, the bank may rely on:
- 1) 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,
 - 2) for investment funds not covered by Item 1 of this Paragraph, the CIU management company, provided that the CIU management company meets the criteria set out in Article 69, Paragraph 2, Item 1 of this Decision.

The accuracy of the calculation shall be confirmed by an external auditor.

3. Capital requirement for foreign exchange risk

“De minimis” and foreign exchange risk weighting Article 141

- (1) The bank shall be obliged to calculate the capital requirement for foreign exchange 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 142 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 its total net open foreign exchange position and its net open position in gold by 12%.

Calculation of total net foreign exchange position Article 142

(1) The 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) the net spot position in the currency (balance between the assets and liabilities in that currency, including not due accrued interest in that currency), and the net spot position in gold,
- 2) the 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 the nominal amount of foreign exchange swaps that are not included in the 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 bank shall not be able to settle for those assets,
- 4) the net delta equivalent or the equivalent based on delta values of the total book of foreign exchange options and options on gold.
- 5) the market value of other options that are not foreign exchange options or options on gold, where the subject of the contract (the underlying instrument) is expressed in a foreign currency.

The delta equivalent of the position in an option shall be calculated by multiplying the amount of underlying 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 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 is adequately assessing the rate of change in the value of option caused by small changes in the market value of the underlying instrument.

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 such a treatment is being applied in a consistent 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 exchange rate changes to capital ratios under Article 38, 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 calculation of the net open foreign exchange position, a separate approval of the Agency shall be necessary. The bank shall be obliged to stipulate in its internal enactments the types and characteristics of instruments that it shall be using exclusively

for protection from negative effects of exchange rate changes to capital ratios.

The same treatment shall also apply to positions that represent items that are deducted in the calculation of regulatory capital.

(3) The bank shall consistently use the net present value approach, i.e. in the calculation of the net open foreign exchange position it shall reduce the items of balance sheet assets by the corresponding value adjustments, and the items of 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 mid exchange rate of the CBBiH.

Then, the bank shall calculate the total net open long position as the sum of all open net long positions in individual currencies, and the total net open 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 risk in compliance with Article 141, Paragraph 2 of this Decision.

Foreign exchange risk for positions in investment funds **Article 143**

(1) For the requirements of Article 142 of this Decision, the bank shall be obliged to treat stocks in the investment fund in compliance with the actual foreign exchange structure of investments of that investment fund and to include the resulting foreign exchange positions in the calculation of net open foreign exchange position in the corresponding foreign currency.

(2) The bank may rely on the report on the foreign exchange investment structure of the investment fund:

1) the depositary bank of the specific investment fund, under the condition that the investment fund is investing exclusively into securities and deposits all securities with the aforementioned depositary,

2) for other investment funds, the CIU management company, provided that the CIU management company meets the criteria set out in Article 69, Paragraph 2, Item 1 of this Decision.

The accuracy of the reports shall be confirmed by an external auditor.

(3) If the bank is not acquainted with the foreign exchange investment structure 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 obliged to take into account the highest exposure that may result from the stocks 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 exchange 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 exchange position of the bank in the assumed investments of the investment fund shall be included in the calculation of the total open foreign exchange 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 exchange 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.

4. Capital Requirements for Commodity Risk

Selection of method for commodity risk Article 144

In compliance with Articles 145 and 146 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 145

(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 147, 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. Derivatives shall be treated in compliance with Article 146 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 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 146

(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 where 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 148, Paragraph 1 of this Decision. The position shall be long positions if the bank is paying a fixed price, and receiving a variable price, and short if the bank is receiving a fixed price, but paying a variable price. Commodity swap contracts where different sides of transaction are in different commodities, shall, in the maturity ladder approach, be expressed in the relevant reporting ladder.

(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 relevant 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 relevant instrument of the bank in the 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 147

(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 148

(1) The bank shall, for each commodity, apply a separate ladder of maturity in compliance with Table 22 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 22

Maturity class (1)	Difference rate (%) (2)
0 ≤ 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 the corresponding classes of maturity in the net amount:

- 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 maturity classes, the bank shall then sum up all long and all 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 being 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 ladder, 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 22 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 X

Transitional and final provisions Article 149

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

(2) The bank shall be obliged to harmonize its operations with the provisions of this Decision by 30 June 2024.

(3) As of the beginning of application of provisions of this Decision, the Decision on calculating capital in banks ("Official Gazette of Republika Srpska", No.: 74/17, 114/17, 48/19, 114/20, 120/21 and 26/22) shall cease to be effective.

(4) With the objective of adequate application of provisions of this Decision, the bank shall be obliged, starting from 30 June 2024, to report to the Agency on the calculation of regulatory capital and capital requirements by applying the provisions of this Decision.

(5) The bank shall be obliged to perform, 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 operational risk, the leverage ratio and capital buffers, and other necessary information stipulated under this Decision, shall be stipulated by the Agency in a special by-law that shall stipulate in more detail the uniform templates for reporting, the frequency and dates for reporting.

(7) For the Attachments 3 and 4 of this Decision the Agency shall publish web pages that shall represent the relevant source for the banks to download data contained in those attachments. The bank shall be obliged to additionally follow the relevant sources and make updates in lign with the associated changes.

No: UO-45/23

Date: 26 December 2023

**PRESIDENT
OF THE MANAGEMENT BOARD
Dejan Kusturić**

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 institution or investment firm 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 repurchase 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 of delivered commodities, guarantees for payment of customs and tax debt,
 2. undrawn credit lines (agreements on lending, redemption of securities, issuance of guarantees or acceptance notes) 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 underwriting services, 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. undrawn credit lines that include agreements on lending, redemption of securities, issuance of guarantees or acceptance notes 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 due to worsening of debtor’s credit worthiness.

(4) Low risk:

- 1) undrawn credit lines that include agreements on lending, redemption of securities, issuance of guarantees or acceptance notes which can be irrevocably revoked at any time, in the absence of notification, or which effectively facilitate automatic termination due to worsening of debtor’s credit worthiness,
- 2) undrawn credit lines for guarantees for bid security and bid performance which may be irrevocably revoked at any time or that effectively facilitate automatic termination due to worsening of debtor’s credit worthiness.

ATTACHMENT 2. FINANCIAL INSTRUMENTS

I - 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,
- 6) other agreements of similar legal nature.

(2) Derivatives whose relative variables are currency and gold:

- 1) inter-currency interest rate swap,
- 2) foreign exchange forward,
- 3) foreign exchange futures,
- 4) foreign exchange options,
- 5) other agreements of similar nature,
- 6) agreements of similar nature as agreements referred to in Items 1 - 5, which relate to gold.

(3) Options, futures, swaps, forward agreements and all other derivatives relating to securities, currencies, interest rates or yields, or other derivatives, financial indices or financial measurement quantities that can be collected physically or in cash.

(4) Options, futures, swaps, forward agreements and all other 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, and all other 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 and all other derivatives relating to commodities, and that may be settled physically, and that have not been included in the preceding Item and that do not have commercial purpose, but have features of other 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 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 reason for termination of contract), as well as all other derivatives, relating to assets, rights, liabilities, indices, and measurement quantities, which are otherwise not listed, and which have features of other 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 derivatives referred to in Attachment 2 to this Decision are not being traded

Name	Designation (MIC)
AIAF – MERCADO DE RENTA FIJA	XDRF, SEND
ATHENS EXCHANGE SECURITIES MARKET	XATH
BADEN-WUERTEMBERGISCHE WERTPAPIERBOERSE	STUC, STUA
BOERSE BERLIN	BERC, BERA, EQTB, EQTA
BOERSE DUESSELDORF	DUSC, DUSA
BOERSE MUENCHEN	MUNC, MUNA
BOLSA DE BARCELONA	XBAR, SBAR
BOLSA DE BILBAO	XBIL, SBIL
BOLSA DE MADRID	XMAD, MERF
BOLSA DE VALENCIA	XVAL
BONDSPOT SECURITIES MARKET	RPWC
BOURSE DE LUXEMBOURG	XLUX
BRATISLAVA STOCK EXCHANGE	XBRA
BUCHAREST STOCK EXCHANGE	XBSE
BUDAPEST STOCK EXCHANGE	XBUD
BULGARIAN STOCK EXCHANGE — SOFIA JSC	XBUL
CBOE EUROPE	CCXE
CME AMSTERDAM	BTAM
CYPRUS STOCK EXCHANGE	XCYS
ELECTRONIC BOND MARKET	MOTX
ELECTRONIC ETF AND ETC/ETN MARKET – ETFplus	ETFP
ELECTRONIC SECONDARY SECURITIES MARKET	HDAT
ELECTRONIC SHARE MARKET	MTAA
EURONEXT AMSTERDAM	XAMS
EURONEXT BRUSSELS	XBRU
EURONEXT DUBLIN	XMSM
EURONEXT EXPAND	XOAS
EURONEXT LISBON	XLIS
EURONEXT OSLO	XOSL
EURONEXT PARIS	XPAR
FRANKFURTER WERTPAPIERBOERSE (REGULIERTER MARKT)	FRAA, XETA
HANSEATISCHE WERTPAPIERBOERSE HAMBURG (REGULIERTER MARKT)	HAMA, HAMM
LJUBLJANA STOCK EXCHANGE OFFICIAL MARKET	XLJU
MALTA STOCK EXCHANGE	XMAL, IFSM
MARKET FOR INVESTMENT VEHICLES (MIV)	MIVX
MTS GOVERNMENT MARKET	MTSC
NASDAQ COPENHAGEN	XCSE
NASDAQ HELSINKI	XHEL
NASDAQ ICELAND	XICE
NASDAQ RIGA	XRIS
NASDAQ STOCKHOLM	XSTO
NASDAQ TALLINN	XTAL
NASDAQ VILNIUS	XLIT

NIEDERSAECHSISCHE BOERSE ZU HANNOVER (REGULIERTER MARKT)	HANA
NORDIC GROWTH MARKET NGM	XNGM
NXCHANGE	XNXC
PRAGUE STOCK EXCHANGE	XPRA
RM-SYSTEM CZECH STOCK EXCHANGE	XRMZ
TRADEGATE EXCHANGE (REGULIERTER MARKT)	XGRM
VIENNA STOCKEXCHANGE OFFICIAL MARKET (AMTLICHER HANDEL)	WBAH
WARSAW STOCK EXCHANGE	XWAR,WBON, WETP
ZAGREB STOCK EXCHANGE	XZAG
ASX LIMITED	XASX
CHI-X AUSTRALIA PTY LTD	CHIA
THE STOCK EXCHANGE OF HONG KONG LIMITED (SEHK)	SHKG
BOX OPTIONS EXCHANGE LLC	XBOX
CBOE BYX EXCHANGE, INC. (FORMERLY BATS BYX EXCHANGE, INC.; BATS Y-EXCHANGE, INC.)	BATY
CBOE BZX EXCHANGE, INC. (FORMERLY BATS BZX EXCHANGE, INC.; BATS EXCHANGE, INC.)	BATS
CBOE C2 EXCHANGE, INC.	C2OX
CBOE EDGA EXCHANGE, INC. (FORMERLY BATS EDGA EXCHANGE, INC.; EDGA EXCHANGE, INC.)	EDGA
CBOE EDGX EXCHANGE, INC. (FORMERLY BATS EDGX EXCHANGE, INC.; EDGX EXCHANGE, INC.)	EDGX
CBOE EXCHANGE, INC.	CBSX
CHICAGO STOCK EXCHANGE, INC.	XCHI
THE INVESTORS EXCHANGE LLC	IEXG
MIAMI INTERNATIONAL SECURITIES EXCHANGE	XMIO
MIAX PEARL, LLC	MPRL
NASDAQ BX, INC. (FORMERLY NASDAQ OMX BX, INC.; BOSTON STOCK EXCHANGE)	BOSD
NASDAQ GEMX, LLC (FORMERLY ISE GEMINI)	GMNI
NASDAQ ISE, LLC (FORMERLY INTERNATIONAL SECURITIES EXCHANGE, LLC)	XISX
NASDAQ MRX, LLC (FORMERLY ISE MERCURY)	MCRY
NASDAQ PHLX LLC (FORMERLY NASDAQ OMX PHLX, LLC; PHILADELPHIA STOCK EXCHANGE)	XPHL
THE NASDAQ STOCK MARKET	XNAS
NEW YORK STOCK EXCHANGE LLC	XNYS
NYSE ARCA, INC.	ARCX
AQUA SECURITIES L.P.	AQUA
ATS-1	MSTX
ATS-4	MSPL
ATS-6	MSRP
BARCLAYS ATS	BARX
BARCLAYS DIRECTEX	BCDX
BIDS TRADING, L.P.	BIDS
CIOI	CIOI
CITIBLOC	CBLC
CITICROSS	CICX
CODA MARKETS, INC	CODA
CREDIT SUISSE SECURITIES (USA) LLC	CAES
DEUTSCHE BANK SECURITIES, INC	DBSX
EBX LLC	LEVL
INSTINCT X	BAML
INSTINET CONTINUOUS BLOCK CROSSING SYSTEM (CBX)	ICBX

INSTINET, LLC (INSTINET CROSSING, INSTINET BLX)	XINS
INSTINET, LLC (BLOCKCROSS)	BLKX
JPB-X	JPBX
J.P. MORGAN ATS ('JPM-X')	JPMX
JSVC LLC	*
LIQUIDNET H ₂ O ATS	LIUH
LIQUIDNET NEGOTIATION ATS	LIUS
LUMINEX TRADING & ANALYTICS LLC	LMNX
NATIONAL FINANCIAL SERVICES, LLC	NFSC
POSIT	ITGI
SIGMA X2	SGMT
SPOT QUOTE LLC	*
SPREAD ZERO LLC	*
UBS ATS	UBSS
USTOCKTRADE	*
VIRTU MATCHIT	VFMI
XE	PJCX
Banja Luka Stock Exchange	BLSE
Sarajevo Stock Exchange	SASE
Belgrade Stock Exchange	BELEX

Note: for stock exchange that have a "*" in the Mark (MIC) column, market identifier codes (MIC) are not available in accordance with the ISO 10383 standard.

Recognized stock exchanges at which derivatives referred to in Attachment 2 to this Decision are being traded

Name	Designation (MIC)
MATIF	XMAT
MONEP	XMON
EUROPEAN ENERGY EXCHANGE	XEEE, XEER
EUREX DEUTSCHLAND	XEUR
MERCADO DE FUTUROS E OPCOES	MFOX
OMIP – POLO PORTUGUES	OMIP
MEFF EXCHANGE	XMRV, XMPW, XMFY
ICE ENDEX MARKETS	NDEX
ITALIAN DERIVATIVES MARKET	XDMI
NASDAQ STOCKHOLM	XSTO
FISH POOL	FISH
NOREXECO	NEXO
NASDAQ OSLO	NORX
OSLO BØRS	XOSL
EURONEXT BRUSSELS DERIVATIVES	XBRD
ATHENS EXCHANGE DERIVATIVES MARKET	XADE
BUDAPEST STOCK EXCHANGE	XBUD
ICE ENDEX DERIVATIVES	NDEX
EURONEXT EQF — EQUITIES AND INDICES DERIVATIVES	XEUE
EURONEXT COM — COMMODITIES FUTURES AND OPTIONS	XEUC
WARSAW STOCK EXCHANGE/COMMODITIES/POLISH POWER EXCHANGE/COMMODITY DERIVATIVES	PLPD
WARSAW STOCK EXCHANGE/FINANCIAL DERIVATIVES	WDER
CBOE DERIVATIVES	CDEX
HENEX FINANCIAL ENERGY MARKET – DERIVATIVES MARKET	HEDE

Source: [EUR-Lex - 02016R1646-20221017 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/lexuris/ui/entry.do?entryId=02016R1646-20221017-EN)

Recognized Clearing Firms

1. Nasdaq OMX Clearing AB
2. European Central Counterparty N.V.
3. KDPW_CCP
4. Eurex Clearing AG
5. Cassa di Compensazione e Garanzia S. p. A (CCG)
6. LCH SA
7. European Commodity Clearing
8. Keler CCP
9. CCP Austria Abwicklungsstelle für Börsengeschäfte GmbH (CCP.A)
10. BME Clearing
11. OMIClear - C.C., S.A.
12. ICE Clear Netherlands B.V.
13. Athens Exchange Clearing House (Athex Clear)
14. SKDD-CCP Smart Clear d.d (SKDD-CCP)
15. ASX Clear (Futures) Pty Limited
16. ASX Clear Pty Limited
17. Hong Kong Securities Clearing Company Limited
18. HKFE Clearing Corporation Limited
19. OTC Clearing Hong Kong Limited
20. The SEHK Options Clearing House Limited
21. Japan Securities Clearing Corporation
22. Tokyo Financial Exchange
23. Central Depository (Pte) Limited
24. Singapore Exchange Derivatives Clearing
25. ICE Clear Singapore
26. JSE Clear
27. ICE NGX Canada Inc.
28. Canadian Derivatives Clearing Corporation
29. Asigna Compensacion y Liquidacion
30. SIX x-clear AG
31. Korea Exchange, Inc.
32. Chicago Mercantile Exchange, Inc.
33. ICE Clear Credit LLC

34. Minneapolis Grain Exchange, Inc.
35. ICE Clear US, Inc.
36. National Securities Clearing Corporation
37. Dubai Commodities Clearing Corporation
38. Nasdaq Dubai Ltd
39. B3
40. New Zealand Clearing Limited
41. LCH Limited
42. ICE Clear Europe Limited
43. LME Clear Limited
44. Options Clearing Corporation
45. Fixed Income Clearing Corporation
46. ComDer Contraparte Central
47. Shanghai Clearing House
48. Dubai Clear LLC
49. Taiwan Futures Exchange Corporation
50. C  a   mara de Riesgo Central de Contraparte de Colombia S.A.
51. Tel-Aviv Stock Exchange Clearing House Ltd

Source:

https://www.esma.europa.eu/sites/default/files/library/ccps_authorized_under_emir.pdf
https://www.esma.europa.eu/sites/default/files/library/third-country_ccps_recognised_under_emir.pdf

ATTACHMENT 4 – LIST OF THIRD COUNTRIES IN WHICH REGULATORY AND SUPERVISION REQUIREMENTS ARE APPLIED THAT ARE EQUIVALENT TO THE REQUIREMENTS BEING APPLIED IN THE EU

Regulatory and supervisory requirements for banks (in connection with Articles 48, 54-56 of this Decision)

- (1) Argentina
- (2) Australia
- (3) Brazil
- (4) Canada
- (5) China
- (6) Faroe Islands
- (7) Greenland
- (8) Guernsey
- (9) Hong Kong
- (10) India
- (11) Isle of Man
- (12) Japan
- (13) Jersey
- (14) Mexico
- (15) Monaco
- (16) New Zealand
- (17) North Macedonia
- (18) Saudi Arabia
- (19) Serbia
- (20) Singapore
- (21) South Africa
- (22) South Korea
- (23) Switzerland
- (24) Turkey
- (25) USA

Regulatory and supervisory requirements for investment firm (in connection with Article 48 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

Source: [EUR-Lex - 32021D1753 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/lexuri/ui.do?uri=CELEX:32021D1753:EN:EUR-Lex)