

Pursuant to Article 5, paragraph (1), item h) and Article 19, paragraph (1), item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH, No. 75/17) and Articles 27, paragraph (9), item d), 79, item e), 80, paragraph (5) and 248 of the Banking Law (Official Gazette of the Federation of BiH, No. 27/17), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina, at its session held on 13 October 2017, adopted the following

**DECISION  
ON THE INTERNAL CAPITAL ADEQUACY ASSESSMENT  
PROCESS IN BANKS**

**I. GENERAL PROVISIONS**

**Article 1  
Subject of Decision**

- (1) This Decision shall prescribe the minimum requirements for banks with regard to conducting the procedure of the Internal Capital Adequacy Assessment Process (hereinafter: the ICAAP) in accordance with the risk profile of the bank as well as the methods and deadlines for reporting to the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency) on the implementation of the ICAAP on an individual and consolidated basis.
- (2) This Decision shall apply to banks headquartered in the Federation of Bosnia and Herzegovina (hereinafter: the FBiH), to which the Agency has issued an operating licence.
- (3) Issues relating to risk management in banks that are not regulated under this Decision, but are regulated under the Law or other regulations shall be subject to the provisions of that law or other regulation.

**Article 2  
Strategies, plans and procedures of capital planning in banks**

- (1) The shall develop a capital strategy whose implementation will ensure adequate, efficient, and comprehensive capital planning, which, in addition to the prescribed minimum amount of regulatory capital, will also cover all other risks to which the bank is exposed or might be exposed in its business operations, as well as procedures for the continuous assessment and maintenance of capital resulting from conducting the ICAAP.
- (2) The bank shall adopt a capital management plan clearly defining the following:
  - a) strategic objectives and deadlines for their realisation, taking into account the macroeconomic environment and the phases of the economic cycle,
  - b) capital planning procedures and responsibilities for such procedure,
  - c) the manner of achieving and maintaining an adequate level of capital as a result of planning in the period to come, and for a period of the next three years at least,
  - d) a contingency plan, which will define measures aimed at maintaining an adequate level of capital as a result of capital planning (e.g. the manner of acquiring additional capital, restrictions to business activities, etc.),
  - e) the dividend policy, which is harmonised with the prescribed regulatory requirements in terms of maintaining regulatory capital and capital as a result of the ICAAP, and

- f) determinants with regard to the policy and practice for determination and payment of variable compensations to the management and key employees significantly influencing the risk profile of the bank, while taking into account harmonisation with regulatory capital requirements.

### **Article 3**

#### **Establishment and implementation of the ICAAP**

- (1) The bank shall, on continuous basis, establish and implement an appropriate documented procedure for establishing and ensuring an adequate level of capital that is the result of the ICAAP and that corresponds to the nature, scope, and complexity of the bank's activities, taking into account the risk profile, risk management system and techniques used to mitigate risk.
- (2) When selecting a procedure for establishing and ensuring an adequate level of capital that is the result of the ICAAP, the bank may take into account other factors as well, such as market position, entry into new markets, availability of capital, as well as other strategic objectives. The bank shall analyse and document the impact of the aforementioned factors on the level of the assessed capital as a result of the ICAAP.
- (3) The procedure referred to in paragraph (1) of this Article shall be considered appropriate if:
  - a) it is based the identification, measurement or assessment and monitoring of significant risks to which the bank is exposed or might be exposed in its business operations, in accordance with the regulatory requirements prescribed for risk management in banks,
  - b) it ensures an adequate level of capital, as a result of the ICAAP, in terms of the bank's risk profile,
  - c) it is adequately incorporated into the bank's internal management system and the decision-making system in the bank.
- (4) The bank shall define, document and regularly supervise the adequacy of the procedure referred to in paragraphs (1), (2) and 3 of this Article.
- (5) The bank's internal audit shall perform an adequacy assessment of the ICAAP at least once a year in order to ensure that the ICAAP is proportionate to the nature, scope and complexity of the bank's activities in a clear and comprehensive manner.
- (6) The adequacy of the established ICAAP in the bank shall be subject to supervisory review and evaluation, based on which the Agency shall, if necessary, decide on further supervisory measures in accordance with legislation and regulations.

## **II. THE ICAAP PROCEDURE IN BANKS**

### **Article 4**

#### **Phases of the ICAAP procedure**

- (1) The bank shall establish a methodology defining the quantitative and qualitative criteria on the basis of which the significant risks included in the ICAAP are determined, taking into account the type, scope, and complexity of its operations, as well as the specificity of the market in which they operate. The bank shall cover the following phases under the ICCAP:
  - a) determination of significant risks,
  - b) measurement or assessment of individual risks and determination of corresponding amounts of internal capital requirements as a result of the ICAAP,
  - c) determination of total capital as a result of the ICAAP,

- d) comparison of regulatory capital and capital determined as a result of the ICAAP.
- (2) The bank shall perform the procedure referred to in paragraph (1) of this Article at least once a year, and in case of a significant change in the risk profile even more frequently.

## **Article 5**

### **Significant risks**

- (1) The bank shall, based on its risk profile, define significant risks to which it is exposed or might be exposed in its operations and which shall be covered by the ICAAP. During the process of identifying significant risks, the bank shall take into account the type, scope, and complexity of its activities and the markets in which it operates.
- (2) In order to carry out the process referred to in paragraph (1) of this Article, the bank shall continuously and comprehensively assess all the risks to which it is or might be exposed in its operations and analyse the causes of exposure to particular risks in accordance with the prescribed regulatory requirements for risk management in banks, as well as the influence of external factors (economic, regulatory and business environment).
- (3) For individual risks that are not, in accordance with paragraphs (2), included in the ICAAP, the bank shall, in a documented manner, explain the reasons for not including them, i.e. the reasons it believes that the bank's exposure to those risks is not significant.

## **Article 6**

### **Methodology of measurement or assessment of significant risks**

- (1) When assessing the adequacy of internal capital requirements, the bank shall measure significant risks by using quantitative methods or, if it is not in a position to quantify significant risks, assess significant risks by using the methodology and approaches that are the most suitable for its organisation and business activities.
- (2) The bank shall determine for which risks in the ICAAP it is suitable to use quantitative methods and for which risks it is more suitable to use measures for risk mitigation or control instead of quantifying internal capital requirements in the ICAAP.
- (3) The bank may use various approaches to the internal calculation process, i.e. assessment of internal capital requirements for various types of risks and it shall define the appropriate methodology for the measurement or assessment of each risk and document and explain the following:
  - a) methods, i.e. approaches to risk measurement,
  - b) assessment of risks that cannot be measured by using quantitative methods, and
  - c) any correction to the amount of risk when it establishes that specific risk measurement or assessment methods fail to show the current exposure of the bank to that risk.
- (4) Without prejudice to the application of paragraph (3) of this Decision, when calculating the internal capital requirements for credit risk, which is based on the rating of an external institution for the assessment of credit risk, the bank shall also take into account other relevant information.
- (5) When calculating internal capital requirements, the bank shall take into account the following:
  - a) risks for which minimum capital requirements are calculated (credit risk, market risks, operational risk),
  - b) risks that are not fully covered by minimum capital requirements (possible underestimation due to the application of different approaches in the calculation of capital requirements for credit, market and operational risk),

- c) risks for which minimum capital requirements are not calculated, and
  - d) factors arising from the economic, regulatory or business environment, unless they are included in the risks referred to in the preceding items of this paragraph.
- (6) If the bank has not determined in its methodology the manner of assessing internal capital requirements for other significant risks, it shall allocate 5-15% of total regulatory capital for those risks.

## **Article 7**

### **Stress testing**

For the purposes of the ICAAP, the bank shall regularly and at least once a year conduct stress tests for all significant risks and use the stress test results for the calculation of internal capital requirements.

## **Article 8**

### **Definition of available capital for the purposes of the ICAAP**

The Bank shall define the categories and constituent elements of capital used for the purposes of calculating available capital for the needs of the ICAAP, taking into account that some parts of capital best show the true value of assets and liabilities and the ability to cover the loss.

## **Article 9**

### **Definition of internal targets to ensure application of the ICAAP**

- (1) The bank shall define appropriate internal targets to ensure the application of the ICAAP. Internal targets shall be deemed appropriate if they, at a minimum, define the approach to ensuring the necessary capital:
- a) in business-as-usual circumstances, and
  - b) in emergency circumstances,
- (2) The bank shall use the internal targets, referred to in paragraph (1), item a) of this Article, to also take under consideration appropriate protection of the interests of shareholders, the management and supervisory board and other employees of the bank, depositors and other clients of the bank. The protection of these interests shall be deemed adequate if the availability of the application of the ICAAP enables protection against events which might have an adverse impact on the normal flow of bank activities. The Bank shall also take under consideration internal targets in terms of the coverage of less significant risks, which are often realised.
- (3) The bank shall also use the internal objectives referred to in paragraph (1), item b) of this Article, to take under consideration appropriate protection of the interests of creditors of the bank. The protection of these interests shall be deemed appropriate if the application of the ICAAP enables protection against events that could negatively have an adverse impact on the payment of liabilities to creditors of the bank.
- (4) When determining the internal targets to ensuring an adequate level of capital adequacy as a result of ICAAP, the bank must take into account its own ability to access sources of capital.

## **Article 10**

### **Calculation of internal capital requirements**

- (1) The bank shall calculate total internal capital requirements by adding up:

- a) internal capital requirements for risks for which the obligation to calculate minimum capital requirements (credit, including settlement risk, market risk and operational risk) has been prescribed; and
  - b) internal capital requirements for other significant risks in the bank's operations that are not covered under item a) of this paragraph.
- (2) The bank shall maintain capital as a result of the ICAAP at least in the amount of the total internal capital requirements, and this amount may never be lower than the total minimum capital requirements calculated in accordance with regulatory requirements.

### **Article 11**

#### **Comparison procedure**

- (1) The bank shall compare the assessed capital as a result of the ICAAP and regulatory capital, calculated in accordance with regulatory requirements, and indicate their similarities and differences.
- (2) The bank shall calculate the following at the end of the business year (balance as of 31 December):
  - a) the amount of total required capital as a result of the ICAAP,
  - b) the target level of available capital for the purposes of the ICAAP and regulatory capital at the end of the current financial year, in accordance with the bank's business plan for a period of at least three years.
- (3) The bank shall ensure that the annual business plan includes measures for the improvement of the ICAAP that are to be undertaken and arise from the analysis of risks to which the bank is exposed or might be exposed in its operations, the results of the ICAAP, or identified weaknesses and shortcomings in the ICAAP.

## **III. THE ICAAP IN THE INTERNAL MANAGEMENT SYSTEM**

### **Article 12**

#### **Inclusion of the ICAAP in the internal management system**

- (1) The ICAAP must be an integral part of the bank's internal management system.
- (2) The bank shall use the ICAAP results in at least the following processes:
  - a) defining and monitoring the realisation of the risk management strategy and policies,
  - b) allocating capital to individual business functions of the bank,
  - c) making decisions on lending and adoption of the financial plan (budget), and
  - d) making important strategic decisions (e.g. new products, services and/or systems, entry into new markets, etc.).
- (3) The supervisory board and management of the bank shall ensure, by implementing the ICAAP, that the capital of the bank, is at any moment, sufficient for the coverage of risks to which the bank is exposed or might be exposed in its business operations.
- (4) The bank shall regularly and at least once a year review and reexamine the ICAAP as well as, if necessary, revise the procedure as appropriate.
- (5) In addition to the regular annual review of the ICAAP, the bank shall also reexamine and revise the ICAAP whenever it is exposed to new risks and significant changes in its business operations, both in its strategic commitments and operational plans and in its business environment.

### **Article 13**

#### **Responsibilities of the bank's supervisory board and management in the ICAAP**

- (1) The bank's supervisory board shall:
  - a) adopt the capital strategy referred to in Article 2 of this Decision,
  - b) adopt the management's proposal on the structure of the procedure in the ICAAP and monitor the implementation thereof in the case of the procedure's adjustment, in accordance with significant changes in the strategies, policies, organisation and business environment,
  - c) ensure that the results of the ICAAP procedure are used when making decisions, in accordance with the adopted strategies,
  - d) analyse the implementation of the risk management strategy in relation to the capital that is the result of the ICAAP,
  - e) consider and adopt reports on the application of the ICAAP submitted to the Agency by the bank, in accordance with Article 15 of this Decision, and
  - f) adopt internal bank enactments regulating the content, method, dynamic and reporting lines for the ICAAP.
- (2) The bank's management shall:
  - a) ensure the implementation of the ICAAP and its compliance with the provisions of this Decision as well as the internal enactments of the bank adopted in accordance with this Decision,
  - b) ensure that all significant risks are included in the ICAAP,
  - c) determine in detail the elements of the ICAAP procedure (methods applied, assumptions, assessment procedure, manner of maintaining an adequate level and structure of the bank's capital),
  - d) ensure the use of suitable methods,
  - e) prescribe in detail the capital allocation procedure as a result of the ICAAP,
  - f) establish an appropriate internal control system in the ICAAP, as well as in the process of ensuring the level and structure of capital,
  - g) ensure that the procedure in the ICAAP is documented,
  - h) provide adequate resources for conducting the ICAAP procedure and its full understanding by all employees involved in the procedure,
  - i) prescribe duties and responsibilities assigned to individual functions and organisational units of the bank in a way that will ensure a clear division of responsibilities and clear lines of reporting in accordance with that,
  - j) ensure that the ICAAP procedure is an integral part of the internal management system of the bank,
  - k) ensure a regular assessment of the suitability of the procedure in the ICAAP,
  - l) ensure reliable, accurate and timely reporting to the Agency in accordance with Article 15 of this Decision, and
  - m) ensure timely and comprehensive reporting to the supervisory board on the conducted procedure in the ICAAP.

### **Article 14**

#### **Role of control functions in the ICAAP**

In accordance with legal regulations, the bank shall ensure the following in the ICAAP:

- a) the analysis, monitoring and reporting on the ICAAP is carried out within the framework of the risk management function, as is the verification of the strategies and procedures for assessing the required capital as a result of the ICAAP;
- b) internal audit, as an independent function in the bank, assesses the strategies, policies and procedures for determining the required capital as a result of the ICAAP in proportion to the bank's risk profile;
- c) the compliance monitoring function monitors the compliance of the ICAAP with legislation, by-laws and other regulations and standards of cautious banking operations, as well as internal acts of the bank, identifies shortcomings and assesses risks resulting from non-compliance, and assesses the effects of the change of relevant regulations on the bank's business operations, etc.

#### **IV. REPORTING TO THE AGENCY**

##### **Article 15**

##### **Report on the application of the ICAAP**

- (1) The bank shall submit to the Agency a Report on the application of the ICAAP in printed and electronic form.
- (2) The bank shall compile the Report referred to in paragraph (1) of this Article with the balance as of 31 December of the previous year and submit it to the Agency no later than 30 April of the current year.

##### **Article 16**

##### **IT support to the ICAAP**

- (1) The bank shall, within the framework of the strategy for the development of the information system of the bank and security policy of the information system, also define adequate IT support to the ICAAP in accordance with the provisions of this Decision, in order to ensure comprehensive, reliable, timely and accurate data processing, i.e. an IT base for adequately determining internal capital requirements for the coverage of all significant business risks and reporting to the Agency on the application of the ICAAP.
- (2) The bank shall apply and maintain an adequate information flow that enables the efficient implementation of the Strategy, plans and procedures for capital planning in the bank, which shall constitute an integral part of the bank's information system.

#### **V. TRANSITIONAL AND FINAL PROVISIONS**

##### **Article 17**

##### **Transitional provisions**

Within 60 (sixty) days from the date of entry into force of this Decision, the Director of the Agency shall issue Guidelines for reporting on the application of the ICAAP, prescribe the content and form of the Report referred to in Article 15 of this Decision, as well as the manner of filling it out.

##### **Article 18**

##### **Entry into force**

This Decision shall enter into force on the eighth day following its publication in the Official Gazette of the Federation of BiH.

**No: U.O.-08-06/17**  
**Sarajevo, 13 October 2017**

**CHAIRWOMAN**  
**OF THE MANAGEMENT BOARD**  
**Ljerka Marić, M.Sc. (Econ.)**