

BANKING AGENCY OF REPUBLIKA SRPSKA

**INSTRUCTION
ON PRUDENTIAL VALUATION OF SOFTWARE FOR
CALCULATING REGULATORY CAPITAL**

Banja Luka, April 2024

Introduction

Instruction on Prudential Valuation of Software for Calculating Regulatory Capital is adopted pursuant to Article 5, Paragraph 1, Item b, Article 22, Paragraph 1, Item d. and Article 37 of the Law on Banking Agency of Republika Srpska ("Official Gazette of the Republika Srpska", No. 59/13 and 4/17), Article 6, Paragraph 1, Item b and Article 22, Paragraph 4, Item 1 of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of the Republika Srpska", No. 63/17), and Article 10, paragraph 2. Decision on calculating capital in banks ("Official Gazette of the Republika Srpska", No. 06/24).

Subject Article 1.

- (1) This instruction defines in more detail the method of calculating the value of software that is classified as an intangible asset in the applicable accounting framework, for the purposes of determining deductions from Common Equity Tier 1 capital.
- (2) The purpose of adopting this instruction is to ensure uniform treatment and reporting by banks, to support banks in the process of transition to a higher level of digitalization, as well as to align with the best international and European practices and standards, as well as relevant European directives.

Deduction of software classified as intangible assets under the applicable accounting framework Article 2.

- (1) Software classified as intangible assets in accordance with Article 2, paragraph 1, item 6 of the Decision on calculating capital in banks (hereinafter: the Decision) shall be a deductible item from Common Equity Tier 1 items accordance with Article 9 of the Decision. The bank shall deduct from the amount of the Common Equity Tier 1 capital the amount representing the difference, if the difference is positive, between:
 - 1) the accumulated amortisation of the software for prudential purposes, which is calculated in the manner described in paragraph 2 of this Article and
 - 2) the sum of the accumulated amortisation for accounting purposes and the accumulated impairment losses of that software that are recognized in the bank's balance sheet in accordance with the applicable accounting framework.
- (2) The amount of accumulated amortisation of software for prudential purposes is obtained by multiplying the amount from item 1 by the number of days from item 2:
 - 1) the amount at which the software was initially recognized in the bank's balance sheet in accordance with the applicable accounting framework, divided by the lower of:
 1. the number of days of the useful life of the software, estimated for accounting purposes, or
 2. three years, expressed in days, starting from the date on which the software is available for use and begins to be amortised for accounting purposes;
 - 2) the number of days elapsed from the date on which the software is available for use and begins to be amortised for accounting purposes, provided that it does not exceed the period specified in item 1, subparagraphs 1 and 2 of this paragraph.

If the software is acquired from any subsidiary, including an entity outside the financial sector, which is part of the same group as the bank, the amount of accumulated amortisation of the software for prudential purposes shall be calculated in the manner described in this paragraph, but from the

- date when the software began to be amortised for accounting purposes in the balance sheet of that subsidiary.
- (3) Notwithstanding paragraph 2 of this Article, if the software has been recognised in the balance sheet, but it is not available for use and has not been amortised for accounting purposes, the bank shall treat the full amount of the software, which is recognised in the balance sheet of the bank according to the applicable accounting framework, as a deductible item of Common Equity Tier 1 capital.
 - (4) The calculation referred to in paragraphs 1 and 2 of this Section shall be made individually for each software.
 - (5) The bank shall, in accordance with Article 53 of the Decision, apply a risk weight of 100% to the remaining value of the software, which is the difference between the net book value of the software and the value representing the deduction from the Common Equity Tier 1 capital calculated in accordance with this Instruction.
 - (6) An example of determining the amount of the deduction of software from the Common Equity Tier 1 capital is provided in the appendix to this Instruction.

Entry into force
Article 3

This instruction enters into force eight days from the date of its publication in the „Official Gazette of Republika Srpska”, and the bank is obliged to comply with the requirements of this instruction no later than 30.06.2024.

Number: D-9/24

Director

On , 9 April 2024

Srđan Šuput