Pursuant to Article 27, 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), Articles 27, 28, 80, 81, 95 and Article 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 October 13, 2017 adopted

DECISION ON
CALCULATION OF BANK CAPITAL

Article 1
Subject-matter

(1) This decision stipulates:
   a) characteristics and types of items to be included in the calculation of the own funds
   b) the method and scope where the individual items shall be included in the calculation of regulatory capital categories;
   c) financial leverage ratio;
   d) capital buffers and capital conservation measures; and
   e) own funds requirements and methodology for calculating own funds requirements

(2) Any bank with headquarter in the Federation of BiH (hereinafter: the FBiH) to which the Banking Agency of the Federation of BiH (hereinafter: the Agency) has issued operating licenses, shall apply the provisions of this Decision.

(3) Banks shall apply the provisions of this Decision on an individual and consolidated basis under the regulations governing consolidated supervision.

Article 2
Terminology

The terms used in this Decision have the following meanings:
   a) **Capital instruments** are capital items included in calculation of Common Equity Tier 1, Additional Tier 1 and Tier 2 and meet the conditions laid down in this Decision.
   b) **Accumulated other comprehensive income** has the same meaning as under International Accounting Standards/International Financial Reporting Standards and in calculation of regulatory capital it shall be expressed same as in the bank financial reports, reduced by related tax effects.
   c) **Deferred tax assets and deferred tax liabilities** have the same meaning as under the applicable accounting framework;
   d) **Deferred tax assets that rely on future profitability'** means deferred tax assets the future value of which may be realised only in the event the bank generates taxable profit in the future
   e) **Distributions** means the payment of dividends or interest in any form;
   f) **Funds for general banking risk'** – funds established by banks upon decision of the competent body to cover losses for specific risks arising from banking operations, and related to value adjustments of balance-sheet assets and provisioning for off-balance sheet items;
   g) **Intangible Assets** – have the same meaning as under IAS/IFRS and includes goodwill;
   h) **Indirect holding** - exposure to an intermediate entity that bought capital instruments issued by a financial sector entity where, the loss that the bank would incur would not be materially different from the loss the bank would incur from a direct holding of those capital instruments;

i) **Other capital instruments** means capital instruments issued by financial sector entities that do not qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments
j) **Other reserves** means reserves within the meaning of the applicable accounting framework that are required to be disclosed under the applicable accounting standard, excluding any amounts already included in accumulated other comprehensive income or retained earnings
k) **Own funds instruments** means capital instruments issued by the bank that qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments
l) **Profit** has the same meaning as under as under International Accounting Standard/ International Financial Reporting Standard.
m) **Reciprocal cross holding** means a holding by a bank of the own funds instruments or other capital instruments issued by financial sector entities where those entities also hold own funds instruments issued by the bank;
n) **Retained earnings** means profits and losses brought forward as a result of the final application of profit or loss under International Accounting Standard/ International Financial Reporting Standard
o) **Share premium account –** this accounts shows a positive difference for the sales value of the shares and their nominal value
p) **Distributable items** means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the bank's bye-laws and sums placed to non- distributable reserves in accordance with applicable national law or the statutes of the bank;
q) **Credit institution** means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account**.** For the purpose of this Decision and pursuant to the existing regulations, a credit institution in Bosnia and Herzegovina (hereinafter: BiH) is a bank. Hereafter in this Decision the term „foreign bank“ shall be used for credit institution established outside BiH**;**
r) **Institution** means a credit institution or an investment firm;
s) **Insurance undertaking** – a legal person defined pursuant to the Law on insurance companies in the Federation BiH and by the Law on insurance companies of the Republika Srpska (hereinafter: the RS). Insurance undertakings outside BiH are defined pursuant to the regulations of the European Union or national legislation of the countries;
t) **Investment fund** – means a legal entity defined by the regulations in the FBiH and RS, governing operating conditions of the investment funds. Outside BiH, the investment funds are defined in accordance to regulations of the European Union or national legislations of the country concerned;
u) **Central government** – includes states authorities and bodies financed from the state budget and as such defined by the competent regulatory authority – regulation of the country concerned. In BiH, the term "central government BiH" includes the following authorities and bodies:
    1) Legislative power,
    2) Executive power, and
    3) Judicial power.
v) **Regional governments and local authorities** – includes bodies defined as such by the competent regulatory authority – regulation of the country concerned and which are financed from their budgets. In BiH it includes the following authorities or bodies:
    1) Legislative and Executive authorities of the FBiH, the RS and Brčko district,
    2) Legislative and Executive authorities of Cantons,
    3) Municipal and City Administration,

4) Judicial power and judiciary of the FBiH, Republike Srpske RS and Brčko district , cantons and municipalities and
5) authorities or bodies financed from the budget of governments referred to in points 1) to 4);

w) **Public Sector Entities (PSE)** – include entities defined as such by the competent regulatory authority of the country concerned, and where there is no such a definition, it refers to:

1) a non-commercial administrative body responsible to central governments, regional governments or local authorities,
2) a non-commercial undertaking set up by central governments or regional governments and local authorities and that has explicit guarantee arrangements for their liabilities, and
3) an institutions whose operations are governed by the specific law and which are subject of public supervision (agencies, institutes, commissions and similar institutions);

x) **Multilateral Development Banks (MDB)** – legal entities whose owners or members are minimum three sovereign states and whose main activity is to provide funds for economic development of member states or only selected group of states;

y) **Asset Management Company** – legal entity defined in accordance with regulations in FBiH and the RS, governing the operating conditions of asset management companies. Outside of BiH, an asset management companies are defined in accordance to regulation of the European Union;

z) **Financial sector entity means any of the following**:
1) an institution;
2) a financial institution;
3) an ancillary services undertaking included in the consolidated financial situation of an institution;
4) an insurance undertaking;
5) an other-country insurance undertaking;
6) a reinsurance undertaking;
7) an other-country reinsurance undertaking;
8) an insurance holding company;
9) a mixed-activity holding company;
10) a mixed-activity insurance holding company
11) an other-country undertaking with a main business comparable to any of the entities referred to in points 1) to 10).

aa) **Financial institutions** means an undertaking other than an institution, the principal activity of which is to acquire holdings or to pursue one or more of the following activities:
1) Granting credits and loans, where applicable under the specific law;
2) financing commercial deals, including export financing on the basis of redemption under discount and without regress of long-term not yet matured claims secured with financial instruments (in English, forfeiting);
3) financial leasing;
4) payment services under the specific 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 commitments;
7) dealing on own account or for clients:
   - money market instruments (cheques, bills of exchange, deposit certificates etc.),
   - transferable securities.
   - foreign exchange assets,
   - financial futures and options,

- currency and interest rate instruments;

8) intermediation in concluding deals on the money market;
9) participating in the issuance of securities and provision of services relating to the issuance of those securities;
10) management of clients' assets and advising in that regard,
11) custodial deals with securities, as well as services of management of securities;
12) counselling of legal persons relating to capital structure, business strategy, and similar issues, as well as the provision of services that concern deals of merger, i.e. acquisition, and acquisition of shares and stocks in the business of other companies;
13) issuing of electronic money;
14) Financial institution includes financial holding, mixed financial holding and asset management company, and it does not include insurance holding and mixed insurance holding;

bb) **The competent authority** – defined by Article 2, item e) of the Banking Law;

cc) **Independent valuer is a person who**:

1) possesses the necessary qualifications, ability and experience needed to execute a property valuation
2) is not involved in the procedure of approval of investments or intermediation, sale, or renting of real estate,
3) has no legal or business relationship with the debtor, apart from the valuation, and
4) has no interests of his own relating to the results of the final report that determines the market value of the real estate;

dd) **Credit Risk Mitigation (hereinafter: CRM)** means a technique used by a bank to reduce the credit risk associated with an exposure or exposures which that bank continues to hold and which include funded or unfunded credit protection;

ee) **Funded credit protection** means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a bank derives from the right of that bank in the event of the default of the counterparty or on the occurrence of other specified credit events relating to the counterparty, to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the exposure to the amount of the difference between the amount of the exposure and the amount of a claim

ff) **Unfunded credit protection** means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a bank derives from the obligation of a third party to pay an amount in the event of the default of the borrower or the occurrence of other specified credit events;

gg) **Cash assimilated instrument** means a certificate of deposit, a bond, including a covered bond, or any other non-subordinated instrument, which has been issued by a bank, for which the bank has already received full payment and which shall be unconditionally reimbursed by the bank at its nominal value;

hh) **Marking to market** means the valuation of positions at readily available close out prices that are sourced independently, such as exchange prices

ii) **Market value of property** - the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction under market conditions (provided that buyer and seller are not connected parties pursuant to definition provided in Law on corporate companies) wherein the parties had each acted knowledgeably, prudently and without being under compulsion;

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

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

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

1) Natural person in the amount exceeding BAM 20 KM and 1% of the total debtor's exposure, and
2) Legal entities in the amount exceeding BAM 500 and 2,5% of the total debtor's exposure;

Notwithstanding, for exposures to natural persons, banks may determine default status based on individual exposure, and not at the level of total claims against debtor;

mm) **Small and medium sized entity** - hereinafter: the SMEs) the persons that are performing economic activities independently in order to execute profit through manufacturing, sale, or provision of services in the market, irrespective of their legal form. For the requirements of application of this Decision, a person may be deemed as a SME only if it meets the conditions under the Law on Accounting and Auditing in the FBiH;

nn) **Officially supported export credits** - means loans or credits to finance the export of goods and services for which an official export credit agency provides guarantees, insurance or direct financing;

oo) **Credit risk value adjustments** – the amount of general value adjustments and specific value adjustments for **loan loss** provision **for credit risks** that has been recognised in the financial statements of the bank, i.e. the items documented in the income statement;

pp) **External credit assessment institution (ECAI)** means a credit rating agency that is registered or certified in accordance with the EU Regulation on credit rating agencies;

qq) **Nominated ECAI** means an ECAI nominated by a bank

rr) **Underlying investment fund** - an investment fund in whose shares or stocks another investment fund is investing;

ss) **Transaction with 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;

tt) **Free delivery** – a transaction that is realized so as that one contractual party executes the payment / delivery before the other contractual party performs its obligation under the contract;

uu) **Margin lending transactions** - means transactions in which a bank extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that are secured by collateral in the form of securities;

vv) **Operational risk** – defined in Article 81, point 5 of the Banking Law;

ww) **Legal risk –** has the same meaning as in Decision on risk management in banks;

xx) **Market risk** – defined by the Article 81, point 4 of the Banking Law;

yy) **Financial instrument is any of the following:**

1) a contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party;
2) a financial derivatives under Annex II of this Decision;
3) any other financial instrument under Annex II of this Decision;
4) a primary financial instrument and
5) a cash instrument.

The instruments referred to in points 1), 2) and 3) are only financial instruments if their value is derived from the price of an underlying financial instrument or another underlying item, a rate, or an index;

zz) **Financial derivatives** – a financial instrument or other agreement which have the three following 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 an initial net investment or that investment is smaller than the one that would be necessary for other types of contracts for which one may expect that they would react in a similar manner to changes in market factors, and
3) it shall be settled at some date in the future;

aaa) **Underlying instrument** – security or other instrument the financial derivatives referred to:

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

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

ddd) **Futures agreement** - shall signify the right or the obligation of purchase or sale of a specific asset or instrument on a pre-agreed date (for example, foreign currency futures, interest futures, futures on share indices, futures on bonds, futures on gold, futures on agricultural products, and similar)

eee) **Currency future (FX future or a foreign exchange future)** is a futures contract to buy or sell a specified amount of a particular currency in exchange for other currency at a set exchange rate and execution on a specific date in the future.

fff) **Swap agreement** means an agreement between two parties to exchange sequences of cash flows in same or different currencies for a set period of time

ggg) **Foreign currency swap (FX Swap)** is an agreement between two parties to exchange a specified amount of different currencies at a pre-agreed rates

hhh) **Interest rate swap** is an agreement between two parties in which each party makes periodic interest payments to the other party. It serves for the purpose of hedging interest rate risk. The exchange of interest rates assume exchange of variable interest rates for fixed and vice versa. The instrument is used for adjustments of assets and liabilities currency mismatches, protection from interest rate rise (exchange of variable interest rate on long-term loan for a fixed one), as well as potential reduction of interest expense (exchange of a fixed interest rate on long-term loan for a variable on) in case of decline in referent interest rates (LIBOR, EURIBOR)

iii) **Option** – is an agreement that give the buyer (the option holder) a right, but not the obligation of the call options) or the put options an underlying assets at pre-agreed price on specific day or within the period specified. The options may be an individual instruments or embedded to some other financial instruments;

jjj) **Call option** is an agreement that give the option to a buyer (call option holder) the right, but not the obligation, to buy an underlying assets at a specified price or a price that could be obtained using agreed formula, on date agreed or within a specific time period.

kkk) **Put option** is an option contract giving the buyer (a put option owner) the right, but not the obligation, to sell a specified amount of an underlying assets at a specified price or a price that could be obtained using agreed formula, on date agreed or within a specified time frame.

lll) **Foreign exchange option (fx option)** – is an contract giving the buyer (**fx option** owner) the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date;

mmm) **Warrants)** – are derivative securities giving the holder the right to buy the underlying instrument at a pre-agreed price until or on the date of expiry;

nnn) **Hedge** – is a financial technique to mitigate risk of losses resulted from fluctuation of financial instrument value at the market, i.e. the position intended to offset risk elements between trading book and banking book positions or together;

ooo) **Trade finance** means financing, including guarantees, connected to the exchange of goods and services through financial instruments of fixed short-term maturity, generally of less than one year, without automatic rollover;

ppp) **Delta (δ)** – represents the price sensitivity option to minor price change of un underlying financial instrument (factor) to which the option relates;

qqq) **List of recognized stock exchanges and clearing houses** is in Annex III of this Decision;

rrr) **Stock exchange index** - a numerical indicator of price developments of the securities index basket at an individual stock exchange

sss) **Regulated market** - is a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments in the system, in accordance with its non-discretionary rules, in a way that results in a financial instruments contract, in respect of the financial instruments admitted to trading under its rules and/or the system, and is authorised and functioning in a regular and timely manner in compliance to the relevant regulations;

ttt) **Market operator** – is a person or persons who operates, i.e. manages the business on regulated market. The market operator may be the regulated the regulated market itself;

uuu) **Convertible securities -** means a security which, at the option of the holder, may be exchanged for another security;

vvv) **Repurchase transactions** means any transaction governed by a repurchase agreement or a reverse repurchase agreement

www) **Simple repurchase agreement** means a repurchase transaction of a single type of asset;

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

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

zzz) **Trading Book** – as defined in Article 2, point oo) of the Banking Law;

aaaa) **Banking Book** - as defined in Article 2, point pp) of the Banking Law;

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

cccc) **Covered bonds** – are liabilities which issuance is governed by a specific law of the issuer home country, and which fulfil all of the following criteria:

1) for the purpose of protection of the ownership right of the issuer of covered bonds may only be a bank that is subject to supervision of a regulatory institution,
2) funds acquired in the sale of covered bonds shall have to be invested in assets that provide sufficient coverage for liabilities assumed on the basis of covered bonds in their total amount, and
3) covered bonds shall have to be covered by instruments of security and entitle the holder of covered bonds that in case of bankruptcy or liquidation of the issuer it has priority in collection of the principal and interest

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

dddd) **Market maker –** is a company or an individual that stands ready every second of the trading day at the financial instrument market, ready to trade with a firm ask and bid price, buy and a sell price in a financial instrument, by prices set by itself, using its own funds;

eeee) **Independent price verification – IPV** means the process by which market prices or marking to model inputs are regularly verified for accuracy and independence.

ffff) **Positions held with trading intent means any of the following:**

1) proprietary positions and positions arising from client servicing and market making;
2) positions intended to be resold short term;

3) positions intended to benefit from actual or expected short term price differences between buying and selling prices or from other price or interest rate variations;

gggg) **Member States** – in accordance with the EU regulation member states of the EU, and third countries are those which not member of the EU.

hhhh) **Secured lending transaction** means any transaction giving rise to an exposure secured by collateral which does not include a provision conferring upon the bank the right to additionally increase the existing collateral i.e. to receive margin at least daily;

iiii) **Capital market-driven transaction** means any transaction giving rise to an exposure secured by collateral which includes a provision conferring upon the banks the right to receive margin at least daily;

jjjj) **Margin agreement** means an agreement or provisions of an agreement under which one counterparty must supply collateral to a second counterparty when an exposure of that second counterparty to the first counterparty exceeds a specified collateral level.

I. REGULATORY CAPITAL AND CAPITAL REQUIREMENTS FOR BANKS

Article 3
Regulatory Capital

(1) Regulatory capital of the bank is the amount of funding sources the bank shall maintain for safe and stable operations, i.e. fulfilment of obligations against creditors.

(2) Regulatory capital is the sum of Common Equity Tier 1 and Tier 2 capital, after the regulatory adjustments.

Article 4
Tier 1 – T1

Tier 1 of a bank is a sum of Common Equity Tier 1, after regulatory adjustment and Additional Tier 1 after regulatory adjustment.

Article 5.
Common equity Tier 1 (CET 1)

(1) Common equity Tier 1 – CET 1 of a bank consists of the Common Equity Tier 1 items referred to in Article 6 of this Decision, after deductions for regulatory adjustments referred to in Article 9 of this Decision, and application of the temporary waiver for deduction from own funds referred to in Article 31 of this Decision. When calculating own funds, banks shall make adjustments pursuant to paragraph (2) of this Article, which relates to the provisions on cash flow hedges and changes in the value of own liabilities, and provisions on additional value adjustments under paragraph (3) of this Article.

(2) Applying the provisions on cash flow hedges and changes in the value of own liabilities means that banks shall not include the following items in any element of own funds:

a) the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value, including projected cash flows;

b) gains or losses on liabilities of the bank that are valued at fair value that result from changes in the own credit standing of the bank;

c) fair value gains and losses on derivative liabilities of the bank that result from changes in the own credit standing of the bank;

(3) Applying the provisions on additional value adjustments assume that banks shall deduct from Common Equity Tier 1 capital the amount of any additional value adjustments, determined by application of own fund requirements for valuation under Article 113 of this Decision to all their assets measured at fair value.

Article 6
Common Equity Tier 1 items

(1) Common Equity Tier 1 items of bank consist of the following:
   a) capital instruments, provided that the conditions laid down in Article 7 of this Decision;
   b) Share premium accounts related to the instruments referred to in item a) of this paragraph;
   c) retained earnings;
   d) accumulated other comprehensive income;
   e) other reserves;
   f) funds for general banking risk.

(2) Retained earnings, accumulated other comprehensive income, other reserves and funds for general banking risk shall be recognised as Common Equity Tier 1 only where they are available to the bank for unrestricted and immediate use to cover risks or losses as soon as these occur.

(3) The interim or year-end profits may be included in Common Equity Tier 1 capital provided that following conditions are met:
   a) Those profits have been verified by an independent internal auditor for which appointment the bank granted prior permission from the Agency
   b) The bank has submitted documentation to the Agency confirming that any foreseeable charge or dividend has been deducted from the amount of those profits, providing an adequate level of assurance it has been evaluated in accordance with the applicable accounting framework
   c) The bank has submitted to the Agency a decision on distribution of profit which is adopted by the bank's relevant body, including evidence that conditions set out under a) and b) are met.

   Notwithstanding, banks may include current year's profit into Common Equity Tier 1 items, before the bank adopt an official Decision, only with the prior permission of the Agency and fulfilment of conditions laid down under points a) and b).

(4) Paragraph (1) point e) of this Article - other reserves, relates to any reserves established by banks against profit after tax, which includes: legal reserves, statutory reserves and other reserves established under profit in accordance to legislation.

(5) Capital instruments may be included in Common Equity Tier 1 only upon the Agency grants permission to the bank under the procedure of determining the eligibility of Common Equity Tier 1 instruments of the bank, i.e. fulfilment of conditions laid down.

Article 7
Conditions to recognise Common Equity Tier 1 instruments

(1) Capital instruments under Article 6, paragraph (1) point a) of this Decision shall qualify as Common Equity Tier 1 instruments only if all the following conditions are met:
   a) the instruments are issued directly by the bank with the prior implementation of the procedure established under legislation of the FBiH, the Agency's regulations, constitutional or other acts of the bank;
   b) the instruments are paid up and their purchase is not funded directly or indirectly by the bank;
   c) the instruments meet all the following conditions as regards their classification:
      1) they qualify as share capital under the legislation of the FBiH;
      2) they are classified as equity within the meaning of the applicable accounting framework;
      3) they are classified as equity capital for the purposes of determining balance sheet insolvency, where applicable under national insolvency law

d) the instruments are clearly and separately disclosed on the balance sheet in the financial statements of the bank;
e) the instruments are perpetual;
f) the principal amount of the instruments may not be reduced or repaid, except in either of the following cases:
   1) the liquidation of the bank;
   2) discretionary repurchases of the instruments or other discretionary means of reducing capital, where it is applicable under the existing legislation and where the bank has received the prior permission of the Agency;
g) the provisions governing the instruments do not indicate expressly or implicitly that the principal amount of the instruments would or might be reduced or repaid other than in the liquidation of the bank, and the bank does not otherwise provide such an indication prior to or at issuance of the instruments;
h) the instruments meet the following conditions as regards distributions:
   1) there is no preferential distribution treatment regarding the order of distribution payments, including in relation to other Common Equity Tier 1 instruments, and the terms governing the instruments do not provide preferential rights to payment of distributions;
   2) distributions to holders of the instruments may be paid only out of distributable items;
   3) the conditions governing the instruments do not include a cap or other restriction on the maximum level of distributions;
   4) the level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance;
   5) the conditions governing the instruments do not include any obligation for the bank to make distributions to their holders and the bank is not otherwise subject to such an obligation;
   6) non-payment of distributions does not constitute an event of default of the bank;
   7) the cancellation of distributions imposes no restrictions on the bank;
i) Compared to all the capital instruments issued by the bank, the instruments absorb the first and proportionately greatest share of losses as they occur, and each instrument absorbs losses to the same degree as all other Common Equity Tier 1 instruments;
j) the instruments rank below (less priority) all other claims in the event of insolvency or liquidation of the bank;
k) the instruments entitle their owners to a claim on the residual assets of the bank, which, in the event of its liquidation and after the payment of all senior claims, is proportionate to the amount of such instruments issued and is not fixed or subject to a cap;
l) the instruments are not secured, or subject to a guarantee that enhances the seniority of the claim by any of the following:
   1) the bank or its subsidiaries;
   2) the parent undertaking of the bank or its subsidiaries;
   3) the parent financial holding company or its subsidiaries;
   4) the mixed activity holding company or its subsidiaries;
   5) the mixed financial holding company and its subsidiaries;
   6) any undertaking that has close links with the entities referred to in points 1) to 5);
m) the instruments are not subject to any arrangement, contractual or otherwise, that enhances the seniority of claims under the instruments in insolvency or liquidation.

(2) Notwithstanding to paragraph (1) point f) of this Article, the principal amount of the Common Equity Tier 1 instrument would be reduced only within the resolution procedure or write down of underlying instrument required by the resolution authority responsible for the bank resolution under legislation.

(3) Notwithstanding to paragraph (1) point g) of this Article, the principal amount of the Common Equity Tier 1 instrument would or might be reduced only within a resolution procedure or as a consequence of a write down of the instruments required by the resolution authority responsible for the bank resolution under legislation.

Article 8

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

In the case of a Common Equity Tier 1 instrument cease to meet conditions for Common Equity Tier 1 instrument under Article 7, the following shall apply:

a) that instrument shall immediately cease to qualify as a Common Equity Tier 1 instrument;
b) The share premium accounts that relate to that instrument shall immediately cease to qualify as Common Equity Tier 1 items.

Article 9

Common Equity Tier 1 - regulatory adjustments

(1) Bank shall deduct from Common Equity Tier 1 items the following:
a) losses for the current financial year;
b) uncovered losses from previous years;
c) intangible assets, pursuant to Article 10 of this Decision;
d) deferred tax assets, pursuant to Article 11 of this Decision;
e) any tax charge relating to Common Equity Tier 1 items foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses;
f) holdings by a bank of own Common Equity Tier 1 instruments (i.e. repurchased own treasury stocks) including own Common Equity Tier 1 instruments that a bank is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation
g) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a financial sector entity with which bank has reciprocal cross holdings, and where the Agency determines it does not realistic and acceptable increase of own funds in accordance to the legislative and regulatory provisions;
h) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a bank has a significant investment in an entity, pursuant to Article 12 of this Decision;
i) direct or indirect holdings of the Common Equity Tier 1 instruments of financial sector entity, where a bank does not have a significant investment in an entity, pursuant to Article 13 of this Decision;
j) the amount of items required to be deducted from Additional Tier 1 items pursuant to Article 19 of this Decision, that exceeds the Additional Tier 1 capital of a bank**;**
k) The amount of qualifying holdings in an undertaking that is not a financial sector entity. Where the bank decide to express this item as non-deductible, it shall assign it the risk weight of 1250%;
l) Free deliveries according to Article 100, paragraph (2) of this Decision. Where the bank decide to express this items as non-deductible it shall assign the risk weight of 1250% for that exposure.

(2) Bank shall make deductions from the Common Equity Tier 1 on the basis of the gross principle, and the application of the exemption with regard to possibility to use net principle, the Agency may approve provided that conditions set under regulations are met.

Article 10

Deduction of intangible assets

Bank shall determine the amount of intangible assets to be deducted in accordance with the following:

a) the amount to be deducted shall be reduced by the amount of associated deferred tax liabilities that would be extinguished if the intangible assets became impaired or were derecognised under the applicable accounting framework;

b) The amount to be deducted shall include goodwill included in the valuation of significant investments of the institution.

Article 11

Deductions of deferred tax assets that rely on future profitability

(1) Bank shall determine the amount of deferred tax assets that rely on future profitability that require deduction in accordance with this Article.

(2) The amount of deferred tax assets that rely on future profitability shall be calculated without reducing it by the amount of the associated deferred tax liabilities of the bank.

(3) The Agency may allow that amount of deferred tax assets that rely on future profitability may be reduced by the amount of the associated deferred tax liabilities of the bank, provided the following conditions are met:

a) the entity has a legally enforceable right under applicable national law to set off those current tax assets against current tax liabilities;

b) the deferred tax assets and the deferred tax liabilities relate to taxes levied by the same tax authority and on the same taxable entity;

c) Where the bank submitted to the Agency the decision (the act) from the competent tax authority on right to set off deferred tax assets with associated deferred tax liabilities pursuant to items a) and b) of this paragraph.

(4) Associated deferred tax liabilities of the bank used for the purposes of paragraph 3 of this Article may not include deferred tax liabilities that reduce the amount of intangible assets required to be deducted.

(5) The following items shall not be deducted from own funds and shall be subject to a risk weight in accordance with Chapter related to own funds requirements for credit risk, as applicable:

a) overpayments of tax by the bank for the current year;

b) Current year tax losses carried back to previous years that give rise to a claim on, or a receivable from, a central government, regional government or local tax authority, if it's possible in accordance with the provisions of applicable tax regulations.

(6) Deferred tax assets that do not rely on future profitability shall be limited to deferred tax assets arising from temporary differences and represents deduction where all the following conditions are met:

a) they are automatically and mandatorily replaced without delay with a tax credit in the event that the bank reports a loss when the annual financial statements of the bank are formally approved, or in the event of liquidation or insolvency of the bank;

b) a bank shall be able under the applicable national tax law to offset a tax credit referred to in point (a) against any tax liability of the bank or any other undertaking included in the same consolidation as the bank for tax purposes under that law or any other undertaking subject to the supervision on a consolidated basis;

c) where the amount of tax credits referred to in point (b) of this paragraph exceeds the tax liabilities referred to in that point, any such excess is replaced without delay with a direct claim on the central government or the entity governments in accordance to tax regulations.

Bank shall apply a risk weight of 100 % to deferred tax assets where the conditions laid down in points (a), (b) and c) are met.

Article 12

Deduction of significant investment in a financial sector entity

For the purposes of deduction, a significant investment of a bank in a financial sector entity shall arise where any of the following conditions is met:

a) bank owns more than 10 % of the Common Equity Tier 1 instruments issued by that entity;
b) bank has close links with that entity and owns Common Equity Tier 1 instruments issued by that entity;
c) bank owns Common Equity Tier 1 instruments issued by that entity and the entity is not included in consolidation for the purpose of supervision, but is included in the same accounting consolidation as the banks for the purposes of financial reporting under the applicable accounting framework

Article 13

Deduction of holdings of Common Equity Tier 1 instruments where a bank does not have a significant investment in a financial sector entity

(1) Where the bank does not have a significant investment in a financial sector entity, the aggregate amount of holdings of the Common Equity Tier 1of the bank shall be calculates in a way that a portion of the aggregate amount of the direct and indirect holdings by the institution of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments which exceeds 10 % of the Common Equity Tier 1 multiply with ratio of the direct and indirect holdings of the bank in Common Equity Tier 1 instruments of these entities and the aggregate amount of the direct and indirect holdings to all capital instruments of these entities.
(2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the Common Equity Tier 1 but the risk weight applicable under standardise approach for calculation of own funds requirements for credit risk shall be applied to those investments.
(3) The aggregate amount of holdings of Common Equity Tier 1 instruments of financial sector entities to which risk weights under standardised approach applied, shall be calculated by multiplying the amount from paragraph (2) of this Article with ratio of direct and indirect holdings of the bank to Common Equity Tier 1 instruments of financial sector entities and the aggregate amount of direct and indirect holdings to all capital instruments of these entities
(4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g) and l) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision

Article 14

Requirement for deduction where consolidation is applied

For the purposes of calculating own funds on an individual basis or consolidated basis, and on the basis of legislation governing consolidated supervision, the Agency may by a specific regulation set the conditions on which basis may permit bank not to deduct the holdings of own funds instruments of a financial sector entity in which the parent bank, parent financial holding company or parent mixed financial holding company has a significant investment.

Article 15
Additional Tier 1 (AT 1)

The Additional Tier 1 capital of a bank shall consist of Additional Tier 1 items after the regulatory adjustment referred to in Article 19 and application of temporary waivers for deduction from own funds items referred to in Article 31.

Article 16
Additional Tier 1 items

(1) Additional Tier 1 items shall consist of the following:
   a) capital instruments, where the conditions for Additional Tier 1 instruments laid down in paragraph (2) of this Article are met
   b) the share premium accounts related to the instruments referred to in point (a) of this paragraph
   Instruments included under point (a) shall not qualify as Common Equity Tier 1 or Tier 2 Items.
(2) Capital instruments shall qualify as Additional Tier 1 instruments only if the following conditions are met:
   a) the instruments are issued and fully paid up;
   b) the instruments are not owned by any of the following:
      1) the bank its subsidiaries;
      2) un undertaking in which the bank has a participation in the form of ownership, direct or by way of control, of 20% or more of the voting rights or capital of that undertaking
   c) the acquisition of ownership of the instruments is not funded directly or indirectly by the bank;
   d) the instruments rank below Tier 2 instruments in the event of the insolvency of the bank,
   e) the instruments are neither secured nor subject to a guarantee that enhances the seniority of the claims by any of the following:
      1) the bank or its subsidiaries;
      2) the parent undertaking of the bank or its subsidiaries;
      3) the parent financial holding company or its subsidiaries;
      4) the mixed activity holding company or its subsidiaries;
      5) the mixed financial holding company or its subsidiaries;
      6) any undertaking that has close links with entities referred to in points 1) to 5);
   f) the instruments are not subject to any contractual or other arrangement that otherwise enhances the seniority of the claim under the instruments in case of insolvency or bank liquidation
   g) the instruments are perpetual and the provisions governing them include no incentive for the institution to redeem them
   h) where the provisions governing the instruments include one or more call options, the option to call may be exercised at the sole discretion of the issuer, considering fulfilment of the condition under point i) of this paragraph;
   i) the instruments may be called, redeemed or repurchased only where the conditions laid down in Article 30, paragraph (3) are met;
   j) the provisions governing the instruments do not indicate explicitly or implicitly that the instruments would or might be called, redeemed or repurchased and the institution does not otherwise provide such an indication, except in the following cases:
      1) the liquidation of the bank;

2) discretionary repurchases of the instruments or other discretionary means of reducing the amount of Additional Tier 1 capital, where the bank has received the prior permission of the Agency under conditions to reduce regulatory capital in accordance with Article 30 of this Decision;

k) the bank does not indicate explicitly or implicitly that the competent authority would consent to a request to call, redeem or repurchase the instruments;

l) distributions under the instruments meet the following conditions;

1) they are paid out only of distributable items;

2) the level of distributions made on the instruments will not be amended on the basis of the credit standing of the bank or its parent undertaking;

3) the provisions governing the instruments give the bank full discretion at all times to cancel the distributions on the instruments for an unlimited period and on a non-cumulative basis, and the bank may use such cancelled payments without restriction to meet its obligations as they fall due;

4) cancellation of distributions does not constitute an event of default of the bank;

5) the cancellation of distributions imposes no restrictions on the provisions governing this instrument shall not include requirements from paragraph (3) of this Article;

m) the instruments do not contribute to a determination that the liabilities of a bank exceed its assets, where such a determination constitutes a test of insolvency under applicable law;

n) the provisions governing the instruments require that, upon the occurrence of a trigger event, the principal amount of the instruments be written down on a permanent or temporary basis or the instruments be converted to Common Equity Tier 1 instruments

o) there are no the provisions that could hinder the recapitalisation of the institution under the paragraph (3) of this Article;

p) where the instruments are not issued directly by a bank, both of the following conditions must be met:

1) the instruments are issued through an entity, which is included in consolidated supervision:

2) The proceeds are immediately available to the bank without limitation in a form that satisfies the conditions laid down in this paragraph.

(3) In regard to application of paragraph (2) point o) of this Article, the provisions governing Additional Tier 1 instruments, shall in particular not include the following:

a) a requirement for distributions on the instruments to be made in the event of a distribution being made on an instrument issued by the bank that ranks to the same degree as, or more junior than, an Additional Tier 1 instrument, including a Common Equity Tier 1 instrument;

b) a requirement for the payment of distributions on Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments to be cancelled in the event that distributions are not made on those Additional Tier 1 instruments;

c) An obligation to substitute the payment of interest or dividend by a payment in any other form. The bank shall not otherwise be subject to such an obligation.

Article 17

Write down or conversion of Additional Tier 1 instruments

(1) In reference to the implementation of the provisions referred to in Article 16 (2) item n) defining write down or conversion the following provisions shall apply to Additional Tier 1 instruments:

a) a trigger event occurs when the Common Equity Tier 1 capital ratio of the bank referred to in 34 of this Decision falls below either of the following:
   1) 7,687 %;
   2) A level higher than 7,687 % where determined by the bank and specified in the provisions governing the instrument;
b) banks may specify in the provisions governing the instrument one or more trigger events in addition to that referred to in point (a);
c) where the provisions governing the instruments require them to be converted into Common Equity Tier 1 instruments upon the occurrence of a trigger event, those provisions shall specify either of the following:
   1) the rate of such conversion and a limit on the permitted amount of conversion;
   2) a range within which the instruments will convert into Common Equity Tier 1 instruments;
d) where the provisions governing the instruments require their principal amount to be written down upon the occurrence of a trigger event, the write down shall reduce all the following:
   1) the claim of the holder of the instrument in the insolvency or liquidation of the bank;
   2) the amount required to be paid in the event of the call or redemption of the instrument;
   3) The distributions made on the instrument.

(2) Write down or conversion of an Additional Tier 1 instrument shall, under the applicable accounting framework, generate items that qualify as Common Equity Tier 1 items.

(3) The amount of Additional Tier 1 instruments recognised in Additional Tier 1 items is limited to the minimum amount of Common Equity Tier 1 items that would be generated if the principal amount of the Additional Tier 1 instruments were fully written down or converted into Common Equity Tier 1 instruments.

(4) The aggregate amount of Additional Tier 1 instruments that is required to be written down or converted upon the occurrence of a trigger event shall be no less than the lower of the following:
a) the amount required to restore fully the Common Equity Tier 1 ratio of the institution to 7,687 %;
b) The full principal amount of the instrument.

(5) When a trigger event occurs banks shall do the following:
a) immediately inform the Agency;
b) inform the holders of the Additional Tier 1 instruments;
c) write down the principal amount of the instruments, or convert the instruments into Common Equity Tier 1 instruments without delay, but no later than within one month, in accordance with the requirement laid down in this Article.

(6) A bank issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 on the occurrence of a trigger event shall ensure that its authorised share capital is at all times sufficient, for converting all such convertible Additional Tier 1 instruments into shares if a trigger event occurs. All necessary authorisations shall be obtained at the date of issuance of such convertible Additional Tier 1 instruments. The bank shall maintain at all times the necessary prior authorisation to issue the Common Equity Tier 1 instruments into which such Additional Tier 1 instruments would convert upon occurrence of a trigger event

(7) A bank issuing Additional Tier 1 instruments that convert to Common Equity Tier 1 on the occurrence of a trigger event shall ensure that there are no procedural impediments to that conversion by virtue of its incorporation or statutes or contractual arrangements.

Article 18
Consequences of the conditions for Additional Tier 1 instruments ceasing to be met

The following shall apply where, in the case of an Additional Tier 1 instrument, the conditions laid down in Article 16(2) cease to be met:

a) that instrument shall immediately cease to qualify as an Additional Tier 1 instrument;
b) the part of the share premium accounts that relates to that instrument shall immediately cease to qualify as an Additional Tier 1 item.

Article 19
Additional Tier 1 – regulatory adjustments

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

a) Direct and indirect holdings by a bank of own Additional Tier 1 instruments, including own Additional Tier 1 instruments that a bank could be obliged to purchase as a result of existing contractual obligations;
b) Direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities with which the institution has reciprocal cross holdings that the Agency considers to have been designed to inflate artificially the own funds;
c) the amount of direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities, where a bank does not have a significant investment in those entities, provided that the amount is determined in accordance with the provisions of Article 20;
d) direct or indirect holdings of the Additional Tier 1 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for five working days or fewer;
e) the amount of items required to be deducted from Tier 2 items pursuant to Article 25 that exceed the Tier 2 capital of the bank;
f) Any tax charge relating to Additional Tier 1 items foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Additional Tier 1 items insofar as such tax charges reduce the amount up to which those items may be applied to cover risks or losses.

(2) For the purpose of determining deductions from Additional Tier 1, banks shall calculate holdings on the basis of gross principle, and the application of the exemption with regard to possibility to use net principle, the Agency may approve provided that conditions under regulations are met.

Article 20
Deduction of Tier 2 instruments where a bank does not have a significant investment in a financial sector entity

(1) Where the bank does not have a significant investment in a financial sector entity, the aggregate amount of investments to Tier 2 instruments of these entities, which shall be deducted from Tier 2 of the bank, is calculated by multiplying a portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments exceeding 10% of the Common Equity Tier 1 of the bank with a ratio of direct and indirect holdings of a bank to Additional Tier 1 instruments of these financial sector entities and the aggregate amount of direct and indirect holding to all capital instruments of those entities.

(2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the own funds but the risk weight applicable under standardise approach for calculation of own funds requirements for credit risk shall be applied to those investments

(3) The aggregate amount of holdings of Additional Tier 1 instruments of financial sector entities to which risk weights under standardised approach applied, shall be calculated by multiplying the amount from paragraph (2) of this Article with ratio of direct and indirect

holdings of the bank to Additional Tier 1 instruments of financial sector entities and the aggregate amount of direct and indirect holdings to all capital instruments of these entities

(4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g) and l) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision

Article 21
Tier 2 capital (T 2)

(1) Tier 2 capital – T 2 of the bank shall consist of the Tier 2 items of the bank after the deductions referred to in Article 25 and application of temporary waiver for deduction from own funds referred to in Article 31 of this Decision.

(2) Tier 2 capital cannot be greater than one third of Tier 1 capital

Article 22
Tier 2 items

(1) Tier 2 items shall consist of the following:
   a) capital instruments and subordinated loans, provided that conditions laid down under (2) of this Article are met (items included under this point shall not qualify as Common Equity Tier 1 or Additional Tier 1 items)
   b) the share premium accounts related to instruments referred to in point a)
   c) general credit risk adjustments for credit losses of up to 1,25 % of risk-weighted exposure amounts calculated in accordance with Article 49

(2) Capital instruments and subordinated loans (hereinafter: the instruments) shall qualify as Tier 2 instruments provided the following conditions are met:
   a) the instruments are issued or raised and fully paid-up
   b) the instruments are not purchased or not granted/issued by any of the following entities:
      1) the bank or its subsidiaries
      2) an undertaking in which the bank has participation in the form of ownership, direct or indirect, of 20 % or more of the voting rights or capital of that undertaking
   c) the purchase or the granting of the instruments, is not funded directly or indirectly by the bank
   d) the claim on the principal amount of the instruments is wholly subordinated to claims of all non- subordinated creditors
   e) the instruments are not secured, or subject to own funds guarantees or guarantees, mortgages or any other way that enhances the seniority of the claim by any of the following:
      1) the bank or its subsidiaries;
      2) the parent undertaking of the bank or its subsidiaries;
      3) the parent financial holding company or its subsidiaries;
      4) the mixed activity holding company or its subsidiaries
      5) the mixed financial holding company or its subsidiaries; and
      6) any undertaking that has close links with entities referred to in points 1) to 5);
   f) are not subject to any provision that otherwise enhances the seniority of the claim under the instruments respectively;
   g) have an original maturity of at least five years;
   h) the provisions governing the instruments do not include any incentive for their principal amount to be redeemed or repaid, as applicable by the bank prior to their maturity;
   i) where the instruments include one or more call options or early repayment options prior to their maturity, as applicable, the options are exercisable at the sole discretion of the issuer or debtor, provided that conditions under point j) are met;

j) where the option for the instruments to be called, redeemed or repurchased or repaid early only, with a prior consent from the Agency, where the conditions laid down in Article 29 are met, and not before five years after the date of issuance or raising, as applicable, except where the conditions laid down under point g)) are met
k) the provisions of internal acts of the bank and decisions on issuing the instruments, i.e. other provisions governing subordinated loans do not indicate explicitly or implicitly that it would or might be called, redeemed, repurchased or repaid early, other than in the insolvency or liquidation of the bank and the bank does not otherwise provide such an indication;
l) deviation from the future scheduled payment of interest or principal is possible only in a case of insolvency or liquidation of the bank;
m) the agreed conditions related to the interest or dividend payments, will not be amended on the basis of the credit standing of the institution or its parent undertaking;
n) where the instruments are not issued or raised directly by a bank, both of the following conditions shall be met:
   1) issuing entity must be included in the consolidated supervision;
   2) The proceeds are immediately available to the bank without limitation in a form that satisfies the conditions laid down in this paragraph.

(3) The instruments and subordinated debts which meet conditions referred to in point (2) of this Article can be included into Tier 2 capital, only upon the bank grants a prior consent from the Agency.

Article 23
Amortisation of Tier 2 instruments

The extent to which Tier 2 instruments qualify as Tier 2 items during the final five years of maturity of the instruments is calculated by multiplying the item referred to in point a) of this Article with the item referred to in point b) as follows.

a) the nominal amount of the instruments on the first day of the final five year period of their contractual maturity divided by the number of calendar days in that period;
b) The number of remaining calendar days of contractual maturity of the instruments.

Article 24
Consequences of the conditions for Tier 2 instruments ceasing to be met

Where in the case of a Tier 2 instrument the conditions laid down in Article 22 (2) cease to be met, the following shall apply:

a) that instrument shall immediately cease to qualify as a Tier 2 instrument,
b) The part of the share premium accounts that relate to that instrument shall immediately cease to qualify as Tier 2 items.

Article 25
Tier 2 capital- regulatory adjustments

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

a) direct or indirect holdings by an institution of own Tier 2 instruments, including own Tier 2 instruments that a bank could be obliged to purchase as a result of existing contractual obligations;
b) direct or indirect holdings of the Tier 2 instruments of financial sector entities with which the bank has reciprocal cross holdings that the Agency considers to have been designed to inflate artificially the own funds of the institution;
c) the amount of bank's direct or indirect holdings of the Tier 2 instruments of financial sector entities, where a bank does not have a significant investment in those entities, wherein the amount shall be determined subject to the Article 26 of this Decision and

d) Direct or indirect holdings by the bank of the Tier 2 instruments of financial sector entities where the bank has a significant investment in those entities, excluding underwriting positions held for fewer than five working days.

(2) Bank shall calculate deduction of holdings of Tier 2 instruments on the basis of the gross positions, and provided that all conditions are met for exceptions on the basis of net position, the Agency may specify it by the special regulation.

Article 26
Deduction of Tier 2 instruments where a bank does not have a significant investment in financial sector entity

(1) Where a bank does not have a significant investment in financial sector entity, the aggregate amount of investments in Tier 2 instruments of these entities which is to be deducted from Tier 2 capital of the bank shall be calculated by way that part of the aggregate amount of the direct or indirect holdings of the Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments which exceeds 10 % of the Common Equity Tier 1 items of the bank multiply with quotient of direct and indirect holdings of the bank into Tier 2 instruments of financial sector entities and aggregate direct and indirect holdings to all capital instruments of these entities.

(2) The portion of the aggregate amount of direct and indirect holdings to Common Equity Tier 1 instruments, Additional Tier 1 and Tier 2 instruments of the financial sector entity where the bank does not have a significant investment that is equal to or less than 10 % of the Common Equity Tier 1 shall not be deducted from the own funds but the risk weight applicable under standardise approach for calculation of own funds requirements for credit risk shall be applied to those investments.

(3) The aggregate amount of holdings of Tier 2 instruments of financial sector entities to which risk weights under standardised approach applied, shall be calculated by multiplying the amount from paragraph (2) of this Article with ratio of direct and indirect holdings of the bank to Tier 2 instruments of financial sector entities and the aggregate amount of direct and indirect holdings to all capital instruments of these entities.

(4) For the purpose of paragraphs (1) and (3) of this Article, CET 1 capital shall be calculated in a way that sum of CET 1 items under Article 6 of this Decision shall be reduced by the regulatory adjustments under Article 9 points a), b), c), e), f), g) and l) of this Decision, and furthermore make adjustment under Article 5, paragraphs (2) and (3) of this Decision.

Article 27
Distributions on own funds instruments

(1) Capital instruments for which a bank has the sole discretion to decide to pay distributions in a form other than cash or an own funds instrument shall not be capable of qualifying as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments unless the bank has received the prior permission of the Agency.

(2) The Agency shall grant the permission referred to in paragraph 1 only where it considers all the following conditions related to the sole discretion or form of distributions are met:

a) the ability of the bank to cancel payments would not be adversely affected;
b) the ability of the instrument to absorb losses would not be adversely affected;
c) The quality of the capital instrument would not otherwise be reduced.

(3) Capital instruments for which a legal person other than the bank issuing them has the discretion to decide or require that the payment of distributions on the instrument shall be made in a form other than cash or an own funds instrument shall not be capable of qualifying as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments

Article 28
Holdings of capital instruments issued by regulated financial sector entities that do not qualify as regulatory capital

Banks shall not deduct from any element of own funds direct or indirect holdings of capital instruments issued by a regulated financial sector entity that do not qualify as regulatory capital of that entity. Banks shall apply risk weights to such holdings in accordance with the Standardised Approach for calculation of own funds requirements for credit risk.

Article 29
Conditions for reducing own funds

A bank shall require the prior permission of the Agency to do either or both of the following:

a) reduce, redeem or repurchase Common Equity Tier 1 instruments issued by the bank in a manner that is permitted under applicable legislation,
b) effect the call, redemption, repayment or repurchase of Additional Tier 1 instruments or Tier 2 instruments as applicable, prior to the date of their contractual maturity

Article 30
Supervisory permission for reducing own funds

(1)The Agency shall grant permission for a bank to reduce, repurchase, call or redeem Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments where any of the following conditions is met:

a) where a bank earlier than or at the same time as the action related to reduction of own funds referred to in Article 77, the bank replaces the instruments with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the bank;
b) Where the bank has demonstrated to the satisfaction of the Agency that the own funds of the bank would, following the action in question, exceed the requirements laid down in Article 34 of this Decision and the combined buffer requirement as defined in Article 40 of this Decision and the eventual additional capital requirements against the bank, in additional to risk coverage minimum requirements to which the bank has or might be exposed, in accordance to legislation.

(2) When assessing the sustainability of the replacement instruments for the income capacity of the bank, the Agency shall consider the extent to which those replacement capital instruments would be more costly for the bank than those they would replace.

(3) The Agency may permit banks to redeem Additional Tier 1 or Tier 2 instruments before five years of the date of issue only where the following conditions are met:

a) there is a change in the regulatory classification of those instruments that would be likely to result in their exclusion from own funds or reclassification as a lower quality form of own funds, and both the following conditions are met:
   1) the Agency considers such a change to be sufficiently certain;
   2) the bank demonstrates to the satisfaction of the Agency that the regulatory reclassification of those instruments was not reasonably foreseeable at the time of their issuance;
b) There is a change in the applicable tax treatment of those instruments which the bank demonstrates to the satisfaction of the Agency is material and was not reasonably foreseeable at the time of their issuance.

Article 31
Temporary waiver from deduction from own funds

(1) Where a bank holds capital instruments or has granted subordinated loans, that qualify as Common Equity Tier 1, Additional Tier 1 or Tier 2 instruments in a financial sector entity temporarily and the competent authority deems those holdings to be for the purposes of a financial assistance operation designed to reorganise and save that entity, the Agency may waive on a temporary basis the provisions on deduction that would otherwise apply to those instruments.

(2) For the purpose of paragraph (1) of this Article, and in regard to the temporary waivers the Agency shall act in accordance to legislation governing financial assistant operation to reorganise and save the financial sector entity.

Article 32

The own funds requirement

A bank's own funds may not fall below the amount of initial capital which subject to the legislative provisions is required at the time of its authorisation.

Article 33

Continuing review of quality of own funds

The Agency shall continuously review the quality of own funds, acting in accordance with legislative and regulatory provisions.

Article 34

Own funds requirements for banks

(1) Subject to Article 32 and requirements for derogation for small trading book business under Article 35, banks shall at all times satisfy the following own funds requirements:
   a) a Common Equity Tier 1 capital ratio of 6,75%;
   b) a Tier 1 capital ratio of 9%;
   c) A total capital ratio 12%.

(2) Bank shall calculate the capital ratios referred to in point (1) of this Article as follows:
   a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;
   b) the Tier 1 capital ratio is the Tier 1 capital of the bank expressed as a percentage of the total risk exposure amount;
   c) The total capital ratio is the own funds of the bank expressed as a percentage of the total risk exposure amount.

(3) Total risk exposure amount shall be calculated as the sum of points a) to f) of this paragraph after taking into account the provisions laid down in paragraph (4) of this Article:
   a) the risk weighted exposure amounts for credit risk, subject to Chapter III of this Decision which relates to own funds requirements for credit risk and exposure risk based on free deliveries subject to Article 100 of this Decision in respect of all the business activities of a bank, excluding risk weighted exposure amounts from the trading book business of the bank;
   b) the own funds requirements for the trading-book business of a bank determined in accordance with the part of Decision which relates to own funds requirements for market risk as follows:
      1) position risk;
      2) large exposures exceeding the limits specified in Decision on large exposures;
   c) the own funds requirements determined in accordance with provisions of this Decision which relates to market risk and settlement risk, with exception of free deliveries, as follows:
      1) foreign-exchange risk;
      2) settlement risk;

3) commodities risk;

d) the own funds requirements for operational risk subject to Chapter VII of this Decision which relates to the own funds requirements for operational risk;

e) the risk weighted exposure amounts determined in accordance with Chapter III of this Decision which relates to the own funds requirements for credit risk, arising from the trading book business of the bank, which relates to financial derivatives listed in Annex II of this Decision, repurchase transactions, securities or commodities lending or borrowing transactions based on securities or commodities, long settlement transactions and margin lending.

(4) The following provisions shall apply in the calculation of the total exposure amount referred to in paragraph (3) of this Article:

a) the own funds requirements referred to in paragraph (3) of this Article, points c) and d) including those risk arising from all the business activities of a bank (items in trading book and banking book)

b) Banks shall multiply the own funds requirements from paragraph (3) of this Article, points b),c) and d) with 12,5.

(5) When calculating the regulatory capital, the amount of missing loan loss provisions under regulatory requirements and classification criteria shall present a deduction, i.e. are subject to the regulatory adjustments.

(6) Calculation of capital requirements for a bank, pursuant to the provisions of this Decisions, is subject to an independent review conducted by internal and external audit, and in accordance to regulations governing the function of an internal and external audit in banks.

Article 35
Derogation of capital requirement for small trading book business

(1) Banks may calculate the capital requirement for small trading book business in accordance with part of this Decision related to calculation of the capital requirements for credit risk, instead of in accordance with the part of Decision related to calculation of capital requirements for position risk, provided that the size of their on- and off-balance sheet trading-book business meets both the following conditions:

a) it is normally less than 3 % of the total assets;

b) It never exceeds 4 % of the total assets.

(2) The overall assets referred to in paragraph (1) points a) and b) is the sum of net book value of the balance-sheet assets and the book-value of off-balance sheet items, reduced by loss provisions on off-balance sheet assets.

(3) In calculating the size of on- and off-balance sheet business, banks shall apply the following:

a) debt instruments shall be valued at their market prices or their nominal values, equities at their market prices and derivatives according to the nominal or market values of the instruments underlying them;

b) The absolute value of long positions shall be summed with the absolute value of short positions.

(4) Where the size of trading book exceeds 4% of the total assets, banks shall immediately notify the Agency. If, on the basis of submitted data the Agency determines that size of trading book exceeds 3% of the total assets for three times or more over one calendar month, i.e. nine or more times over the quarter, the Agency shall notify a bank that as of the next reporting date it shall calculate capital requirements in accordance to part of the Decision related to calculation of the own funds requirements for market risk.

(5) Notwithstanding, the Agency may adopt decision requesting a bank to calculate the own funds requirements for market risk even when the bank is not exceeding limits referred to in paragraph (4) of this Article.

Article 36
Reporting on own funds requirements and financial information

(1) Bank shall report to the Agency on calculation of own funds requirements under the Article 34 of this Decision, in accordance to regulation governing the uniform formats, frequencies and dates of reporting.
(2) Agency may require a bank to provide additional reports on financial information, in order to obtain a comprehensive view of the risk profile of the bank, and to prescribe other specific reporting requirements.

II. FINANCIAL LEVERAGE, CAPITAL BUFFERS AND CAPITAL CONSERVATION MEASURES

FINANCIAL LEVERAGE
Article 37
Calculation of financial leverage ratio

(1) Banks shall calculate a financial leverage ratio under the methodology specified in paragraphs (2) to (8) of this Article.
(2) The financial leverage ratio shall be calculated as a bank's capital measure divided by that bank's total exposure measure and shall be expressed as a percentage. Banks shall calculate a financial leverage ratio on reporting reference date.
(3) For the purpose of paragraph (2) this Article, capital measure shall be the Tier 1 capital.
(4) The total exposure measure is the sum of the exposure values of:
   a) Assets referred to in paragraph (5) this Article, with exception of items not deducted when determining the capital measure referred to in paragraph 3 this Article;
   b) With exception of assets deducted when determining the capital measure referred to in paragraph 3 this Article;
   c) Financial derivatives under paragraph (7) this Article;
   d) Repurchase transactions, securities or commodities borrowing transactions to/from counterparty, long settlement transactions and margin lending transactions under paragraph (6) this Article;
   e) Off-balance sheet items under paragraph (8) this Article.
(5) Banks shall determine the exposure value of assets, for the purpose of paragraph (4) this Article, excluding contracts listed in Annex II, in accordance with the following principles:
   a) the exposure value of assets is the exposure value under Article 44, where the balance sheet positions shall reduce only by value adjustments, and off-balance-sheet positions for provisions calculated under international accounting standards;
   b) credit risk mitigation techniques shall not be used to reduce items included in the exposure value of assets;
   c) loans shall not be netted with deposits;
   d) Repurchase transactions, securities or commodities borrowing transactions to/from counterparty, long settlement transactions and margin lending transactions shall not be netted.
(6) Banks shall determine the exposure values for repurchase transactions, securities or commodities borrowing transactions to/from counterparty, long settlement transactions and margin lending transactions, including off-balance sheet items in accordance to Article 87.
(7) Banks shall determine the exposure values for financial derivatives under Annex II of this Decision, including off-balance sheet items, pursuant to Article 46. Notwithstanding, the bank may use the Original Exposure Method under Article 47 to determine values of financial derivatives under points 1 and 2 of Annex II, provided that the same method is used to determine the financial derivatives value for the purpose of calculation the own funds requirements.

(8) Banks shall determine the exposure value of off-balance sheet items, except the items referred to in paragraph (6) and (7) of this Article, pursuant to Article 44, where a bank shall take the book value of those items, reduced by loan loss provisions under the international standard for off-balance sheet items, to which the following shall apply:
   (a) the conversion factor to be applied to the nominal value for undrawn credit facilities, which may be cancelled unconditionally at any time without notice, referred to in points 4(a) and (b) of Annex I, is 10%;
   (b) the conversion factor for medium/low risk trade finance related off-balance sheet items referred to in point 3(a) of Annex I and to officially supported export credits related off-balance sheet items referred to in point 3(b) of Annex I is 20 %%
   (c) the conversion factor for medium risk trade finance related off-balance sheet items referred to in points 2(a) and 2(b) line 1) of Annex I and to officially supported export credits related off-balance sheet items referred to in point 2(b) line 2) of Annex I is 50 %;
   (d) The conversion factor for all other off-balance sheet items listed in Annex I is 100 %.

(9) Banks shall ensure and maintain a financial leverage ratio equal to a minimum of 6%.

Article 38
Reporting on financial leverage

Banks shall report to the Agency on financial leverage ratio and its constituent parts in accordance to regulation governing the formats, frequency and reporting dates.

CAPITAL BUFFERS

Article 39
Requirement to maintain a **capital conservation buffers**

(1) Banks shall maintain capital conservation buffer as Common Equity Tier 1 equal to 2,5% of the total risk exposure amount, calculated in accordance with Article 34, paragraph (3).
(2) Capital buffer under paragraph (1) this Article shall only consists of Common Equity Tier 1 items, after loading Common Equity Tier 1 ratio of 6,75% in accordance to Article 34, paragraph (1) point a) and it cannot be used to maintain Tier 1 capital ratio and total capital ratio.
(3) Where the Agency, on the basis of risk assessment the bank is exposed or it might be exposed, requires a higher Common Equity Tier 1 Capital Ratio than the prescribed minimum of 6,75%, then the capital buffers shall be the part of Common Equity Tier 1 Capital above the ratio determined by the Agency for the bank concerned**.**
(4) Banks which do not maintain capital buffers under paragraph (1) this Article, shall apply capital conservation measures under Article 41 (2) and (3) and capital conservation plan under Article 42.

Article 40
Requirements for other capital buffers

(1) The Agency shall establish the list of systemically important banks under the methodology defined jointly with the Central Bank of BiH, Deposit Insurance Agency of BiH and the Banking Agency of Republika Srpska.
(2) The methodology for identification of systemically important banks in BiH takes into account the criteria which under standards of international institutions responsible for financial stability have been adjusted to specific of the banking system in BiH.
(3) The Agency may establish a specific regulatory requirements for the bank identified as being systemically important bank.
(4) The Agency may impose a capital buffer ratio for a systemically important bank between 0% and 2% of the total risk exposure amount, calculated in accordance with Article 34 (3).

(5) The Agency shall publish and review capital buffers for a systemically important bank at least once a year.
(6) Countercyclical capital buffer and the systemic risk buffer shall be imposed by specific regulation when required.
(7) Combined buffer requirement is the Common Equity Tier 1 capital (expressed as a percentage in relation to the total risk exposure amount calculated in accordance to Article 34 (3)) required to meet the requirement for the capital conservation buffer extended by the following buffers, as applicable:
a) the bank specific countercyclical capital buffer;
b) the capital buffer for a systemically important bank;
c) The systemic risk buffer.
(8) Application of the bank specific countercyclical capital buffer, the capital buffer for a systemically important bank and the systemic risk buffer shall be imposed by the legislative provisions, and specific regulations adopted on the basis of the legislation.
(9) Where a bank fails to meet fully the requirement under paragraph 1 of this Article, it shall be subject to the restrictions on distributions set out in Article 41(2) and (3).

CAPITAL CONSERVATION MEASURES
Article 41
Restrictions on distributions

(1) Banks that meet the combined buffer requirement shall not make a distribution in connection with Common Equity Tier 1 capital to an extent that would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is no longer met.
(2) Banks that fail to meet the combined buffer requirement shall calculate the Maximum Distributable Amount ('MDA') and notify the Agency of that MDA.
(3) Banks shall not undertake any of the following actions before they have calculated the MDA:
a) make a distribution of profit in connection with Common Equity Tier 1 capital;
b) create an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the bank failed to meet the combined buffer requirements referred to in Article 40 of this Decision;
c) make payments on Additional Tier 1 instruments.
(4) MDA shall be calculated by multiplying the sum calculated in accordance with paragraph 5 of this Article by the factor determined in accordance with paragraph 6 of this Article. The MDA shall be reduced by any of the actions referred to in point (a), (b) or (c) of the paragraph 3 of this Article.
(5) The sum to be multiplied in accordance with paragraph 4 shall of this Article consist of:
a) interim profits not included in Common Equity Tier 1 capital pursuant to Article 6(2) and (3) of this Decision that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in point (a), (b) or (c) of the paragraph 3 of this Article; and
b) year-end profits not included in Common Equity Tier 1 capital pursuant to Article 6, paragraph (2) and (3) of this Decision, that have been generated since the most recent decision on the distribution of profits or any of the actions referred to in point (a), (b) or (c) of paragraph 3 of this Article

minus amounts which would be payable by tax if the items specified in points (a) and (b) of this paragraph were to be retained.
(6) The factor shall be determined as follows:
a) where the Common Equity Tier 1 capital maintained by the bank which is not used to meet the own funds requirement under Article 34, paragraph (1) point c) of this Decision, expressed as a percentage of the total risk exposure amount calculated in accordance with

Article 34(3) of this Decision, is within the first (that is, the lowest) quartile of the combined buffer requirement, the factor shall be 0;

b) where the Common Equity Tier 1 capital maintained by the bank which is not used to meet the own funds requirement under Article 34, paragraph (1) point c) of this Decision, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 34, paragraph (3) of this Decision, is within the second quartile of the combined buffer requirement, the factor shall be 0,2;

c) where the Common Equity Tier 1 capital maintained by the institution which is not used to meet the own funds requirement under Article 34, paragraph 1, point c) of this Decision, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 34, paragraph (3) of this Decision, is within the third quartile of the combined buffer requirement, the factor shall be 0,4;

d) where the Common Equity Tier 1 capital maintained by the institution which is not used to meet the own funds requirement under Article 34, paragraph (1) point c) of this Decision, expressed as a percentage of the total risk exposure amount calculated in accordance with Article 34, paragraph (3) of this Decision, is within the fourth (that is, the highest) quartile of the combined buffer requirement, the factor shall be 0,6;

e) The lower and upper bounds of each quartile of the combined buffer requirement shall be calculated as follows:

$$\text{lower bound of quartile} = \frac{\text{combined buffer requirement}}{4} \times (Q_n - 1)$$

$$\text{upper bound of quartile} = \frac{\text{combined buffer requirement}}{4} \times Q_n$$

where „Q_n” indicates the ordinal number of the quartile concerned.

(7) The restrictions imposed by this Article shall only apply to payments that result in a reduction of Common Equity Tier 1 capital or in a reduction of profits, and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of proceedings under the insolvency regime. The Agency shall lay down by a specific regulation obligations of a bank related to recovery plans.

(8) Where a bank fails to meet the combined buffer requirement and intends to distribute any of its distributable profits or undertake an action referred to in points (a), (b) and (c) of the paragraph 3 of this Article, it shall notify the Agency and provide the following information

a) the amount of capital maintained by the bank, subdivided as follows
   1) Common Equity Tier 1 capital,
   2) Additional Tier 1 capital,
   3) Tier 2 capital;

b) the amount of its interim and year-end profits;

c) the MDA calculated in accordance with paragraph (4) of this Article;

d) the amount of distributable profits it intends to allocate between the following:
   1) dividend payments,
   2) share buybacks,
   3) payments on Additional Tier 1 instruments.
   4) the payment of variable remuneration or discretionary pension benefits, whether by creation of a new obligation to pay, or payment pursuant to an obligation to pay created at a time when the bank failed to meet its combined buffer requirements

(9) Banks shall maintain adequate internal systems to ensure that the amount of distributable profits and the MDA are calculated accurately, and shall be able to demonstrate that accuracy to the Agency on request.

(10) For the purposes of paragraph (1) and (2) of this Article, a distribution in connection with Common Equity Tier 1 capital shall include the following:

a) a payment of cash dividends;

b) a distribution of fully or partly paid bonus shares or other capital instruments referred to in Article 6, paragraph (1) point a) of this Decision;
c) a redemption or purchase by an institution of its own shares or other capital instruments referred to in Article 6, paragraph (1) point a) of this Decision by a bank;
d) a repayment of amounts paid up in connection with capital instruments referred to in Article 6 of this Decision, paragraph (1) point a);
e) a distribution of items referred to in Article 6 of this Decision, paragraph (1) points b) to e).

Article 42
Capital conservation plan

(1) Where a bank fails to meet its combined buffer requirement, it shall prepare a capital conservation plan and submit it to the Agency no later than five working days after it identified that it was failing to meet that requirement, unless the Agency authorises a longer delay up to 10 days. The Agency shall grant such authorisations only on the basis of the individual situation of a bank and taking into account the scale and complexity of the bank's activities.
(2) The capital conservation plan referred to in paragraph (1) of this Article shall include the following:
a) estimates of income and expenditure and a forecast balance sheet;
b) measures to increase the capital ratios of the bank;
c) a plan and timeframe for the increase of own funds with the objective of meeting fully the combined buffer requirement;
d) Any other information that the Agency considers to be necessary to carry out the assessment required by paragraph (3) of this Article.
(3) The Agency shall assess the capital conservation plan, and shall approve the plan only if it considers that the plan, if implemented, would be reasonably likely to conserve or raise sufficient capital to enable the bank to meet its combined buffer requirements within a period which the Agency considers appropriate.
(4) If the Agency does not approve the capital conservation plan in accordance with paragraph 3 of this Article, it shall impose one or both of the following:
a) require the institution to increase own funds to specified levels within specified periods;
b) Impose more stringent restrictions on distributions than those required by Article 41 of this Decision.

III. CAPITAL REQUIREMENTS FOR CREDIT RISK

Article 43
Approaches to credit risk

(1) Banks shall apply the Standardised Approach to calculate capital requirements for credit risk for their risk-weighted exposure amounts for the purposes of Article 34, paragraph (3) point (a).
(2) For the purposes of calculating capital requirements for credit risk, exposures to third-country investment firms and exposures to banks are treated as exposures to institutions, only if the third country applies to that entity regulatory and supervisory requirements that are at least equivalent to those applied in the FBiH, i.e. European Union.
(3) For the purpose of the previous paragraph the Agency applies decision of the European Commission as to whether a third country applies supervisory and regulatory requirements at

least equivalent to those applied in the European Union and specifies the list of the countries in the Annex IV of this Decision.

Article 44
Exposure value

(1) The exposure value of an asset item shall be its accounting value remaining after deduction for loan loss provisions or value adjustments for credit risk, depends on which item is higher by an individual account, additional value adjustments in accordance with Article 5 paragraph (3) of this Decision and own funds reductions related to the asset item. The exposure value of an off-balance sheet item listed in Annex I shall be the following percentage of its accounting value after reduction of loan loss provisions or loss provisioning for off-balance sheet items, depends on which item is higher by an individual account, multiplied by the following conversion factors:

a) 100% if it is a full-risk item;
b) 50% if it is a medium-risk item;
c) 20% if it is a medium/low-risk item;
d) 0% if it is a low-risk item.

The off-balance sheet items shall be assigned to risk categories as indicated in Annex 1 of this Decision.

(2) When a bank is using the Financial Collateral Comprehensive Method under Article 88, the exposure value of securities or commodities sold, posted or lent under a repurchase transaction or under a securities or commodities lending or borrowing transaction, and margin lending transactions shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Articles 88 to 89.

(3) The exposure value of a derivative instrument listed in Annex I shall be determined in accordance with methods for calculating exposure values from Articles 45 to 47.

(4) The exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions may be determined in accordance to the part of the Decision which relates to credit risk mitigation techniques (CRM).

(5) Where an exposure is subject to funded credit protection, the exposure value applicable to that item may be amended in accordance with the part of Decision which relates to credit risk mitigation (CRM).

Article 45
Methods for calculating exposure values of financial derivatives

(1) The bank shall determine the exposure value for the financial derivatives listed in the Annex II of this Decision using either of the following two methods: Mark-to-Market Method or Original Exposure Method.

A bank which is not eligible for the treatment set out in Article 35 shall not use the Original Exposure Method. When determining the exposure value of the contracts listed in the Annex II, points 3 to 7, a bank shall not use the original exposure method.

(2) Under all methods set out in paragraph (1) of this Article, the exposure value for a given counterparty shall be equal to the sum of the exposure values calculated for each group of transactions between the bank and that counterparty.

(3) For the Mark-to-Market Method or Original Exposure Method, the bank shall adopt a consistent methodology for determining the notional amount for different product types, and shall ensure that the notional amount to be taken into account provides an appropriate measure of the risk inherent in the contract.

Article 46
Mark-to-market Method

(1) In order to determine the current replacement cost of all contracts with positive values, banks shall attach the current market values to the contracts.
(2) In order to determine the potential future credit exposure, banks shall multiply the notional amounts or underlying values, as applicable, by the percentages in Table 1 and in accordance with the following principles:
  a) Contracts which do not fall within one of the five categories indicated in Table 1 banks shall treat as contracts concerning commodities other than precious metals;
  b) For contracts with multiple exchanges of principal, the percentages shall be multiplied by the number of remaining payments still to be made in accordance with the contract;
c) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the contract is zero on those specified dates, the residual maturity shall be equal to the time until the next reset date. In the case of interest-rate contracts that meet those criteria and have a remaining maturity of over one year, the percentage shall be no lower than 0,5 %.

Table 1

Residual maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold	Contracts concerning equities	Contracts concerning precious metals except gold	Contracts concerning commodities other than precious metals
One year or less	0 %	1 %	6 %	7 %	10 %
Over one year, not exceeding five years	0,5 %	5 %	8 %	7 %	12 %
Over five year	1,5 %	7.5 %	10 %	8 %	15 %

(3) The sum of current replacement cost and potential future credit exposure is the exposure value

Article 47
Original Exposure Method

(1) According to the original exposure method, the exposure value is the notional amount of each instrument multiplied by the percentages set out in Table 2.

Table 2

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold
One year or less	0,5 %	2 %
From 1 to 2 years	1 %	5 %
Additional allowance for each additional year	1 %	3 %

(2) For calculating the exposure value of interest-rate contracts, a bank may choose to use either the original or residual maturity.

Article 48
Exposure classes

Each exposure shall be assigned to one of the following exposure classes:

a) exposures to central governments and central banks;
b) exposures to regional governments or local authorities;
c) exposures to Public Sector Entities;
d) exposures to multilateral development banks;
e) exposures to International Organisations;
f) exposures to institutions;
g) exposures to corporates;
h) retail exposures;
i) exposures secured by mortgages on immovable property;
j) exposures in default;
k) exposures associated with particularly high risk;
l) Exposures in the form of covered bonds;
m) exposures to institutions and corporates with a short-term credit assessment
n) exposures in the form of units or shares in collective investment undertakings;
o) equity exposures;
p) Other items.

Article 49
Calculation of risk weighted exposure amounts

(1) To calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of this Section which relates to risk weights. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, its credit quality, to the extend specified in part related to risk weights. Credit quality may be determined by reference to the credit assessments of the External Credit Assessment Institutions (hereinafter: ECAIs) or the credit assessments of Export Credit Agencies (hereinafter: ECA) from the part of Decision related to recognition and mapping of credit risk assessments.

(2) For the purposes of applying a risk weight, as referred to in previous paragraph, the exposure value shall be multiplied by the risk weight specified or determined in accordance with the part of the Decision related to risk weights.

(3) Where an exposure is subject to credit protection the risk weight applicable to that item may be amended in accordance with Article 95 of this Decision.
(4) Exposures for which risk weight is not determined shall be assigned a risk-weight of 100 %.

Article 50
Exposures to central governments and central banks

(1) Exposures to central governments and central banks shall be assigned a 100 % risk weight, unless the treatments set out in paragraphs 2 to 7 of this Article apply.
(2) Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 3 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

Table 3						
Credit quality step	1	2	3	4	5	6
Risk weight	0 %	20 %	50 %	100 %	100 %	150 %

(3) Exposures to the European Central Bank (hereinafter: ECB) shall be assigned a 0 % risk weight
(4) Exposures to central government of BiH, CBBH, central governments and central banks of Member States denominated in the domestic currency of that central government and central bank shall be assigned a risk weight of 0 %.
(5) Until 31 December 2017, the same risk weight shall be assigned in relation to exposures to the central government of BiH, CBBH, central governments or central banks of Member States denominated in the domestic currency of any Member State as would be applied to such exposures denominated in their domestic currency.
(6) For exposures indicated in the previous paragraph a bank shall calculate the risk weighted exposure amount as follows:
   a) in 2018 the calculated risk weighted exposure amounts shall be 20 % of the risk weight assigned to these exposures in accordance with paragraph (2) of this Article;
   b) in 2019 the calculated risk weighted exposure amounts shall be 50 % of the risk weight assigned to these exposures in accordance paragraph (2) of this Article;
   c) in 2020 and onwards the calculated risk weighted exposure amounts shall be 100 % of the risk weight assigned to these exposures in accordance with paragraph (2) of this Article.

(7) When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the EU assign a risk weight which is lower than that indicated in paragraphs (1) and (2) of this Article for exposures to their central government and central bank denominated in the domestic currency, bank may risk weight such exposures in the same manner. List of third countries is set out in Annex IV of this Decision.

Article 51
Exposures to regional governments or local authorities

(1) Exposures to regional governments or local authorities shall be risk-weighted as exposures to institutions. The preferential treatment for short-term exposures specified in Article 55, paragraph (2) and Article 56, paragraph (2) shall not be applied.
(2) Exposures to the Government of the FBiH, Government of RS and Government of Brčko District have the same treatment as exposures to the Central Government of BiH.

(3) Exposures to religious communities shall be treated as exposures to regional governments or local authorities, if religious communities are constituted in the form of a legal person under public law and they raise taxes in accordance with legislation conferring on them the right to do so.

Article 52
Exposures to public sector entities

(1) Exposures to public sector entities for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the public sector entity is incorporated are assigned in accordance with the following Table 4:

Table 4						
Credit quality step assigned to central government	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	100 %	150 %

(2) For exposures to public sector entities incorporated in countries where the central government is unrated, the risk weight shall be 100 %.
(3) Exposures to public sector entities for which a credit assessment by a nominated ECAI is available shall be treated in accordance with Article 56 of this Decision. The preferential treatment from Article 55, paragraph (2) and Article 56 paragraph (2) for short-term exposures shall not be applied to those entities.
(4) For exposures to public sector entities with an original maturity of three months or less, the risk weight shall be 20 %.
(5) When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the EU, treat exposures to public sector entities in accordance with paragraph 1 or 2 of this Article, banks may risk weight exposures to such public sector entities in the same manner. Otherwise the banks shall apply a risk weight of 100 %. List of third countries is set out in Annex IV of this Decision.

Article 53
Exposures to the multilateral development banks

(1) Exposures to the multilateral development banks which are not listed in the paragraph (2) of this Article shall be treated in the same way as exposures to institutions. A preferential treatment from Article 55, paragraph (2), Article 56, paragraph (2) and Article 57, paragraph (3) referred to short-term exposures shall not be applied.
Inter-American Investment Corporation), Black Sea Trade and Development Bank), Central American Bank for Economic Integration and CAF-Development Bank of Latin America) shall be considered as multilateral development banks.
(2) Exposures to the following multilateral development banks shall be assigned a risk weight of 0%.
a) International Bank for Reconstruction and Development;
b) International Finance Corporation;
c) Inter-American Development Bank;
d) Asian Development Bank;
e) African Development Bank;
f) Council of Europe Development Bank;

g) Nordic Investment Bank;
h) Caribbean Development Bank;
i) European Bank for Reconstruction and Development;
j) European Investment Bank;
k) European Investment Fund;
l) Multilateral Investment Guarantee Agency;
m) International Finance Facility for Immunisation and
n) Islamic Development Bank.

(3) A risk weight of 20 % shall be assigned to the portion of unpaid capital subscribed to the European Investment Fund.

Article 54
Exposures to international organisations

A risk weight of 0% shall be assigned for exposures to the following international organisations:

a) European Union;
b) International Monetary Fund;
c) Bank for International Settlements;
d) European Financial Stability Facility;
e) European Stability Mechanism;
f) International financial institution established by two or more Member States, which has the purpose to mobilise funding and provide financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems.

Article 55
Exposures to institutions

1) Exposures to institutions for which a credit assessment by a nominated ECAI is available shall be risk-weighted in accordance with Article 56 of this Decision. Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be risk-weighted in accordance with Article 57 of this Decision.
2) Exposures to institutions of a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight that is one category less favourable than the preferential risk weight, as described in Article 50, paragraph (4) to (7) of this Decision, assigned to exposures to the central government in which the institution is incorporated.
3) No exposures with a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight less than 20 %.
4) Exposures to financial institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to banks shall be treated as exposures to institutions.
5) Exposures to institutions shall include exposures to investment companies in BiH, which operates subject to legislation governing operations of the investment companies, investment firms from EU Member States which operates under EU legislation, recognised third-country investment firms meeting all of the following conditions:
   a) if it were established within the EU, it would be covered by the definition of an investment firm;
   b) it is authorised in a third country;
   c) it is subject to and complies with prudential rules considered by the competent authorities as at least as stringent as those laid down by the EU regulations.

Article 56
Exposures to rated institutions

1) Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to the Table 5 which corresponds to the credit assessment of the ECAI in accordance with Article 69.

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

2) Exposures to an institution of up to three months residual maturity for which a credit assessment by a nominated ECAI is available shall be assigned a risk-weight according to Table 6 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

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

(1) The interaction between the treatment of short term credit assessment under Article 64 of this Decision and the general preferential treatment for short term exposures set out in paragraph 2 shall be as follows:

a) If there is no short-term exposure assessment, the general preferential treatment for short-term exposures as specified in paragraph 2 of this Article shall apply to all exposures to institutions of up to three months residual maturity;

b) If there is a short-term assessment and such an assessment determines the application of a more favourable or identical risk weight, as well as the use of the general preferential treatment for short-term exposures, as specified in paragraph 2, then the short-term assessment shall be used for that specific exposure only. Other short-term exposures shall follow the general preferential treatment for short-term exposures, as specified in paragraph 2 of this Article;

c) If there is a short-term assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph 2 of this Article, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims shall be assigned the same risk weight as that applied by the specific short-term assessment.

Article 57
Exposures to unrated institutions

Exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with Table 7.

Table 7						
Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight of exposure	20 %	50 %	100 %	100 %	100 %	150 %

(1) For exposures to unrated institutions incorporated in countries where the central government is unrated, the risk weight shall be 100 %.
(2) For exposures to unrated institutions with an original effective maturity of three months or less, the risk weight shall be 20 %

Article 58
Exposures to corporates

(1) Exposures to corporates for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 8 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

Table 8						
Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

(2) Exposures for which such a credit assessment is not available shall be assigned a 100 % risk weight. In a cases where a risk weight over 100% is assigned to the central government of the jurisdiction in which the corporate is incorporated, exposures to corporates for which a credit assessment is not available a risk weight higher than 100 %shall be assigned.

Article 59
Retail exposures

(1) Retail exposures that comply with the following criteria shall be assigned a risk weight of 75 %:
   a) The exposure shall be either to a natural person or persons, or to a small or medium-sized enterprise (SME);
   b) The exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced;
   c) The total amount owed to the institution and parent undertakings and its subsidiaries, including any exposure in default, by the obligor client or group of connected clients, does not exceed BAM 250 thousands. The bank shall take reasonable steps to acquire this knowledge.
(2) Securities shall not be eligible for the retail exposure class.
(3) Exposures that do not comply with the criteria referred to in paragraph (1) points (a) to (c) of this Article shall not be eligible for the retail exposures class.
(4) The present value of retail minimum lease payments is eligible for the retail exposure class.

Article 60
Exposures secured by immovable property

(1) An exposure or any part of an exposure fully secured by residential and commercial immovable property shall be assigned a risk weight of 100 %, where the conditions under paragraphs (3) and (4) of this Article are not met, and if not assigned to another exposure class.

(2) The part of an exposure treated as fully secured by immovable property should be at least 80% of the market value for residential properties, i.e. 60% of the market value for commercial property, and for the exposure part exceeding 80% of the market value for residential property or 60% of the market value for commercial property, shall be assigned the risk weight applicable to the unsecured exposures of the counterparty involved.

(3) Exposures or any part of an exposure fully and completely secured by residential property which is or shall be occupied or let by the owner, or the beneficial owner, where the conditions from paragraph (5) under this Article are met, shall be assigned a risk weight of 50%.

(4) Exposures or any part of an exposure fully and completely secured by commercial property which meet conditions under paragraph (5) of this Article, shall be assigned a risk weight of 75%.

(5) Exposures secured by immovable property shall qualify as eligible collateral only where all requirements laid down under points a) to c) of this paragraph are met.

a) The following requirements on legal certainly shall be met :

1) a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;

2) all legal requirements for establishing the pledge have been fulfilled;

3) The protection agreement and the legal process underpinning it enable the institution to realise the value of the protection within a reasonable timeframe.

b) The following requirements on monitoring of property values and on property valuation shall be met:

1) Following initial assessment by an independent valuer, banks monitor the value of the property on a frequent basis and at a minimum once every year for commercial immovable property and once every three years for residential real estate. Banks carry out more frequent monitoring where the market is subject to significant changes in conditions;

2)the property valuation is reassessed when information available to banks indicates that the value of the property may have declined materially relative to general market prices and that reassessment is carried out by an independent valuer. For exposures exceeding BAM 1 million or 5 % of the own funds of an institution, the property valuation shall be reviewed by such valuer at least every three years.

Banks may use statistical methods to monitor the value of the property and to identify property that needs revaluation.

c) Banks shall clearly document the types of residential and commercial immovable property they accept and their lending policies in this regard.

(6) Exposures for which a credit assessment by a nominated ECAI is more favourable than the one assigned to exposure class secured by the immovable property, subject to this Article, shall be assigned a more favourable weight, regardless ranking in the decision tree.

Article 61
Exposures in default

(1) The unsecured part of any exposure item in default shall be assigned the following risk weight of:

a) 150% where specific credit risk adjustments are less than 20 % of the secured part of the exposure value, if these specific credit risk adjustments were not applied;
b) 100% where specific credit risk adjustments are no less than 20 % of the unsecured part of the exposure value if these specific credit risk adjustments were not applied.

(2) For the purpose of determining the secured part of the past due item, eligible collateral shall be those eligible for credit risk mitigation purposes.

(3) A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:
a) the bank considers that the obligor is unlikely to pay its credit obligations to the bank, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
b) the obligor is past due more than 90 days on any material credit obligation under Article 2, point ll) of this Decision. In the case of retail exposures, banks may apply the definition of default laid down in points (a) and (b) at the level of an individual credit facility rather than in relation to the total obligations of a borrower.

(4) For the purpose of point b) paragraph (3) of this Article, the following shall apply:
a) for overdrafts, days past due commence once an obligor has breached an advised limit, has been advised a limit smaller than current outstanding, or has drawn credit without authorisation and the underlying amount is material;
b) for the purposes of point (a), an advised limit comprises any credit limit determined by the bank and about which the obligor has been informed by the bank;
c) days past due for credit cards commence on the minimum payment due date;
d) Materiality of a credit obligation past due shall be assessed against a threshold, defined in Article 2, point ll).
e) banks shall have documented policies in respect of the counting of days past due, in particular in respect of the granting of extensions. These policies shall be applied consistently over time, and shall be in line with the internal risk management.

(5) For the purpose of point (a) of paragraph 3, banks shall take the following elements as indications of unlikeliness to pay:
a) the bank puts the credit obligation on non-accrued status;
b) the bank recognises a credit adjustment resulting from a significant perceived decline in credit quality subsequent to the bank taking on the exposure;
c) the bank sells the credit obligation at a material credit- related economic loss;
d) the bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees;
e) the bank has filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the bank, the parent undertaking or any of its subsidiaries;
f) the obligor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of a credit obligation to the bank, the parent undertaking or any of its subsidiaries.

(6) Where a previously defaulted exposure is such that no trigger of default continues to apply, under Article 2, point ll) and Article 61, paragraph (3), the bank shall rate the obligor or facility as they would for a non-defaulted exposure, but only six months after cessation of fulfilment the conditions.

Where the definition of default is subsequently triggered, another default would be deemed to have occurred.

Article 62
High risk exposures

(1) Banks shall assign a 150 % risk weight to exposures, including exposures in the form of shares or units in investment funds that are associated with particularly high risks, where appropriate

(2) Exposures with particularly high risks shall include any of the following exposures:
   a) Investments in venture capital firms
   b) Investments in alternative investment funds (AIFs) established outside BiH;

(3) When assessing whether an exposure other than exposures referred to in the paragraph 2 of this Article is associated with particularly high risks, banks shall take into account the following risk characteristics:
   a) there is a high risk of loss as a result of a default of the obligor;
   b) it is impossible to assess adequately whether the exposure falls under point (a) of this paragraph.

Article 63
Exposures in the form of covered bonds

(1) To be eligible for the preferential treatment set out in paragraphs 4 and 5 of this Article, covered bonds shall meet the requirements set out in paragraph 6 and shall be collateralised by any of the following eligible assets:
   a) Exposures to or guaranteed by the Central Government of BiH, Government of the FBiH, Government of RS, Government of Brčko District, central governments members of the European System of Central Banks (ESCB) in EU;
   b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2 as set out in this Decision, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of the issuing institution.
   c) Exposures to institutions that qualify for the credit quality step 1. The total exposure of this kind shall not exceed 15 % of the nominal amount of outstanding covered bonds of the issuing institution. Exposures to institutions in the EU with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions shall as a minimum qualify for credit quality step 2;

(2) The situations referred to in points (a) to (c) of paragraph 1 of this Article shall also include collateral that is exclusively restricted by legislation to the protection of the bond-holders against losses.

(3) Banks shall for immovable property collateralising covered bonds meet the requirements set out in Article 60, paragraph (5).

(4) Covered bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 9 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

Table 9						
Credit quality step	1	2	3	4	5	6
Risk weight	10 %	20 %	20 %	50 %	50 %	100 %

(5) Covered bonds for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures

to the institution which issues them. The following correspondence between risk weights shall apply:

a) if the exposures to the institution are assigned a risk weight of 20 %, the covered bond shall be assigned a risk weight of 10 %;
b) if the exposures to the institution are assigned a risk weight of 50 %, the covered bond shall be assigned a risk weight of 20 %;
c) if the exposures to the institution are assigned a risk weight of 100 %, the covered bond shall be assigned a risk weight of 50 %;
d) if the exposures to the institution are assigned a risk weight of 150 %, the covered bond shall be assigned a risk weight of 100 %.

(6) Exposures in the form of covered bonds are eligible for preferential treatment, provided that the bank investing in the covered bonds can demonstrate to the Agency that:

a) it receives portfolio information at least on:
   1) the value of the cover pool and outstanding covered bonds
   2) the geographical distribution and type of cover assets, loan size, interest rate and currency risks
   3) the maturity structure of cover assets and covered bonds; and
   4) the percentage of loans more than ninety days past due
b) the issuer makes the information referred to in point (a) available to the bank at least semi-annually.

Article 64
Exposures to institutions and corporates with a short-term credit assessment

Exposures to institutions and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 10 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

Table 10						
Credit quality step	1	2	3	4	5	6
Risk Weight	20 %	50 %	100 %	150 %	150 %	150 %

Article 65
Exposures in the form of units or shares in investment funds

(1) Exposures in the form of units or shares in investment funds shall be assigned a risk weight of 100 %, unless the banks applies the credit risk assessment method under paragraph 2 of this Article.
(2) Exposures in the form of units or shares in investment funds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 11 which corresponds to the credit assessment of the ECAI in accordance with Article 69 of this Decision.

Table 11						
Credit quality step	1	2	3	4	5	6
Risk Weight	20 %	50 %	100 %	100 %	150 %	150 %

Article 66
Equity exposures

(1) The following exposures shall be considered equity exposures:
  a) non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer;
  b) debt exposures and other securities, partnerships, derivatives, the economic substance of which is similar to the exposures specified in point (a) of this paragraph.

(2) Equity exposures shall be assigned a risk weight of 100 %, unless they are deductible item from own funds, or treated as high risk items in accordance with Article 62 of this Decision, or assigned a 1 250 % risk weight in accordance with Article 9 of this Decision.

(3) Investments in equity or regulatory capital instruments issued by banks shall be classified as equity claims, unless they present deductible items from own funds or treated as high risk items in accordance with Article 62 of this Decision.

Article 67
Other exposures

(1) Tangible assets (land and buildings, equipment, prepayments for tangible assets and tangible assets under construction) shall be assigned a risk weight of 100 %.

(2) Prepayments and accrued income for which an institution is unable to determine the counterparty shall be assigned a risk weight of 100 %.

(3) Cash items in the process of collection shall be assigned a 20 % risk weight. Cash in hand and equivalent cash items shall be assigned a 0 % risk weight

(4) Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0 % risk weight.

(5) In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.

(6) The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option the exercise of which is reasonably certain

IV RECOGNITION OF ECAI'S

Article 68
Use of credit assessments by ECAIs

(1) An external credit assessment may be used to determine the risk weight of an exposure only if it has been issued by an ECAI or has been endorsed by an ECAI.

(2) The European Securities and Markets Authority (ESMA) shall update and publish the list of registered and certified credit assessment institutions on its web site to be used by banks.

Article 69
Mapping of ECAI's credit assessments

(1) The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) shall, through the Joint Committee, develop draft implementing technical standards to determine mapping of ECAIs credit assessments to corresponding credit quality steps set out in Section III of this Decision. Those determinations shall be objective and consistent.

(2) The Agency shall publish the list of web sites where the documents referred to in paragraph (1) of this Article may be downloaded.

Article 70
Use of credit assessments by ECA (Export Credit Agencies)

(1) For the purpose of Article 50 of this Decision, banks may use credit assessments of an Export Credit Agency that the institution has nominated, if either of the following conditions is met:

a) it is a consensus risk score from Export Credit Agencies participating in the arrangement on guidelines of the Organisation for Economic Co-operation and Development (hereinafter: OECD) for officially supported export credits, or

b) ECA publishes its credit assessments and subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes. A bank may revoke its nomination of an Export Credit Agency. An institution shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements.

(2) Exposures for which a credit assessment by an Export Credit Agency is recognised for risk weighting purposes shall be assigned a risk weight according to Table 12.

Table 12								
MEIP	0	1	2	3	4	5	6	7
Risk weight	0 %	0 %	20 %	50 %	100 %	100 %	100 %	150 %

Article 71
General requirements to use ECAIs credit assessments for determination of risk weights

A bank may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items. A bank may revoke its nomination of an ECAI. A bank shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements. Credit assessments shall not be used selectively. A bank shall use solicited credit assessments. In using credit assessment, banks shall comply with the following requirements:

a) a bank which decides to use the credit assessments produced by an ECAI for a certain class of items shall use those credit assessments consistently for all exposures belonging to that class;

b) a bank which decides to use the credit assessments produced by an ECAI shall use them in a continuous and consistent way over time;

c) a bank shall only use ECAIs credit assessments that take into account all amounts both in principal and in interest owed to it;

d) where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;

e) where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;

(f) where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

Article 72
Issuer and issue credit assessment

(1) Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight to be assigned to that item.

(2) Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used in either of the following cases:

a) it produces a higher risk weight than would otherwise be the case and the exposure in question ranks pari passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant

b) it produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

In all other cases, the exposure shall be treated as unrated.

(3) Paragraphs (1) and (2) of this Article are not to prevent the application of Article 63 of this Decision.

(4) Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

Article 73
Long-term and short-term credit assessments

(1) Short-term credit assessments may only be used for short- term asset and off-balance sheet Items constituting exposures to institutions and corporates.

(2) Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:

a) if a short-term rated facility is assigned a 150 % risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150 % risk weight

b) If a short-term rated facility is assigned a 50 % risk-weight, no unrated short-term exposure shall be assigned a risk weight lower than 100 %.

Article 74
Domestic and foreign currency items

(1) A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.

(2) When an exposure arises through a bank's participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognised in the market, the credit assessment on the obligors' domestic currency item may be used for risk weighting purposes.

V CREDIT RISK MITIGATION TECHNIQUES (CRM)

Article 75
General provisions for recognising the effect of credit risk mitigation

(1) For the purpose of this Chapter lending bank is a bank which receive a credit protection.

(2) No exposure to which credit risk mitigation technique applied shall produce a higher risk-weighted exposure amount than an otherwise identical exposure in respect of which credit risk mitigation technique has not applied.

(3) Provided that provisions for recognition of funded or unfunded credit protection are met, a bank may amend the calculation of risk-weighted exposure amounts with part of this Decision which relates to calculation of own funds requirements for credit risk under the standardised approach.

(4) Banks shall treat cash, securities or commodities purchased, borrowed or received under a repurchase transaction or securities or commodities lending or borrowing transaction to/from counterparty as collateral.

(5) Where an institution calculating risk-weighted exposure amounts under the Standardised Approach use more than one instrument of credit risk mitigation covering a single exposure it shall do both of the following:

a) subdivide the exposure into parts covered by each type of credit risk mitigation tool and
b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of Decision related to calculation of own funds requirements for credit risk under the Standardised Approach and this part.

(6) When a bank calculating risk-weighted exposure amounts under the Standardised Approach covers a single exposure with credit protection provided by a single protection provider and that protection has differing maturities, it shall do both of the following:

a) subdivide the exposure into parts covered by each credit risk mitigation tool and
b) calculate the risk-weighted exposure amount for each part obtained in point (a) separately in accordance with the provisions of Decision related to calculation of own funds requirements for credit risk under the Standardised Approach and this part.

Article 76
Principles governing the eligibility of credit risk mitigation techniques

(1) The technique used to provide the credit protection together with the actions and steps taken and procedures and policies implemented by the lending bank shall be such as to result in credit protection arrangements which are legally effective and enforceable in all relevant jurisdictions.

The lending bank shall provide, upon request of the Agency, the most recent version of the independent, written and reasoned legal opinion or opinions that it used to establish whether its credit protection arrangement or arrangements meet these conditions.

(2) The lending bank shall take all appropriate steps to ensure the effectiveness of the credit protection arrangement and to address the risks related to that arrangement.

(3) Banks may recognise funded credit protection in the calculation of the effect of credit risk mitigation only where the assets relied upon for protection meet both of the following conditions:

a) It is the eligible assets as set out under Articles 77., 78. and 79 recognised as collateral;
b) they are sufficiently liquid and their value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed.

(4) Banks may recognise funded credit protection in the calculation of the effect of credit risk mitigation only where the lending bank has the right to liquidate or retain, in a timely manner, the assets from which the protection derives in the event of the default, insolvency or bankruptcy — or other credit event set out in the transaction documentation — of the obligor and, where applicable, of the custodian holding the collateral. The degree of correlation between the value of the assets relied upon for protection and the credit quality of the obligor shall not be too high.

(5) In the case of unfunded credit protection, a protection provider shall qualify as an eligible protection provider only where the protection provider is included in the list of eligible protection providers set out in Article 80.

(6) In the case of unfunded credit protection, a protection agreement shall qualify as an eligible protection agreement under Article 80 and 81, and under condition that the agreement is legally effective and enforceable in the relevant jurisdictions, to provide appropriate certainty as to the credit protection achieved having regard to the approach used to calculate risk-weighted exposure amounts and to the degree of recognition allowed;
(Credit protection shall meet the conditions under part of the Decision related to requirements for the recognition of credit protection).

(7) Banks shall be able to demonstrate to the Agency that it has adequate risk management processes to control those risks to which it may be exposed as a result of carrying out credit risk mitigation practices.

(8) Notwithstanding the fact that credit risk mitigation has been taken into account for the purposes of calculating risk- weighted exposure amounts and, where applicable, expected loss amounts, banks shall continue to undertake a full credit risk assessment of the underlying exposure and be in a position to demonstrate the fulfilment of this requirement to the competent authorities. For the purpose of this paragraph, for repurchase transactions and securities lending or commodities lending or borrowing transactions to/from counterparty the underlying exposure shall be deemed to be the net amount of the exposure.

RECOGNITION OF FUNDED CREDIT PROTECTION

Article 77

Eligibility of collateral under all approaches and methods

(1) Banks may use the following items as eligible collateral under all approaches and methods:

a) cash on deposit with, or cash assimilated instruments held by, the lending institution
b) debt securities issued by central governments or central banks, which securities have a credit assessment by an ECAI or export credit agency recognised as eligible for the purposes of part of Decision related to calculation of capital requirements for credit risk which has been determined to be associated with at least credit quality step 4 under the rules for the risk weighting of exposures to central governments and central banks under related part of Decision;
c) debt securities issued by institutions, which securities have a credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to institutions under part of Decision related to calculation of own funds requirements for credit risk;
d) debt securities issued by other entities which securities have a credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to corporates under part of Decision relate to calculation of own funds requirements for credit risk;
e) debt securities with a short-term credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of short term exposures under part of Decision related to calculation of own funds requirements for credit risk;
(f) equities or convertible bonds that are included in a main index;
(g) gold.

(2) For the purposes of point (b) of paragraph 1, 'debt securities issued by central governments or central banks' shall include all the following:

a) debt securities issued by the Government of the FBiH, Government of RS and Government of Brčko District;

b) debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under Article 53, paragraph (2);
c) debt securities issued by international organisations which are assigned a 0 % risk weight under Article 54.

(3) For the purposes of point (c) of paragraph 1, 'debt securities issued by institutions' shall include all the following:

a) debt securities issued by regional governments or local authorities other than those debt securities referred to in point (a) of paragraph (2);

b) debt securities issued by public sector entities, exposures to which are treated in accordance with Article 52, paragraph (1) and (2);

c) debt securities issued by multilateral development banks other than those to which a 0 % risk weight is assigned under Article 53, paragraph (2).

(4) A bank may use debt securities that are issued by other institutions and that do not have a credit assessment by an ECAI as eligible collateral where those debt securities fulfil all the following criteria::

a) they are listed on a recognised exchange;
b) they qualify as senior debt (from the aspect of collection);
c) all other rated issues by the issuing institution of the same seniority have a credit assessment by an ECAI which has been determined to be associated with at least credit quality step 3 under the rules for the risk weighting of exposures to institutions or short term exposures under part of Decision related to calculation of capital requirements for credit risk – standardised approach;
d) the lending bank has no information to suggest that the issue would justify a credit assessment below that indicated in point c);
e) the market liquidity of the instrument is sufficient for these purposes.

(5) A bank may use units or shares in investment funds as eligible collateral where all the following conditions are satisfied:

a) The units or shares have a daily public price quote;
b) Investment funds are limited to investing in instruments that are eligible for recognition under paragraphs (1) and (4);

Where an investment fund invests in shares or units of another investment fund, conditions laid down in points (a) to (b) of this paragraph shall apply equally to any such underlying investment fund.

The use by an investment fund of derivative instruments to hedge permitted investments shall not prevent units or shares in that undertaking from being eligible as collateral.

(6) For the purposes of paragraph 5, where an investment fund ('the original investment fund') or any of its underlying investment funds investing in instruments that are not eligible under paragraphs 1 and 4, banks may use units or shares in that investment fund as collateral to an amount equal to the value of the eligible assets held by that investment fund under the assumption that that investment fund or any of its underlying investment funds have invested in non-eligible assets to the maximum extent allowed under their respective mandates.

Where any underlying investment fund has underlying investment fund of its own, banks may use units or shares in the original investment fund as eligible collateral provided that they apply the methodology laid down in the first subparagraph.

Where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, banks shall do both of the following:

a) Calculate the total value of the non-eligible assets and
b) Where the amount obtained under point (a) is negative, subtract the absolute value of that amount from the total value of the eligible assets.

(7) With regard to points (b) to (e) of this Article, where a security has two credit assessments by ECAIs, banks shall apply the less favourable assessment. Where a security has more than

two credit assessments by ECAIs, banks shall apply the two most favourable assessments. Where the two most favourable credit assessments are different, banks shall apply the less favourable of the two.

Article 78
Additional eligibility of collateral under the Financial Collateral Comprehensive Method

(1) In addition to the collateral established in Article 77, where a bank uses the Financial Collateral Comprehensive Method set out in Article 88, that bank may use the following items as eligible collateral:

a) Equities or convertible bonds not included in a main index but traded on a recognised exchange;
b) Units or shares in investment funds where both the following conditions are met:
   1) the units or shares have a daily public price quote;
   2) the investment fund is limited to investing in instruments that are eligible for recognition under Article 77(1) and (4) and the instruments mentioned in point (a) of this paragraph.

   In the case an investment fund invests in units or shares of another investment fund, conditions (a) and (b) of this paragraph equally apply to any such underlying investment fund.

   The use by an investment fund of derivative instruments to hedge permitted investments shall not prevent units or shares in that undertaking from being eligible as collateral.

(2) Where the investment fund or any underlying investment funds investing in instruments that are not eligible for recognition under Article 77(1) and (4) and the items mentioned in point (a) of paragraph 1 of this Article, banks may use units or shares in that investment fund as collateral to an amount equal to the value of the eligible assets held by that investment fund under the assumption that that investment fund or any of its underlying investment funds have invested in non-eligible assets to the maximum extent allowed under their respective mandates.

Where non-eligible assets can have a negative value due to liabilities or contingent liabilities resulting from ownership, banks shall do both of the following:

a) Calculate the total value of the non-eligible assets and
b) Where the amount obtained under point (a) is negative, subtract the absolute value of that amount from the total value of the eligible assets.

Article 79
Other funded credit protection

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

a) Cash on deposit with, or cash assimilated instruments held by, a third party bank in a non-custodial arrangement and pledged to the lending bank;
b) Life insurance policies pledged to the lending institution;
c) Instruments issued by third party bank which will be repurchased by that bank on request.

RECOGNITION OF UNFUNDED CREDIT PROTECTION
Article 80
Eligibility of protection providers under all approaches

Banks may use the following parties as eligible providers of unfunded credit protection:

a) Central governments and central banks;
b) Regional governments or local authorities;
c) Multilateral development banks;

d) International organisations exposures to which a 0 % risk weight under Article 54 is assigned;
e) Public sector entities, claims on which are treated in accordance with Article 52;
f) Institutions, and financial institutions for which exposures to the financial institution are treated as exposures to institutions in accordance with Article 55, paragraph (4);
g) Other corporate entities, including parent, subsidiary and affiliate corporate entities of the bank, where those other corporate entities have a credit assessment by an ECAI

Article 81
Eligibility of guarantees as unfunded credit protection

Banks may use guarantees as eligible unfunded credit protection.

REQUIREMENTS FOR FUNDED CREDIT PROTECTION
Article 82
Requirements for financial collateral

(1) Financial collateral and gold shall qualify as eligible collateral under all approaches and methods where all the requirements laid down in paragraphs 2 to 4 are met.

(2) The credit quality of the obligor and the value of the collateral shall not have a material positive correlation. Where the value of the collateral is reduced significantly, this shall not alone imply a significant deterioration of the credit quality of the obligor. Where the credit quality of the obligor becomes critical, this shall not alone imply a significant reduction in the value of the collateral.
Securities issued by the obligor, or any related group entity, shall not qualify as eligible collateral. This notwithstanding, the obligor's own issues of covered bonds falling within the terms of Article 63 qualify as eligible collateral when they are posted as collateral for a repurchase transaction, provided that they comply with the condition set out in the first paragraph.

(3) Banks shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of the collateral arrangements under the law applicable to their interest in the collateral.
Banks shall have ensure sufficient legal review confirming the enforceability of the collateral arrangements in all relevant jurisdictions. Banks shall re-conduct such review as necessary to ensure continuing enforceability.

(4) Banks shall fulfil all the following operational requirements:
a) Properly document the collateral arrangements and have in place clear and robust procedures for the timely liquidation of collateral;
b) use robust procedures and processes to control risks arising from the use of collateral, including risks of failed or reduced credit protection, valuation risks, risks associated with the termination of the credit protection, concentration risk arising from the use of collateral and the interaction with the bank's overall risk profile;
c) Have in place documented policies and practices concerning the types and amounts of collateral accepted;
d) calculate the market value of the collateral, and revalue it accordingly, at least quarterly and whenever they have reason to believe that a significant decrease in the market value of the collateral has occurred;
e) where the collateral is held by a third party, shall take reasonable steps to ensure that the third party segregates the collateral from its own assets;
f) ensure that they devote sufficient resources to the orderly operation of margin agreements with other counterparties and securities-financing transaction, as measured by the timeliness and accuracy of their outgoing margin calls and response time to incoming margin calls;

g) have in place collateral management policies to control, monitor and report the following:
   1) the risks to which margin agreements expose them;
   2) the concentration risk to particular types of collateral assets;
   3) the reuse of collateral including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties;
   4) the surrender of rights on collateral posted to counterparties.

(5) In addition to meeting all the requirements set out in paragraphs 2 to 4, for financial collateral to qualify as eligible collateral under the Financial Collateral Simple Method the residual maturity of the protection shall be at least as long as the residual maturity of the exposure.

Article 83
Requirements for other funded credit protection

(1) The treatment set out in Article 93 (1) shall be eligible to apply to cash on deposit with, or cash assimilated instruments held by, a third party bank, where all the following conditions are met:

a) the borrower's claim against the third party bank is openly pledged or assigned to the lending bank and such pledge or assignment is legally effective and enforceable in all relevant jurisdictions and is unconditional and irrevocable;
b) the third party bank is notified of the pledge or assignment;
c) as a result of the notification, the third party bank is able to make payments solely to the lending bank or to other parties only with the lending bank's prior consent.

(2) Life insurance policies pledged to the lending bank shall qualify as eligible collateral where all the following conditions are met:

a) the life insurance policy is openly pledged or assigned to the lending bank;
b) the company providing the life insurance is notified of the pledge or assignment and, as a result of the notification, may not pay amounts payable under the contract without the prior consent of the lending bank;
c) the lending bank has the right to cancel the policy and receive the surrender value in the event of the default of the borrower;
d) the lending bank is informed of any non-payments under the policy by the policy-holder;
e) the credit protection is provided for the maturity of the loan. Where this is not possible because the insurance relationship ends before the loan relationship expires, the bank shall ensure that the amount deriving from the insurance contract serves as security until the end of the duration of the credit agreement;
(f) the pledge or assignment is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement;
(g) the surrender value is declared by the company providing the life insurance and is non-reducible;
(h) the surrender value is to be paid by the company providing the life insurance in a timely manner upon request;
(i) the surrender value shall not be requested without the prior consent of the bank;
(j) the company providing the life insurance is subject to applicable legal framework in Bosnia and Herzegovina or European Union or is subject to supervision by a competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the EU.

UNFUNDED CREDIT PROTECTION

Article 84
Requirements related to guarantees

(1) Subject to Article 85(1), credit protection deriving from a guarantees shall qualify as eligible unfunded credit protection where all the following conditions are met:
   a) the credit protection is direct;
   b) the extent of the credit protection is clearly defined and incontrovertible;
   c) the credit protection contract does not contain any clause, the fulfilment of which is outside the direct control of the lender, that:
      1) would allow the protection provider to cancel the protection unilaterally;
      2) would increase the effective cost of protection as a result of a deterioration in the credit quality of the protected exposure;
      3) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due, or when the leasing contract has expired for the purposes of recognising guaranteed residual value under Articles 67(6);
      4) could allow the maturity of the credit protection to be reduced by the protection provider;
   d) the credit protection contract is legally effective and enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement.

(2) A bank shall demonstrate to the Agency that it has in place systems to manage potential concentration of risk arising from its use of guarantees. A bank shall be able to demonstrate to the satisfaction of the competent authorities how its strategy in respect of its use of guarantees interacts with its management of its overall risk profile.

(3) A bank shall fulfil any contractual and statutory requirements in respect of, and take all steps necessary to ensure, the enforceability of its unfunded credit protection under the law applicable to its interest in the credit protection.
A bank shall ensure a legal review confirming the enforceability of the unfunded credit protection in all relevant jurisdictions. A bank shall repeat such review as necessary to ensure continuing enforceability.

Article 85
Sovereign and other public sector counter-guarantees

(1) Banks may treat the exposures referred to in paragraph 2 as protected by a guarantee provided by the entities listed in that paragraph, provided all the following conditions are satisfied:
   a) the counter-guarantee covers all credit risk elements of the claim;
   b) both the original guarantee and the counter-guarantee meet the requirements for guarantees set out in Articles 84 and 86(1), except that the counter-guarantee need not be direct;
   c) the cover is robust and nothing in the historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct guarantee by the entity in question.

(2) The treatment set out in paragraph 1 shall apply to exposures protected by a guarantee which is counter-guaranteed by any of the following entities:
   a) a central government or central bank;
   b) a regional government or local authority;
   c) multilateral development bank or an international organisation, to which a 0 % risk weight is assigned under or by virtue of Articles 53(2) and Article 54 respectively;

(3) Banks shall apply the treatment set out in paragraph 1 also to an exposure for which counter-guarantee is issued by other entities other than those listed in paragraph 2 where that

exposure's counter- guarantee is in turn directly guaranteed by one of those entities and the conditions listed in paragraph 1 are satisfied.

Article 86
Additional requirements for guarantees

(1) Guarantees shall qualify as eligible unfunded credit protection where all the conditions in Article 84 and all the following conditions are met:
  a) on the qualifying default of or non-payment by the counterparty, the lending bank has the right to pursue, in accordance with the legal framework, the guarantor for any monies due under the claim in respect of which the protection is provided;
     In the case of unfunded credit protection covering residential mortgage loans, the requirements in Article 84(1)(c)(3) and the first sentence in point) have only to be satisfied within 24 months;
  b) the guarantee is an explicitly documented obligation assumed by the guarantor;
  c) either of the following conditions is met:

  1) the guarantee covers all types of payments the obligor is expected to make in respect of the claim;
  2) where certain types of payment are excluded from the guarantee, the lending bank has adjusted the value of the guarantee to reflect the limited coverage

(2) In the case or counter-guaranteed by entities listed in Article 85(2), the requirements in point (a) of paragraph 1 of this Article shall be considered to be satisfied where either of the following conditions is met:
  a) the lending bank has the right to obtain in a timely manner a provisional payment by the guarantor that meets both the following conditions:
     1) it represents a robust estimate of the amount of the loss, including losses resulting from the non-payment of interest and other types of payment which the borrower is obliged to make, that the lending bank is likely to incur;
     2) it is proportional to the coverage of the guarantee;
  b) the lending bank can demonstrate to the satisfaction of the competent authorities that the effects of the guarantee, which shall also cover losses resulting from the non- payment of interest and other types of payments which the borrower is obliged to make, justify such treatment.

CALCULATION OF THE EFFECT OF CREDIT RISK MITIGATION WITH FUNDED CREDIT PROTECTION

Article 87
Financial Collateral Simple Method

(1) Banks may use the Financial Collateral Simple Method only where they calculate risk-weighted exposure amounts under the Standardised Approach. Bank shall not use both the Financial Collateral Simple Method and the Financial Collateral Comprehensive Method.

(2) Under the Financial Collateral Simple Method banks shall assign to eligible financial collateral a value equal to its market value as determined in accordance with point (d) of Article 82(4).

(3) Banks shall assign to those portions of exposure values that are collateralised by the market value of eligible collateral the risk weight that they would assign under part of Decision

related to calculation of own funds requirements for credit risk where the lending bank had a direct exposure to the collateral instrument. For this purpose, the exposure value of an off-balance sheet item listed in Annex I shall be equal to 100 % of the item's value rather than the exposure value indicated in Article 44(1).

The risk weight of the collateralised portion shall be at least 20 % except as specified in paragraphs 4 to 6. Banks shall apply to the remainder of the exposure value the risk weight that they would assign to an unsecured exposure to the counterparty under part related to calculation of own funds requirements for credit risk.

(4) Banks shall assign a risk weight of 0 % to the collateralised portion of the exposure arising from repurchase transaction and securities lending or borrowing transactions which fulfil the criteria in Article 91. Where the counterparty to the transaction is not a core market participant, banks shall assign a risk weight of 10 %

(5) Banks shall assign a risk weight of 0 %, to the extent of the collateralisation, to the exposure values determined under Article 45 to 47 for the derivative instruments listed in Annex II and subject to daily marking-to-market, collateralised by cash or cash-assimilated instruments where there is no currency mismatch.

Banks shall assign a risk weight of 10 %, to the extent of the collateralisation, to the exposure values of such transactions collateralised by debt securities issued by central governments or central banks which are assigned a 0 % risk weight under part of Decision related to own funds requirements for credit risk.

(6) For transactions other than those referred to in paragraphs 4 and 5, banks may assign a 0 % risk weight where the exposure and the collateral are denominated in the same currency, and either of the following conditions is met

a) the collateral is cash on deposit or a cash assimilated instrument;
b) the collateral is in the form of debt securities issued by central governments or central banks eligible for a 0 % risk weight under Article 50, and its market value has been discounted by 20 %.

(7) For the purpose of paragraphs 5 and 6 debt securities issued by central governments or central banks shall include:

a) debt securities issued by the Government of the FBiH, Government of RS and Government of Brčko district;
b) debt securities issued by multilateral development banks to which a 0 % risk weight is assigned under or by virtue of Article 53 (2);
c) debt securities issued by international organisations which are assigned a 0 % risk weight under Article 54.

Article 88
Financial Collateral Comprehensive Method

(1) When valuing financial collateral for the purposes of the Financial Collateral Comprehensive Method banks shall apply volatility adjustments to the market value of collateral, as set out in Articles 89 to 91, In order to take account of price volatility.

Where collateral is denominated in a currency that differs from the currency in which the underlying exposure is denominated, banks shall add an adjustment reflecting currency volatility to the volatility adjustment appropriate to the collateral as set out in Articles 89 to 91.

(2) In calculation the volatility-adjusted value of the collateral(C_{VA}) banks need to take into account as follows:

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

where:

C = the value of the collateral;

H_C = the volatility adjustment appropriate to the collateral, as calculated under Articles 89 and 91;

H_{fx} = the volatility adjustment appropriate to currency mismatch, as calculated under Articles 89 and 91.

Banka shall use the formula in this paragraph when calculating the volatility-adjusted value of the collateral for all transactions except for all transactions.

(3) In calculation of the volatility-adjusted value of the exposure (E_{VA}) banks shall take into account as follows:

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

where:

E = the exposure value as would be determined under part of Decision related to calculation of own fund requirements for credit risk under Standardised Approach;

H_E =the volatility adjustment appropriate to the exposure, calculated under Articles 89 and 91.

(4) For the purpose of calculating "E" in paragraph (3) this Article,the exposure value of an off-balance sheet item listed in Annex I shall be 100 % of that item's value rather than the exposure value indicated in Article 44(1);

(5) Bank shall calculate the fully adjusted value of the exposure (E*), taking into account both volatility and the risk- mitigating effects of collateral as follows:

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

where:

E_{VA} = the volatility adjusted value of the exposure as calculated in paragraph (3);

C_{VAM} = C_{VA} further adjusted for any maturity mismatch in accordance with the provisions of Decisions related to maturity mismatches.

(6) Where the collateral consists of a number of eligible items, banks shall calculate the volatility adjustment (H) as follows.

$$H = \sum_i a_i H_i$$

where:

a_i = the proportion of the value of an eligible item *i* in the total value of collateral

Hi = the volatility adjustment applicable to eligible item *i.*

Article 89
Supervisory volatility adjustment under the Financial Collateral Comprehensive Method

(1) The volatility adjustments to be applied by banks under the Supervisory Volatility Adjustments Approach, assuming daily revaluation, shall be those set out in Tables 13 to 16 of this paragraph.

VOLATILITY ADJUSTMENTS

Table 13			
Credit quality step with which the credit assessment of the debt security	**Residu al Maturi**	**Volatility adjustments for debt securities issued by entities described in**	**Volatility adjustments for debt securities issued by entities described in Article**

is associated	ty	Article 77 (1) b)			77 c) and d)		
		liquidation period 20 days (%)	liquidation period 10 days (%)	liquidation period 5 days (%)	liquidation period 20 days (%)	liquidation period 10 days (%)	liquidation period 5 days (%)
1	≤ 1 years	0,707	0,5	0,354	1,414	1	0,707
	> 1 ≤ 5 years	2,828	2	1,414	5,657	4	2,828
	> 5 years	5,657	4	2,828	11,314	8	5,657
2-3	≤ 1 years	1,414	1	0,707	2,828	2	1,414
	> 1 ≤ 5 years	4,243	3	2,121	8,485	6	4,243
	> 5 years	8,485	6	4,243	16,971	12	8,485
4	≤ 1 years	21,213	15	10,607	N/A	N/A	N/A
	> 1 ≤ 5 years	21,213	15	10,607	N/A	N/A	N/A
	> 5 years	21,213	15	10,607	N/A	N/A	N/A

Table 14						
Credit quality step with which the credit assessment of a short term debt security is associated	**Volatility adjustments for debt securities issued by entities described in Article 77(1)(b) with short-term credit assessments**			**Volatility adjustments for debt securities issued by entities described in Article 77(1)(b)(c)(d) with short-term credit assessments**		
	liquidation period 20 days (%)	liquidation period 10 days (%)	liquidation period 5 days	liquidation period 20 days	liquidation period 10 days (%)	liquidation 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

Table 15			
Other collateral or exposure types			
	liquidation period 20 days (%)	**liquidation period 10 days (%)**	**liquidation period 5 days (%)**
Main Index Equities, Main Index Convertible Bonds	21,213	15	10,607
Other Equities or Convertible Bonds listed on a recognised exchange	35,355	25	17,678
Cash	0	0	0
Gold	21,213	15	10,607

Table 16		
Volatility adjustment for currency mismatch		
liquidation period 20 days (%)	**liquidation period 10 days (%)**	**liquidation period 5 days (%)**
11,314	8	5,657

(2) The calculation of volatility adjustments in accordance with paragraph 1 of this Article shall be subject to the following conditions:

a) for secured lending transactions the liquidation period shall be 20 business days;
b) for repurchase transactions, except insofar as such transactions involve the transfer of commodities or guaranteed rights relating to title to commodities, and securities lending or borrowing transactions the liquidation period shall be 5 business days;
c) for other capital market driven transactions, the liquidation period shall be 10 business days.

(3) The credit quality step with which a credit assessment of the debt security is associated in Tables 13 to 16 and paragraphs 1 to 6 of this Article is the credit quality step under the part of this Decision relate dto calculation of own funds requirements for credit risk.

For the purpose of determining the credit quality step with which a credit assessment of the debt security is associated referred to in the paragraph (1), Article 77(7) of this Decision also applies.

(4) For non-eligible securities or for commodities lent or sold under repurchase transactions or securities or commodities lending or borrowing transactions to/from counterparty, the volatility adjustment is the same as for non-main index equities listed on a recognised exchange.

(5) For eligible units in investment funds the volatility adjustment is the weighted average volatility adjustments that would apply, having regard to the liquidation period of the transaction as specified in paragraph 2 of this Article, to the assets in which the fund has invested.

Where the assets in which the fund has invested are not known to the bank, the volatility adjustment is the highest volatility adjustment that would apply to any of the assets in which the fund has the right to invest.

(6) For unrated debt securities issued by institutions and satisfying the eligibility criteria in Article 77(4) the volatility adjustments is the same as for securities issued by institutions or corporates with an external credit assessment associated with credit quality steps 2 or 3.

Article 90
Scaling up of volatility adjustment under the Financial Collateral Comprehensive method

The volatility adjustments set out in Article 89 are the volatility adjustments a bank shall apply where there is daily revaluation. Where the frequency of revaluation is less than daily, banks shall apply larger volatility adjustments. Banks shall calculate them by scaling up the daily revaluation volatility adjustments, using the following square- root-of-time formula:

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

where:

H = the volatility adjustment to be applied;

H_M = the volatility adjustment where there is daily revaluation;

N_R = the actual number of business days between revaluations;

T_M = the liquidation period for the type of transaction in question.

Article 91
Conditions for applying a 0 % volatility adjustment under the Financial Collateral Comprehensive method

(1) In relation to repurchase transactions and securities lending or borrowing transactions, where a bank uses the supervisory volatility adjustments approach under Article 89 of this Decision and where the conditions set out in points (a) to (h) of paragraph 2 are satisfied, banks may, instead of applying the volatility adjustments calculated under 89 and 90, apply a 0 % volatility adjustment.

(2) Banks may apply a 0 % volatility adjustment where all the following conditions are met

a) both the exposure and the collateral are cash or debt securities issued by central governments or central banks within the meaning of 77(1)(b) of this Decision and eligible for a 0 % risk weight under part of Decision related to calculation of own fund requirements for credit risk.

b) both the exposure and the collateral are denominated in the same currency;

c) either the maturity of the transaction is no more than one day or both the exposure and the collateral are subject to daily marking-to-market or daily re-margining;
d) the time between the last marking-to-market before a failure to re-margin by the counterparty and the liquidation of the collateral is no more than four business days;
e) the transaction is settled in a settlement system proven for that type of transaction;
f) the documentation covering the agreement or transaction is standard market documentation for repurchase transactions or securities lending or borrowing transactions in the securities concerned to/from counterparty;
g) the transaction is governed by documentation specifying that where the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable;
h) the counterparty is considered a core market participant by the competent authorities.

(3) The core market participants referred to in point (h) of paragraph 2 shall include the following entities:

a) the entities mentioned in Article 77(1)(b) of this Decision exposures to which are assigned a 0 % risk weight under part of the Decision relate dto calculation of own funds requirements for credit risk under standardised approach;
b) institutions;
c) other financial institutions exposures to which are assigned a 20 % risk weight under the part of Decision related to calculation of own funds requirements for credit risk;
d) regulated investment funds that are subject to capital or leverage requirements;
e) regulated pension funds;
f) recognised clearing organisations.

Article 92
Calculating risk-weighted exposure amounts and expected loss amounts under the Financial Collateral Comprehensive method

Under the Standardised Approach, banks shall use E* as calculated under Article 88(5) as the exposure value for the purposes of Article 49. In the case of off-balance sheet items listed in Annex I, banks shall use E* as the value to which the percentages indicated in Article 44(1) shall be applied to arrive at the exposure value.

Article 93
Other funded credit protection

(1) Where the conditions set out in Article 83(1) are met, deposits with third party banks may be treated as a guarantee by the third party bank.

(2) Where the conditions set out in Article 83(2) of this Decision are met, banks shall assign a risk weight set out in paragraph (3) of this Article, subject the portion of the exposure collateralised by the current surrender value of life insurance policies pledged to the lending bank, where the exposure is subject to the Standardised Approach.
In the event of a currency mismatch, banks shall reduce the current surrender value in accordance with Article 94(3) of this Decision, where the value of the credit protection being the current surrender value of the life insurance policy.

(3) For the purposes of paragraph 2 this Article, banks shall assign the following risk weights on the basis of the risk weight assigned to a senior unsecured exposure to the undertaking providing the life insurance, under the part of this Decision related to the calculation of own funds requirements for credit risk:

a) a risk weight of 20 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 20 %;

b) a risk weight of 35 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 50 %;
c) a risk weight of 70 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 100 %;
d) a risk weight of 150 %, where the senior unsecured exposure to the undertaking providing the life insurance is assigned a risk weight of 150 %

(4) Banks may treat instruments repurchased on request that are eligible under Article 79(c) of this Decision as a guarantee by the issuing bank. The value of the eligible credit protection shall be the following

a) where the instrument will be repurchased at its face value, the value of the protection shall be that amount
b) where the instrument will be repurchased at market price, the value of the protection shall be the value of the instrument valued in the same way as the debt securities that meet the conditions in Article 77 (4) of this Decision.

CALCULATION OF CRM EFFECTS WITH UNFUNDED CREDIT PROTECTION

Article 94
Valuation

(1) For the purpose of calculating the effects of unfunded credit protection in accordance with this Section, the value of unfunded credit protection (G) shall be the amount that the protection provider has undertaken to pay in the event of the default or non-payment of the borrower or on the occurrence of other specified credit events.

(2) Where unfunded credit protection is denominated in a currency different from that in which the exposure is denominated, banks shall reduce the value of the credit protection by the application of a volatility adjustment as follows:

$$G^{*} = G \cdot \left(1 - H_{fx}\right)$$

where:

G^{*} = the amount of credit protection adjusted for foreign exchange risk,

G = the amount of credit protection adjusted for foreign exchange risk;

H_{fx}= the volatility adjustment for any currency mismatch between the credit protection and the underlying obligation determined in accordance with paragraph (3) of this Article.

Where there is no currency mismatch, “H_{fx}” is equal to zero.

(3) Banks shall base the volatility adjustments for any currency mismatch on a 10 business day liquidation period, assuming daily revaluation, and may calculate them based on the regulatory volatility adjustments approaches under Article 89 of this Decision. Banks shall scale up the volatility adjustments in accordance with Article 90.

Article 95
Calculating risk-weighted exposure amounts under the Standardised Approach

(1) For the purpose of Article 49 (3) of this Decision banks shall calculate the risk-weighted exposure amounts in accordance with the following formula:

$$\max \left\{0, E - G_{A}\right\} \cdot r + G_{A} \cdot g$$

where:

E = the exposure value in accordance with Article 44. Fot this purpose, the exposure value of an off-balance sheet item listed in Annex I shall be 100 % of its value rather than the exposure value indicated in Article 44 (1);

G_A = the amount of credit risk protection as calculated under Article 94 (2) (G*) further adjusted for any maturity mismatch as laid down in part of Decision related to maturity mismatching;

r = the risk weight of exposures to the obligor as specified under part of Decision related to calculation of own funds requirements for credit risk under standardised approach;

g = the risk weight of exposures to the protection provider as specified under part of Decision related to calculation of own funds requirements for credit risk under standardised approach.

(2) Where the protected amount (G_A) is less than the exposure e), bank may apply the formula specified in paragraph 1 only where the protected and unprotected parts of the exposure are of equal seniority.

(3) Banks may extend the treatment set out in Article 50 (4)) and (7) to exposures or parts of exposures guaranteed by the central government or central bank, where the guarantee is denominated in the domestic currency of the borrower and the exposure is funded in that currency.

Article 96
Maturity mismatch

(1) For the purpose of calculating risk-weighted exposure amounts, a maturity mismatch occurs when the residual maturity of the credit protection is less than that of the protected exposure. Where protection has a residual maturity of less than three months and the maturity of the protection is less than the maturity of the underlying exposure that protection does not qualify as eligible credit protection.

(2) Where there is a maturity mismatch the credit protection shall not qualify as eligible where the original maturity of the protection is less than 1 year.

Article 97
Maturity of credit protection

(1) Subject to a maximum of five years, the effective maturity of the underlying shall be the longest possible remaining time before the obligor is scheduled to fulfil its obligations. Subject to paragraph 2 of this Article, the maturity of the credit protection shall be the time to the earliest date at which the protection may terminate or be terminated.

(2) Where there is an option to terminate the protection which is at the discretion of the protection seller, banks shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised. Where there is an option to terminate the protection which is at the discretion of the protection buyer and the terms of the arrangement at origination of the protection contain a positive incentive for the bank to call the transaction before contractual maturity, a bank shall take the maturity of the protection to be the time to the earliest date at which that option may be exercised; otherwise the bank may consider that such an option does not affect the maturity of the protection.

Article 98
Valuation of protection

(1) For transactions subject to funded credit protection under the Financial Collateral Simple Method, where there is a mismatch between the maturity of the exposure and the maturity of the protection, the collateral does not qualify as eligible funded credit protection.

(2) For transactions subject to funded credit protection under the Financial Collateral Comprehensive Method, banks shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the collateral according to the following formula:

$$C_{VAM} = C_{VA} \cdot \frac{t - t^*}{T - t^*}$$

where:

C_{VA} = the volatility adjusted value of the collateral as specified in Article 88(2) or the amount of the exposure, whichever is lower;
t = the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 97, or the value of T, whichever is lower;
T = the number of years remaining to the maturity date of the exposure calculated in accordance with Article 97, or five years, whichever is lower;
t^* = 0,25.

Banks shall use C_{VAM} as C_{VA} further adjusted for maturity mismatch in the formula for the calculation of the fully adjusted value of the exposure (E*) set out in Article 88(5) of this Decision.

(3) For transactions subject to unfunded credit protection, banks shall reflect the maturity of the credit protection and of the exposure in the adjusted value of the credit protection according to the following formula

$$G_A = G^* \cdot \frac{t - t^*}{T - t^*}$$

where:

G_A= G^* adjusted for any maturity mismatch;
G^* = the amount of the protection adjusted for any currency mismatch;
t = is the number of years remaining to the maturity date of the credit protection calculated in accordance with Article 97, or the value of T, whichever is lower;
T = is the number of years remaining to the maturity date of the exposure calculated in accordance with Article 97 of this Decision, or five years, whichever is lower;
t^* = 0,25.

Banks shall use G_A as the value of the protection for the purposes of Articles 94 and 95 of this Decision.

VI. OWN FUNDS REQUIREMENTS FOR SETTLEMENT / DELIVERY RISK

Article 99
Settlement/delivery risk

(1) In the case of transactions in which debt instruments, equities, foreign currencies and commodities excluding repurchase transactions and securities or commodities lending and securities or commodities borrowing are unsettled after their due delivery dates, a bank shall calculate the price difference to which it is exposed.

(2) Bank shall calculate own funds requirement for settlement/ delivery risk based on unsettled transactions, when counterparty fails to settle transaction for more than four business days after due settlement/delivery date.

(3) The price difference is calculated as the difference between the agreed settlement price for the debt instrument, equity, foreign currency or commodity in question and its current market value, where the difference could involve a loss for the bank.

Bank shall multiply that price difference by the appropriate factor in Table 17 in order to calculate the bank's own funds requirement for settlement risk.

Table 17	
Number of working days after due settlement date	(%)
5 – 15	12
16 – 30	50
31 – 45	75
46 or more	100

Article 100
Free deliveries

(1) A bank shall be required to hold own funds, as set out in Table 18, where the following occurs:

a) it has paid for securities, foreign currencies or commodities before receiving them or it has delivered securities, foreign currencies or commodities before receiving payment for them;

b) in the case of cross-border transactions, one day or more has elapsed since it made that payment or delivery

Table 18			
Column 1	**Column 2**	**Column 3**	**Column 4**
Transaction Type	Up to first contractual payment or delivery leg	From first contractual payment or delivery leg up to four days after second contractual payment or delivery leg	From 5 business days post second contractual payment or delivery leg until extinction of the transaction
Free delivery	No capital charge	Treat as an exposure	Treat as an exposure risk weighted at 1250%

If the amount of positive exposure resulting from free delivery transactions is not material, banks may apply a risk weight of 100 % to these exposures, except where a risk weight of 1 250 % in accordance with Column 4 of Table 18 is required.

(2) As an alternative to applying a risk weight of 1 250 % to free delivery exposures according to Column 4 of Table 18, banks may deduct the value transferred plus the current positive exposure of those exposures from Common Equity Tier in accordance with point 1, paragraph 1 of Article 9 of this Decision.

Article 101
Waiver

Where a system wide failure of a settlement system or a clearing system, the Agency may waive the own funds requirements calculated as set out in part of Decision related to settlement / delivery risk until the situation is rectified.In this case, the failure of a counterparty to settle a trade shall not be deemed a default for purposes of credit risk.

VII. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

Article 102
Permission

(1) To qualify for use of the Standardised Approach and to obtain the permission from the Agency, banks shall meet the criteria set out in Article 108, in addition to meeting the general risk management standards, and shall have adopted operational risk recovery plan.
(2) Banks shall in place policies and procedures to evaluate and manage the exposure to operational risk to cover low-frequency high-severity events. Banks shall articulate what constitutes operational risk for the purposes of those policies and procedures.
(3) Banks shall ensure that contingency and business continuity plans are in place to ensure a bank's ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

Article 103
Reverting to the use of less sophisticated approaches

(1) Banks that use the Standardised Approach shall not revert to the use of the Basic Indicator Approach unless the conditions in paragraph 2 of this Article are met.
(2) Bank may only revert to the use of a less sophisticated approach for operational risk where both the following conditions are met:
  a) bank has demonstrated to the satisfaction of the Agency that the use of a less sophisticated approach is not proposed in order to reduce the operational risk related own funds requirements of the bank, is necessary on the basis of nature and complexity of the bank and would not have a material adverse impact on the solvency of the bank or its ability to manage operational risk effectively;
  b) bank has received the prior permission of the Agency.

Article 104
Basic Indicator Approach

(1) Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15 % of the average over three years of the relevant indicator as set out in Article 105 of this Decision. Banks shall calculate the average over three years of the relevant indicator on the basis of the last three twelve-monthly observations at the end of the financial year.
(2) Where a bank has been in operation for less than three years it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available.
(3) Where a bank can prove to the Agency that, due to a merger, an acquisition or a disposal of bank or activities, using a three year average to calculate the relevant indicator would lead to a biased estimation for the own funds requirement for operational risk, the Agency may permit banks to amend the calculation in a way that would take into account such events. In such circumstances, the Agency may, on its own initiative, also require a bank to amend the calculation.

(4) Where for any given observation, the relevant indicator is negative or equal to zero, banks shall not take into account this figure in the calculation of the average over three years. Banks shall calculate the average over three years as the sum of positive figures divided by the number of positive figures.

Article 105
Relevant indicator

(1) Banks shall apply the International accounting standards and the relevant indicator is the sum of the elements listed in Table 19 of this paragraph. Banks shall include each element in the sum with its positive or negative sign.

Table 19
1. Interest receivable and similar income
2. Interest payable and similar charges
3. Income from shares and other variable/fixed-yield securities
4. Commissions/fees receivable
5. Commissions/fees payable
6. Net profit or net loss on financial operations, which includes: - Net income/expense on securities held for trading changes valuated at fair value in income statement, - net profit/loss on sale of securities held for trading, - net exchange differences
7. Other operating income

(2) Banks shall not use the following elements in the calculation of the relevant indicator:
a) value adjustments and provisions for off-balance sheet items, business operating expenses,
b) net profit/loss on financial assets held-to-maturity and available for sale,
c) income from extraordinary or irregular items and
d) income derived from insurance.

(3) Notwithstanding, in the calculation of the relevant indicator banks shall include fees paid for outsourcing services if the third party is a parent bank, subsidiary of the bank, or a subsidiary of a parent bank.

Article 106
Standardised Approach

(1) Under the Standardised Approach, banks shall divide their activities into the business lines set out in Table 20 of this Article and in accordance with the principles set out in Article 107 of this Decision.

(2) Banks shall calculate the own funds requirement for operational risk as the average over three years of the sum of the annual own funds requirements across all business lines referred to in Table 20 of this Article. The annual own funds requirement of each business line is equal to the product of the corresponding beta factor referred to in that Table and the part of the relevant indicator mapped to the respective business line

(3) In any given year, banks may offset negative own funds requirements resulting from a negative part of the relevant indicator in any business line with positive own funds requirements in other business lines without limit. However, where the aggregate own funds requirement across all business lines within a given year is negative, banks shall use the value zero as the input to the numerator for that year.

(4) Banks shall calculate the average over three years of the sum referred to in paragraph 2 of this Article on the basis of the last three twelve-monthly observations at the end of the financial year. When audited figures are not available, banks may use business estimates.
Where a bank can prove to the Agency that, due to a merger, an acquisition or a disposal of bank or activities, using a three year average to calculate the relevant indicator would lead to a biased estimation for the own funds requirement for operational risk, the Agency may permit banks to amend the calculation in a way that would take into account such events. In such circumstances, the Agency may, on its own initiative, also require a bank to amend the calculation. Where a bank has been in operation for less than three years it may use forward-looking business estimates in calculating the relevant indicator, provided that it starts using historical data as soon as it is available.

Table 20

Business line	**List of activities**	**Percentage (beta factor)**
Corporate finance	Underwriting of financial instruments or placing of financial instruments on a firm commitment basis Services related to underwriting Investment advice Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to the mergers and the purchase of undertakings Investment research and financial analysis and other forms of general recommendation relating to transactions in financial instruments	18 %
Trading and sales	Dealing on own account Money broking Reception and transmission of orders in relation to one or more financial instruments Underwriting, placing of financial instruments without a firm commitment basis Operation of Multilateral Trading Facilities	18 %
Retail brokerage (Activities with natural persons or with SMEs meeting the criteria set out in Article 59 for the retail exposure class)	Reception and transmission of orders in relation to one or more financial instruments Execution of orders on behalf of clients Underwiting, placing of financial instruments without a firm commitment basis	12 %
Commercial banking	Acceptance of deposits and other repayable funds Lending Financial leasing Guarantees and commitments	15 %
Retail banking (Activities with natural persons or with SMEs	Acceptance of deposits and other repayable funds Lending	

meeting the criteria set out in Article 59 for the retail exposure class)	Financial leasing Guarantees and commitments	12 %
Payment and settlement	Money transmission services, Issuing and administering means of payment	18 %
Agency services	Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management	15 %
Asset management	Portfolio management Managing of UCITS Other forms of asset management	12 %

Remark: Banks shall use the activities specific for its operations and market where its operates.

Article 107
Principles for business line mapping

(1) Banks shall develop and document specific policies and criteria for mapping the relevant indicator for current business lines and activities into the standardised framework set out in Article 106. Banks review and adjust those policies and criteria as appropriate for new or changing business activities and risks.

(2) Banks shall apply the following principles for business line mapping:

a) banks shall map all activities into the business lines in a mutually exclusive and jointly exhaustive manner;
b) Banks shall allocate any activity which cannot be readily mapped into the business line framework, but which represents an ancillary activity to an activity included in the framework, to the business line it supports. Where more than one business line is supported through the ancillary activity, banks shall use an objective-mapping criterion;
c) where an activity cannot be mapped into a particular business line then banks shall use the business line yielding the highest percentage. The same business line equally applies to any ancillary activity associated with that activity;
d) banks may use internal pricing methods to allocate the relevant indicator between business lines. Costs generated in one business line which are imputable to a different business line may be reallocated to the business line to which they pertain;
e) the mapping of activities into business lines for operational risk capital purposes shall be consistent with the categories banks use for credit and market risks;
(f) Senior management shall be responsible for the mapping policy under the control of the supervisory body of the bank;
(g) Banks shall subject the mapping process to business lines to independent review.

Article 108
Criteria for the Standardised Approach

The criteria referred to in the Article 102(1) are the following:

a) Banks shall have in place a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. Banks shall identify its exposures to operational risk and track relevant operational risk data, including material loss data. This system shall be subject to regular independent review carried out by an internal or external party possessing the necessary knowledge to carry out such review;
b) a bank's operational risk assessment system shall be closely integrated into the risk management processes of the bank. Its output shall be an integral part of the process of monitoring and controlling the bank's operational risk profile;
c) A bank shall implement a system of reporting on operational risk exposures to senior management and supervisory board and shall have in place procedures for taking appropriate action according to the information within the reports to management.

Article 109
Combined use of different approaches

(1) Banks shall request permission from the Agency to use a combination of the Basic Indicator Approach and the Standardised Approach only in exceptional circumstances such as the recent acquisition of new business which may require a transition period for the application of the Standardised Approach.

(2) The Agency shall grant permission referred to in paragraph (1) only where the bank has committed to apply the Standardised Approach within a time schedule that was submitted to and approved by the Agency.

VIII OWN FUNDS REQUIREMENTS FOR MARKET RISK

REQUIREMENTS FOR THE TRADING BOOK
Article 110
Requirements for the Trading Book

(1) The trading book of a bank shall consist of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Positions in the trading book shall be either free of restrictions on their tradability or able to be hedged.
(2) The trading book shall consists of all positions which under applicable accounting standards shall be allocated in the category of financial asset or financial liability at fair value in income statement of the bank (positions held with trading intent).
Where it founds that specific instrument is not used for trading, the Agency may exclude it from the trading book of bank, regardless its allocation under the applicable accounting standards. Where it founds that specific instrument is used for trading, the Agency may include it in the trading book of bank, regardless its allocation under the applicable accounting standards.
(3) Trading intent shall be evidenced on the basis of the strategies, policies and procedures set up by the bank to manage the position or portfolio in accordance with Article 111 of this Decision. The difference between trading book activities and banking book activities is based on objective criteria, applied consistently and predefined by internal policies of a bank.
(4) Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. These positions shall

include proprietary positions and positions arising from client servicing and market making activities.

(5) Banks shall establish and maintain adequate internal systems and controls to manage assess their trading book value in accordance with articles 112 and 113 of this Decision**.**

(6) Banks may include internal hedges in the calculation of capital requirements for position risk provided that they are held with trading intent and that the requirements of Articles 111 to 1114 of this Decision are met.

(7) The embedded financial derivative which is pursuant to the provisions of IAS/IFRS considered as stand-alone financial derivatives, which do not comply with conditions set out in paragraph (1) of this Article, shall not be considered as trading book position and shall not be included in calculation of own funds requirements for market risk.

Where embedded financial derivative is not presenting a trading book position, bank shall monitor, assess and manage risks arising from it, and shall take them into consideration within the internal capital adequacy assessment process in banks.

Article 111
Management of the positions in trading book

In managing its positions or sets of positions in the trading book the bank shall comply with all of the following requirements:

a) a clearly documented trading strategy for the position/instrument or portfolios, approved by the bank supervisory board, which shall include the expected holding period;
b) Clearly defined policies and procedures for the active management of positions entered into on a trading desk of a bank, which has to be approved and adopted by the bank management. Those policies and procedures shall include the following elements:
    1) which positions may be entered into by which trading desk;
    2) position limits are set and continuously monitored for appropriateness, utilization and eventual exceeding, same as an eventual periodical verification of their adequacy;
    3) dealers/retailers have the autonomy to enter into and manage the position within agreed limits and according to the approved strategy,
    4) positions in trading book are reported to the supervisory and management board of a bank as an integral part of the bank's risk management process
    5) positions are actively monitored with reference to market information sources and an assessment made of the marketability or hedge-ability of the position or its component risks, including the assessment, the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market;
    6) Active anti-fraud procedures and controls.
c) Clearly defined policies and procedures to monitor the positions against the bank's trading strategy including the monitoring of turnover and positions for which the originally intended holding period has been exceeded.

Article 112
Inclusion of the positions in the Trading Book

(1) Banks shall have in place clearly defined policies and procedures for determining which position to include in the trading book for the purposes of calculating their capital requirements, in accordance with the requirements set out in Article 110 and the definition of trading book, taking into account risk management procedures established in the bank. The bank shall fully document its compliance with these policies and procedures and shall subject them to periodic internal audit.

(2) Banks shall have in place clearly defined policies and procedures for the overall management of the trading book. These policies and procedures shall at least address:

a) the activities the bank considers to be trading and as constituting part of the trading book for own funds requirement purposes;
b) the extent to which a position can be marked-to-market daily by reference to an active, liquid two-way market;
c) for positions that are marked-to-model, the extent to which the bank can:
   1) identify all material risks of the position;
   2) hedge all material risks of the position with instruments for which an active, liquid two-way market exists;
   3) derive reliable estimates for the key assumptions and parameters used in the methodology for assessing the values;
d) the extent to which the bank can, and is required to, generate valuations for the position that can be validated externally in a consistent manner;
e) the extent to which legal restrictions or other operational requirements would impede the bank's ability to effect a liquidation or hedge of the position in the short term;
f) the extent to which the bank can, and is required to, actively manage the risks of positions within its trading operation;
g) The extent to which the bank may transfer risk or positions between the non-trading and trading books and the criteria for such transfers.

Article 113
Requirements for Prudent Valuation

(1) All trading book positions shall be subject to the standards for prudent valuation specified in this Article. Banks shall in particular ensure that the prudent valuation of their trading book positions achieves an appropriate degree of certainty having regard to the dynamic nature of trading book positions, the demands of prudential soundness and the mode of operation and purpose of capital requirements in respect of trading book positions.
(2) Banks shall establish and maintain internal systems and controls sufficient to provide prudent and reliable valuation estimates. Those internal systems and controls shall include at least the following elements:
   a) documented policies and procedures for the process of valuation, including clearly defined responsibilities of the various participants involved in the determination of the valuation, sources of market information and review of their appropriateness, guidelines for the use of unobservable inputs reflecting the bank's assumptions of what market participants would use in pricing the position, frequency of independent valuation, timing of closing prices, conditions and procedures for adjusting valuations, month end and ad-hoc verification procedures
   b) establish an adequate organisational structure which is to ensure autonomy of separated functions in terms of the contracting, book recording, reporting and decision-making, and clear definition of responsibilities for members of banks management for functions concerned;
   c) Establish reporting lines for the organisational unit accountable for the valuation of trading book positions that is independent of organisational unit responsible for operational part of trading activities, and regular reporting to the bank management.
(3) Banks shall revalue trading book positions at least daily.
(4) Banks shall mark their positions to market whenever possible, including when applying trading book capital treatment. Marking to current market price shall be at least once a day at readily available close out prices of positions that are sourced independently. Examples include exchange prices.
(5) When marking to market, a bank shall use the more prudent side of bid and offer unless the bank can close out at mid-market. Where banks make use of this derogation, they shall every

six months inform the Agency of the positions concerned and furnish evidence (i.e. bills of sale) that they can close out at mid-market. The value of financial derivatives is lower value of the underlying financial instrument they based on, either their nominal value or market price, and the value of other financial instruments on their lower value regardless if it is nominal value or market price.

(6) Where marking to market is not possible, banks shall conservatively mark to internal valuation methodology their positions and portfolios, including when calculating own funds requirements for positions in the trading book.

(7) Banks shall comply with the following requirements when apply internal valuation methodology:

a) management of a bank shall be aware of the elements of the trading book or of other fair-valued positions which are subject to internal valuation methodology and shall understand the materiality of the uncertainty thereby created in the reporting of the risk/performance of the business;
b) banks shall source market inputs, where possible, in line with market prices, and shall assess the appropriateness of the market inputs of the particular position being valued and the parameters of the internal valuation methodology;
c) where available, banks shall use valuation methodologies which are accepted market practice for particular financial instruments or commodities;
d) where the internal methodology is developed by the bank itself, it shall be based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the internal methodology development process. An internal valuation methodology shall be developed or approved independently of the trading desk and shall be independently tested, including validation of the mathematics, assumptions and software implementations;
e) banks shall have in place formal change control procedures and shall hold a secure copy of the internal valuation methodology and use it periodically to check valuations;
f) in risk management a bank shall take a measures to remedy identified weaknesses of the internal valuation methodology and be aware on how best to reflect those in the valuation output;
g) Internal valuation methodologies shall be subject to periodic review to determine the accuracy of their performance, which shall include assessing the continued appropriateness of assumptions, analysis of profit and loss versus risk factors, and comparison of actual close out values to outputs of the internal valuation methodology.

(8) Banks shall perform independent price verification in addition to daily marking to market or internal valuation methodology. Verification of market prices and model inputs for the internal valuation methodology shall be performed by a person or unit independent from persons or units that benefit from the trading book, at least monthly, or more frequently depending on the nature of the market or trading activity. Where independent pricing sources are not available or pricing sources are more subjective, prudent measures such as valuation adjustments.

(9) Banks shall establish and maintain procedures for considering valuation adjustments.

(10) When using third party valuations or internal valuation methodology, banks shall consider whether to apply a valuation adjustment. In addition, banks shall consider the need to establish adjustments for less liquid positions and on an ongoing basis review their continued suitability. Banks shall also explicitly assess the need for valuation adjustments relating to the uncertainty of parameter inputs used by internal valuation methodology, where an assessment of the need for valuation adjustments in internal methodology banks shall be adequately and reliably document to the Agency.

Article 114

Internal Hedges

(1) An internal hedge shall in particular meet the following requirements:

a) it shall not be primarily intended to avoid or reduce own funds requirements
b) it shall be properly documented and subject to particular internal approval and audit procedures;
c) it shall be dealt with at market conditions;
d) the market risk that is generated by the internal hedge shall be dynamically managed in the trading book within the authorised limits;
e) it shall be carefully monitored in accordance with relevant procedures set out by internal acts of a bank.

(2) The requirements of paragraph 1 this Article shall apply without prejudice to the requirements applicable to the hedged position in the banking book.

(3) The subject of internal hedges are only instruments which value can be determined at recognised market.

Article 115
Application of requirements on a consolidated basis

Banks shall conduct calculation of capital requirement for market risk on consolidated basis in accordance with regulation governing consolidated supervision.

OWN FUNDS REQUIREMENTS FOR POSITION RISK

Article 116
Own funds requirements for position risk

The Bank's own funds requirement for position risk shall be the sum of the own funds requirements for the general and specific risk of its positions in debt and equity instruments.

Article 117
Specific and general risks

(1) Position risk on a traded debt instrument or equity instrument or derivative thereof may be divided into two components for purposes of calculation of own funds requirements for specific and general risk.

(2) Specific risk relates to the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument.

(3) The general risk relates to the risk of a price change in the instrument due in the case of a traded debt instrument or debt derivative to a change in the level of interest rates or in the case of an equity or equity derivative to a broad equity-market movement unrelated to any specific attributes of individual securities.

Article 118
Netting

(1) The absolute value of the excess of a bank's long (short) positions over its short (long) positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants shall be its net position in each of those different

instruments. In calculating the net position, positions in derivative instruments shall be treated as laid down in Articles 120 to 122 of this Decisions. Banks' holdings of their own debt instruments shall be disregarded in calculating specific risk capital requirements under Article 125 of this Decision.

For the purpose of netting of positions, the identical instruments shall be the instruments having the same issuer, the same interest rate, the same maturity, denominated in the same currency and have the same legal position in a case of bankruptcy procedure.

(2) All net positions, irrespective of their signs, shall be converted on a daily basis into the bank's reporting currency at the prevailing spot exchange rate of the Central bank of BiH.

Article 119

General rules to broken down positions of individual instruments

Positions of individual instruments under Articles 120 to 122 of this Decisions, shall be broken down to underlying positions as follows:

a) where an underlying financial instrument is 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 hypothetic instrument (reflects the general position risk – non-specific position risk) which covers interest rate risk resulting from future payments and receipts of cash flows (including the hypothetic payments and receipts);
   3) to the debt instruments and hypothetic debt instruments together;

b) where an underlying instrument is the equity instrument:
   1) to the hypothetic positions in the individual equity instruments, baskets of equity instruments, or indices of equity instruments;

c) where an underlying instrument are commodities:
   1) to the hypothetic positions in commodities to which they relate.

Article 120

Interest rate futures and forwards

(1) Interest-rate futures, forward-rate agreements (FRAs) and forward commitments to buy or sell debt instruments shall be treated as combinations of long and short positions. Thus a long interest-rate futures position shall be treated as a combination of a borrowing maturing on the delivery date of the futures contract and a holding of an asset with maturity date equal to that of the instrument or notional position underlying the futures contract in question. Similarly a sold FRA will be treated as a long position with a maturity date equal to the settlement date plus the contract period, and a short position with maturity equal to the settlement date. Both the borrowing and the asset holding shall be included in the first category set out in Table 21 in Article 125 of this Decision in order to calculate the own funds requirement for specific risk for interest-rate futures and FRAs. A forward commitment to buy a debt instrument shall be treated as a combination of a borrowing maturing on the delivery date and a long (spot) position in the debt instrument itself. The borrowing shall be included in the first category set out in Table 21 in Article 125 for purposes of specific risk, and the debt instrument under whichever column is appropriate for it in the same table.

(2) For the purposes of this Article, 'long position' means a position in which a bank has fixed the interest rate it will receive at some time in the future, and 'short position' means a position in which it has fixed the interest rate it will pay at some time in the future .

Article 121

Options and warrants

(1) For the purpose of this Chapter of the Decision, options and warrants on interest rates, debt instruments, equities, equity indices, financial futures, swaps and foreign currencies shall be

treated as if they were positions equal in value to the amount of the underlying instrument to which the option refers, multiplied by its delta. For subject positions, netting can be done with all opposite positions of equivalent underlying securities or derivatives.

(2) For options and warrants traded at stock exchanges, banks shall apply delta of the exchange concerned. Where delta is not available from the exchange concerned, the bank may calculate delta itself using an internal methodology for determining value, with a prior permission from the Agency. Permission shall be granted if the internal methodology for determining value appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying instrument.

Article 122
Swaps

Swaps shall be treated for interest-rate risk purposes on the same basis as on-balance-sheet instruments. Thus, an interest- rate swap under which an institution receives floating-rate interest and pays fixed-rate interest shall be treated as equivalent to a long position in a floating-rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument with the same maturity as the swap itself.

Article 123.
Treatment of securities sold under a repurchase agreement or lent securities And treatment of repurchase, reverse repurchase agreement and lent

The transferor of securities or guaranteed rights relating to title to securities in a repurchase agreement and the lender of securities in a securities lending shall include these securities in the calculation of its own funds requirement provided that such securities are trading book positions.

Article 124
Net positions in debt instruments

The banks shall classify net positions according to the currency in which they are denominated and shall calculate the own funds requirement for general and specific risk in each individual currency separately.

SPECIFIC RISK
Article 125
Own funds requirement for debt instruments

(1) The bank shall assign its net positions in the trading book in instruments, as calculated in accordance with Article 118 to the appropriate categories in Table 21 on the basis of their issuer or obligor, external or internal credit assessment, and residual maturity, and then multiply them by the weightings shown in that table.
The bank shall sum its weighted positions resulting from the application of this Article regardless of whether they are long or short in order to calculate its own funds requirement against specific risk
The categories of debt securities and assigned risk weights to calculate own funds requirement for debt instruments specific risk are given in the Table 21:

Table 21	
Categories	**Specific risk own funds requirement**

Debt securities which would receive a 0 % risk weight under the Standardised Approach for credit risk.	0 %
Debt securities which would receive a 20 % or 50 % risk weight under the Standardised Approach for credit risk and other qualifying items as defined in paragraph 4 of this Article	0,25 % (residual term to final maturity six months or less) 1,00 % (residual term to final maturity greater than six months and up to and including 24 months) 1,60 % (residual term to maturity exceeding 24 months)
Debt securities which would receive a 100 % risk weight under the Standardised Approach for credit risk.	8,00 %
Debt securities which would receive a 150 % risk weight under the Standardised Approach for credit risk	12,00 %

(2) Banks shall calculate the specific risk requirements for any bonds that qualify for a 10 % risk weight in accordance with the treatment set out in Article 63(4) and (5) of this Decision as half of the applicable specific risk own funds requirement for the second category in Table 21.

(3) Banks shall use the maximum risk weighting shown in the Table 21 (1) of this Article, i.e. 12% for debt instruments that show a particular risk because of the insufficient solvency of the issuer or liquidity of the instrument itself.

(4) Other qualifying items are:

a) long and short positions in assets for which a credit assessment by a nominated ECAI is not available and which meet all of the following conditions:
   1) the bank concerned consider them to be sufficiently liquid
   2) their investment quality is, according to the bank's own discretion, at least equivalent to investment quality of the assets referred to under Table 21(1) of this Article;
   3) they are listed on at least one regulated market in a EU Member State or on a stock exchange in a third country, provided that the stock exchange is recognised by the competent authorities of the relevant Member State or at the recognised stock exchange listed in Annex III of this Decision;

b) long and short positions in assets issued by banks subject to the own funds requirements set out in this Decision which are considered by the bank concerned to be sufficiently liquid and whose investment quality is, according to the bank's own discretion, at least equivalent to that of the assets referred to under Table 21(1) of this Article;

c) securities issued by banks that are deemed to be of equivalent, or higher, credit quality than those associated with credit quality step 2 under the Standardised Approach for credit risk of exposures to banks and that are subject to supervisory and regulatory arrangements applicable in BiH or EU:

   Banks that make use of point (a) or (b) shall have a documented methodology in place to assess whether assets meet the requirements in those points and shall notify this methodology to the Agency.

Article 126

General risk

The bank may use an approach to calculate own funds requirements for general risk which is either maturity-base (in accordance to Article 127 of this Decision), or duration-based (in accordance to Article 128 of this Decision). The selected approach a bank shall apply consistently.

Article 127
Maturity-based calculation of general risk

(1) In order to calculate own funds requirements against general risk all positions shall be weighted according to maturity as explained in paragraph 2 in order to compute the amount of own funds required against them. This requirement shall be reduced when a weighted position is held alongside an opposite weighted position within the same maturity band. A reduction in the requirement shall also be made when the opposite weighted positions fall into different maturity bands, with the size of this reduction depending both on whether the two positions fall into the same zone, or not, and on the particular zones they fall into

(2) The bank shall assign its net positions to the appropriate maturity bands in column 2 or 3, as appropriate, in Table 22 in paragraph 4 of this Article. It shall do so on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity. The bank shall also distinguish between debt instruments with a coupon of 3 % or more and those with a coupon of less than 3 % and thus allocate them to column 2 or column 3 in Table 22 in paragraph (4) of this Article.

(3) In each maturity band the bank shall work out the sum of the weighted long positions and separately the sum of the weighted short positions.
The amount of weighted long positions matched with the sum of the weighted short positions in each maturity band shall be the matched weighted position in that band, while the residual long or short position shall be the unmatched weighted position for the same band. The total of the matched weighted positions in all bands shall then be calculated.

(4) The bank shall compute the totals of the unmatched weighted long positions for the bands included in each of the zones in Table 22, paragraph (4) of this Article in order to derive the unmatched weighted long position for each zone. Similarly, the sum of the unmatched weighted short positions for each band in a particular zone shall be summed to compute the unmatched weighted short position for that zone. That part of the unmatched weighted long position for a given zone that is matched by the unmatched weighted short position for the same zone shall be the matched weighted position for that zone. That part of the unmatched weighted long or unmatched weighted short position for a zone that cannot be thus matched shall be the unmatched weighted position for that zone.

Table 22

Zone	**Maturity band**		**Weighting (in %)**	**Assumed interest rate change (in %)**
	Coupon of 3 % or more	**Coupon of less than 3 %**		
One	0 ≤ 1 month	0 ≤ 1 month	0,00	—
	> 1 ≤ 3 month	> 1 ≤ 3 month	0,20	1,00
	> 3 ≤ 6 month	> 3 ≤ 6 month	0,40	1,00
	> 6 ≤ 12 month	> 6 ≤ 12 month	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 the unmatched weighted long or short position for a zone one which is matched by the unmatched weighted short or long position in zone two shall be the matched weighted position between zones one and two. The same calculation shall be applied to the that part of the unmatched weighted position in zone two which is left over and the unmatched weighted position in the zone three, in order to calculate the matched weighted position between zones two and three.
(6) The bank may reverse the order in paragraph 5 of this Article so as to calculate the matched weighted position between zones two and three before calculating that position between zones one and two.
(7) The remainder of the unmatched weighted position in zone one shall then be matched with what remains of that for zone three after the latter's matching with zone two in order to derive the matched weighted position between zones one and three.
(8) Following the three separate matching calculations in paragraphs 5, 6 and 7 of this Article, residual positions shall be summed.
(9) Bank’s own funds requirement shall be calculated as the sum of:
   a) 10 % of the sum of the matched weighted positions in all maturity bands;
   b) 40 % of the matched weighted position in zone one;
   c) 30 % of the matched weighted position in zone two;
   d) 30 % of the matched weighted position in zone three;
   e) 40 % of the matched weighted position between zones one and two and between zones two and three;
   f) 150 % of the matched weighted position between zones one and three;
   g) 100 % of the residual unmatched weighted positions.

Article 128
Duration-based calculation of general risk

(1) Banks use an approach for calculating the own funds requirement for the general risk on debt instruments which reflects duration, instead of the approach set out in Article 127, provided that the bank does so on a consistent basis.
(2) Under the duration-based approach referred to in paragraph 1, the bank shall take the market value of each fixed-rate debt instrument and hence calculate its yield to maturity, which is implied discount rate for that instrument. In the case of floating-rate instruments, the bank shall take the market value of each instrument and hence calculate its yield on the assumption that the principal is due when the interest rate can next be changed.
(3) The bank shall then calculate the modified duration of each debt instrument on the basis of the following formula:

$$modificira\ no\ trajanje = \frac{D}{1+R}$$

Modified duration
where:
D = duration calculated according to 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 to maturity;
C_t = cash payment in time t;
M = total maturity.

(4) The bank shall then allocate each debt instrument to the appropriate zone in Table 23. It shall do so on the basis of the modified duration of each instrument

Table 23		
Zone	**Modified duration (in years)**	**Assumed interest (change in %)**
One	> 0 ≤ 1,0	1,0
Two	> 1,0 ≤ 3,6	0,85
Three	> 3,6	0,7

(5) The bank shall then calculate the duration-weighted position for each instrument by multiplying its market price by its modified duration and by the assumed interest-rate change for an instrument with that particular modified duration (see column 3 in Table 23, paragraph (4) of this Article)

(6) The bank shall calculate its duration-weighted long and its duration-weighted short positions within each zone. The amount of the duration-weighted long which are matched with the duration-weighted short positions in the same zone shall be the matched duration-weighted position for that zone.
The bank shall then calculate the unmatched duration- weighted positions for each zone. It shall then follow the procedures laid down for unmatched weighted positions in Article 127, paragraph (5) to (8) of this Decision.
The bank's own funds requirement shall be calculated as the sum of the following:
   a) 2 % of the matched duration-weighted position for each zone;;
   b) 40 % of the matched duration-weighted positions between zones one and two and between zones two and three;
   c) 150 % of the matched duration-weighted position between zones one and three;
   d) 100 % of the residual unmatched duration-weighted positions..

Article 129
Net positions in equity instruments

(1) The bank shall separately sum all its net long positions and all its net short positions in accordance with Article 118 of this Decision. The sum of the absolute values of net long positions and net short positions shall be the bank's overall gross position.
(2) The bank shall calculate, separately for each market, the difference between the sum of the net long and the net short positions. The sum of the absolute values of those differences shall be its overall net position.
(3) Positions in some equity instrument shall be presented in its market value.
(4) Financial derivatives shall be classified by countries where the equity securities subject to an agreement are listed and/or markets where the equity securities are traded. .

Article 130
Specific risk of equity instruments

The own funds requirement against specific risk of the bank shall be calculated by multiplying its overall gross position by 12%.

Article 131
General risk of equity instruments

The own funds requirement against general risk shall be the bank's overall net position multiplied by 12%.

Article 132
Stock indices

(1) Stock-index futures, the delta-weighted equivalents of options in stock-index futures and stock indices collectively referred to hereafter as 'stock-index futures', may be broken down into positions in each of their constituent equities.
(2) Where a stock-index future is not broken down into its underlying positions, it shall be treated as if it were an individual equity. However, the specific risk on this individual equity can be ignored if the stock-index future in question is exchange traded and represents a relevant appropriately diversified index.

Article 133
Underwriting

(1) Bank shall, in the case of the underwriting, to use the following procedure in calculating its own funds requirements. The bank shall first calculate the net positions by deducting the underwriting positions which are subscribed or sub-underwritten by third parties on the basis of formal agreements. Then it shall reduce the net positions by the reduction factors in Table 24 and calculate its own funds requirements using the reduced underwriting positions.
Table 24 shows the reduction factors:

Table 24

working day 0	100%
working day 1	90%
working days 2 to 3	75%
working day 4	50%
working day 5	25%
after working day 5	0%

'Working day zero' shall be the working day on which the bank becomes unconditionally committed to accepting a known quantity of securities at an agreed price.
(2) The banks shall ensure at all time a sufficient own funds to cover risk losses which could occur in the period of the initial undertaking and working day 1.
(3) The banks shall notify to the Agency the use they make of paragraph (1) of this Article.

Article 134
Own funds requirement for positions in an investment fund

(1) Positions in an investment fund are subject to own funds requirement for position risk, comprising specific and general risk of 32%. Without prejudice to Article 139 taken together with the amended gold treatment set out in Article 138(4) positions in investment fund shall

be subject to an own funds requirement for position risk, comprising specific and general risk, and foreign-exchange risk of 40%.

(2) Unless noted otherwise in Article 136, no netting is permitted between the underlying investments of an investment fund and other positions held by the bank.

Article 135
General criteria for investment fund

(1) Investment fund shall be eligible for the approach set out in Article 136, where all the following conditions are met:
   a) Investment fund has a prospectus or equivalent document which include all of the following:
      1) the categories of assets the investment fund is authorised to invest in;
      2) where investment limits apply, the relative limits and the methodologies to calculate them;
      3) where investment, concluding financial derivatives transactions or repurchase transactions or securities borrowing or lending is allowed, a policy to limit counterparty risk arising from these transactions;
   b) the business result of the investment fund shall be reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period;
   c) the shares or units of the investment fund are redeemable in cash, out of the undertaking's assets, on a daily basis at the request of the unit holder;
   d) investments in the investment fund shall be segregated from the assets of the investment fund managing company;
   e) there shall be adequate risk assessment of the investment fund, by the investing bank;
   f) The investment fund shall be managed by persons subject to supervision of the competent regulatory authorities in BiH and EU.

(2) Methods under Article 136 of this Decision can be used to calculate own funds requirements for positions of an investment funds from recognised third countries, provided that meet conditions under points a) to (f) paragraph (1) of this Article and if eligible to the satisfaction of the Agency.

Article 136
Specific methods for investment fund

(1) Where the bank is aware of the underlying investments of the investment fund on a daily basis, the bank may look through to those underlying investments in order to calculate the own funds requirements for position risk, comprising specific and general risk. Under such an approach, positions in investment fund shall be treated as positions in the underlying investments of the investment fund.

(2) Banks shall calculate the own funds requirements for position risk, comprising specific and general risk, for positions in investment fund by assuming positions representing those necessary to replicate the composition and performance of the externally generated index or fixed basket of equities or debt securities referred to in point (a), subject to the following conditions:
   a) the purpose of the investment fund mandate is to replicate the composition and performance of an externally generated index or fixed basket of equities or debt securities;
   b) a minimum correlation coefficient between daily returns on the investment fund and the index or basket of equities or debt securities it tracks of 0,9 can be clearly established over a minimum period of six months;

(3) Where the bank is not aware of the underlying investments of the investment fund on a daily basis, it may calculate the own funds requirements for position risk, comprising specific and general risk, under the following conditions:
   a) it will be assumed that the investment fund first invests to the maximum extent allowed under its mandate in the asset classes attracting the highest own funds requirement for specific and general risk separately, and then continues making investments in descending order until the maximum total investment limit is reached. The position in the investment fund will be treated as a direct holding in the assumed position;
   b) if the own funds requirement for specific and general risk together in accordance with this paragraph exceed that set out in Article 134(1) the own funds requirement shall be capped at that level.
(4) Banks may rely, to calculate and report own funds requirements for position risk for positions in investment fund falling under paragraphs 1 to 3, in accordance with the methods set out in this Article, to the depository of the investment fund provided that the investment fund exclusively invests in securities and deposits all securities at this depository.
(5) The correctness of the calculation shall be confirmed by an external auditor.

OWN FUNDS REQUIREMENTS FOR FOREIGN-EXCHANGE RISK

Article 137

De minimis and weighting for foreign exchange risk

(1) If the sum of a bank's overall net foreign-exchange position and its net gold position, calculated in accordance with Article 138 of this Decision, exceeds 2 % of its total own funds, the bank shall calculate an own funds requirement for foreign exchange risk.
(2) The own funds requirement for foreign exchange risk shall be the sum of its overall net foreign-exchange position and its net gold position multiplied by 12 %.

Article 138

Calculation of the overall net foreign exchange position

(1) The bank's net open position in each currency, including the reporting currency, without calculation of own funds requirements for reporting currency, and net open position in gold shall be calculated as the sum of the following elements (positive or negative):
   a) the net spot position (i.e. all asset items less all liability items, including accrued interest, in the currency in question) and net spot position in gold;
   b) the net forward position, which are all amounts to be received less all amounts to be paid under forward exchange and gold transactions, including currency and gold futures and the principal on currency swaps not included in the spot position;
   c) irrevocable guarantees and similar instruments that are certain to be called and likely to be irrecoverable;
   d) the net delta, or delta-based, equivalent of the total book of foreign-currency and gold options.
   The net delta equivalent shall be calculated by multiplying the amount of underlying instrument and corresponding delta. For OTC options, the bank apply delta of the exchange concerned. Where such delta is not available from the exchange concerned, the bank may apply delta calculated in accordance to internal methodology, subject to permission by the Agency. Permission shall be granted if the internal valuation methodology appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying instruments.
   e) the market value of other options, which are non-foreign-currency and non-gold options, whose underlying instrument is expressed in foreign currency.

The bank may include into net open position in some currency or net open position in gold, a net future income/expenses not yet accrued but already fully hedged (i.e. foreign exchange forward contracts or similar) if it does so consistently in accordance with the international accounting standards.

(2) When calculating a net open currency positions, with a prior permission from the Agency, a bank may exclude positions taken in order to hedge against the adverse effect of the exchange rate on its ratios referred to in Article 34 (1) of this Decision. Such positions shall be of a non-trading and any variation of the terms of their exclusion is subject to separate permission by the Agency. Banks shall regulate types and characteristics of instruments use only for these purposes. The same treatment subject to the same conditions may be applied to positions which a bank has which relate to items that are already deducted in the calculation of own funds.

(3) When calculating a net open currency positions in each currency and gold, a bank may consistently use the net present value. When calculating a net open currency position, the bank shall reduce balance sheet assets items for related value adjustments, and off-balance items for loss provisions on off-balance sheet items.

(4) Open foreign exchange position in some currency may be long or short. The bank has a long position in some currency (or gold) when the sum of items listed in paragraph (1) of this Article is positive, and the short position when the sum is negative. The open net short r net long position in some foreign currency shall be converted into BAM using a middle rate of the CBBH.

Then, a bank calculate the overall open net long position as a sum of all open net long positions in individual currencies, and overall open net short position as a sum of all open net short positions in individual currencies. The higher amount is the overall net currency positions of a bank to be used for the purpose of own funds requirements for foreign-exchange risk in accordance with Article 137 (2) of this Decision.

Article 139.
Foreign-exchange risk for positions in investment fund

(1) For the purpose of Article 138 of this Decision, a bank shall treat shares in an investment fund in accordance with the actual currency structure of investments of the investment fund and include that currency positions into calculation of net open currency positions in the relevant foreign currency.

(2) Where an investment fund exclusively invests in securities , a bank may rely on reports on The currency structure of investments issued by the depository bank of the investment fund. The correctness of the reports shall be confirmed by an external auditor.

(3) Where a bank is not aware of the foreign exchange positions in an investment fund, it shall be assumed that the investment fund is invested up to the maximum extent allowed. Where the bank's investments to the investment fund are booked in the trading book, bank shall take in account the maximum exposure that could achieve from investments in the investment fund, by proportionally increasing the assumed investment in the investment fund up to the maximum exposure to the underlying investment in accordance to the investment policy of the investment fund.

The open foreign exchange position of a bank in the assumed investment of the investment fund is equal to the sum of the absolute values of underlying assumed investments of that investment fund. The open foreign exchange position of a bank in the assumed investment of the investment fund shall be included when calculating the overall foreign exchange position in accordance to the treatment of investments in gold. Notwithstanding, Where the direction of the assumed investment is available, banks may treat units in investment funds as long or short foreign exchange positions in assumed investments, where netting of those positions is not allowed.

The assumed position of the CIU in foreign exchange shall be treated as a separate currency according to the treatment of investments in gold, subject to the addition of the total long position to the total long open foreign exchange position and the total short position to the total short open foreign exchange position.

An open long or short foreign exchange position (the assumed investment of an investment fund) shall be treated as the assumed investment of an investment fund) shall be treated as aa separate currency and shall be added to the total long or total short open foreign exchange position of a bank.

OWN FUNDS REQUIREMENTS FOR COMMODITIES RISK

Article 140
Choice of method for commodities risk

Subject to Articles 141 and 142 of this Decision, banks shall calculate the own funds requirement for commodities risk with one of the following methods:

a) Simplified approach;
b) Maturity ladder approach.

Article 141
Positions in commodities

(1) Each position in commodities or commodity derivatives shall be expressed in terms of the standard unit of measurement. The spot price in each commodity shall be expressed in the reporting currency.

(2) Positions in gold or gold derivatives shall be considered as being subject to foreign-exchange risk and treated in accordance with own funds requirements for foreign-exchange risk , as appropriate, for the purpose of calculating commodities risk

(3) For the purpose of Article 143(1), the excess of an institution's long positions over its short positions, or vice versa, in the same commodity and identical commodity futures, options and warrants shall be its net position in each commodity. Derivative instruments shall be treated, as laid down in Article 142, as positions in the underlying commodity.

(4) For the purposes of calculating a position in a commodity, the following positions shall be treated as positions in the same commodity:

a) positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other;
b) Positions in similar commodities if they are close substitutes and where a minimum correlation of 0,9 between price movements can be clearly established over a minimum period of one year.

Article 142
Particular instruments

(1) Commodity futures and forward commitments to buy or sell individual commodities shall be incorporated in the measurement system as notional amounts in terms of the standard unit of measurement and assigned a maturity with reference to expiry date.

(2) Commodity swaps where one side of the transaction is a fixed price and the other the current market price shall be treated, as a series of positions equal to the notional amount of the contract, with, where relevant, one position corresponding with each payment on the swap and slotted into the maturity bands in Article 144(1). The positions shall be long positions if the bank is paying a fixed price and receiving a floating price and short positions if the bank

is receiving a fixed price and paying a floating price. Commodity swaps where the sides of the transaction are in different commodities are to be reported in the relevant reporting ladder for the maturity ladder approach.

(3) For the purpose of this Chapter options and warrants on commodities or on commodity derivatives shall be treated as if they were positions equal in value to the amount of the underlying to which the option refers , multiplied by its delta. The latter positions may be netted off against any offsetting positions in the identical underlying commodity or commodity derivative. The delta used shall be that of the exchange concerned. For OTC options, or where delta is not available from the exchange concerned the institution may calculate delta itself using an appropriate model, subject to permission by the competent authorities. Permission shall be granted if the model appropriately estimates the rate of change of the option's or warrant's value with respect to small changes in the market price of the underlying.

(4) Banks shall include underlying commodities in calculation of own funds requirement for commodity risk when performs any of the following functions:
The bank shall include the commodities concerned in the calculation of its own funds requirement for commodities risk where it is either of the following:
a) the transferor of commodities or guaranteed rights relating to title to commodities in a repurchase agreement
b) the lender of commodities in a commodities lending agreement.

Article 143
Simplified approach

(1) The bank's own funds requirement for each commodity shall be calculated as the sum of the following:
a) 15% of the net position, long or short, multiplied by the spot price for the commodity;
b) 3% of the gross position, long plus short, multiplied by the spot price for the commodity.

(2) The bank's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph (1) of this Article.

Article 144
Maturity ladder approach

(1) The bank hall use a separate maturity ladder in line with Table 25 for each commodity. All positions in that commodity shall be assigned to the appropriate maturity bands. Physical stocks shall be assigned to the first maturity band between 0 and 1 month including 1 month

Table 25

Maturity band	**Spread rate (%)**
(1)	**(2)**
0 ≤ 1 month	1,50
> 1 month ≤ 3 month	1,50
> 3 month ≤ 6 month	1,50
> 6 month ≤ 12 month	1,50
> 1 year ≤ 2 years	1,50
> 2 years≤ 3 years	1,50
> 3 years	1,50

(2) The following positions in the same commodity may be offset and assigned to the appropriate maturity bands on a net basis:
   a) positions in contracts maturing on the same date;
   b) positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates.
(3) The bank shall then calculate the sum of the long positions and the sum of the short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band shall be the matched positions in that band, while the residual long or short position shall be the unmatched position for the same band.
(4) That part of the unmatched long position for a given maturity band that is matched by the unmatched short position, or vice versa, for a maturity band further out shall be the matched position between two maturity bands. That part of the unmatched long or unmatched short position that cannot be thus matched shall be the unmatched position.
(5) The bank's own funds requirement for each commodity shall be calculated on the basis of the relevant maturity ladder as the sum of the following:
   a) the sum of the matched long and short positions, multiplied by the appropriate spread rate as indicated in the second column of Table 25 (1) for each maturity band and by the spot price for the commodity;
   b) the matched position between two maturity bands for each maturity band into which an unmatched position is carried forward, multiplied by 0,6 %, which is the carry rate and by the spot price for the commodity;
   c) the residual unmatched positions, multiplied by 15 % which is the outright rate and by the spot price for the commodity.
(6) The bank's overall own funds requirement for commodities risk shall be calculated as the sum of the own funds requirements calculated for each commodity in accordance with paragraph (5) of this Article.

XI TRANSITIONAL AND FINAL PROVISIONS

Article 145

(1) Reports for 2017 shall be submitted to the Agency subject to the provisions of decisions referred to in paragraph (5) of this Article, and for the transitional period from 01.01 to 31.12.2018 any required reporting to the Agency shall be provided simultaneously subject to the provisions of decisions referred to in paragraph (5) of this Article and the Decision.
(2) The bank’s requirements in terms of the reporting on own funds and own funds requirements for credit, market and operational risk, financial leverage ratio and capital buffers and other required information subject to this Decision, shall be governed by the Agency’s decision on reporting and other regulations.
(3) Within 60 days of the date of entry into force of this decision, Director of the Agency shall adopt the Instruction for implementing and drafting bank reports on own funds and own funds requirements for credit, market and operational risk, financial leverage ratio and capital buffers and other required information subject to this Decision, and reporting forms.
(4) Bank’s relevant sources (websites) to download updated data from Annexes III and IV are provided in the these Annexes.
(5) By entry into force of this decision, the following shall cease to be valid:
   a) Decision on minimum standards to manage bank’s capital and capital protection (Official Gazette of the Federation of BiH, no: 46/14), with exception of Article 18, laying down reporting method and deadlines, for the period referred to in paragraph (1) of this Article,

b) Decision on minimum standards to manage operational risk in banks (Official Gazette of the Federation of BiH, No 6/08, 52/08, 40/09), with exception of Article 14, laying down reporting method and deadlines, for the period referred to in paragraph (1) of this Article,
c) Decision on minimum standards to manage market risks in banks (Official Gazette of the Federation of BiH, No 55/07, 81/07, 06/08, 52/08, 79/09), and related Instruction for decision concerned.

Article 146
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, with exception of provisions referred to in Article 21 (2) and Article 34 (1) b), which shall be applied starting from October 21, 2018.

Number: U.O.-08-02/17
Sarajevo, 13.10.2017

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

ANNEX I - CLASSIFICATION OF OFF-BALANCE SHEET ITEMS

1. <u>Full risk:</u>

a) Guarantees having the character of credit substitutes (i.e. guarantees to ensure loan repayment)
b) credit derivatives
c) Acceptances
d) Endorsements on bills not bearing the name of another credit institution;
e) Transactions with recourse (i.e. factoring, receivables purchase at discount);
f) Irrevocable standby letters of credit having the character of credit substitutes;
g) Forward asset purchases;
h) Forward forward deposits placed;
i) Asset sale and repurchase agreements.

2. <u>Medium risk:</u>

a) trade finance off-balance sheet items, namely documentary credits issued or confirmed (see also 'Medium/low risk'
b) other off-balance sheet items:
   1) shipping guarantees, customs and tax bonds
   2) undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year
   3) note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)

3. <u>Medium/low risk:</u>

a) trade finance off-balance sheet items:
   1) documentary credits in which underlying shipment acts as collateral and other self-liquidating transactions
   2) warranties (including tender and performance bonds and associated advance payment and retention guarantees) and guarantees not having the character of credit substitutes
   3) irrevocable standby letters of credit not having the character of credit substitutes
b) other off-balance sheet items:
   1) undrawn credit facilities which comprise agreements to lend, purchase securities, provide guarantees or acceptance facilities with an original maturity of up to and including one year which may not be cancelled unconditionally at any time without notice or that do not effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness

4. <u>Low risk:</u>

a) undrawn credit facilities comprising agreements to lend, purchase securities, provide guarantees or acceptance facilities which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.
b) undrawn credit facilities for tender and performance guarantees which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

ANNEX II – TYPES OF FINANCIAL DERIVATIVES

I. Financial derivatives:

1. Interest-rate contracts:

a) single-currency interest rate swaps;
b) basis-swap;
c) forward rate agreements;
d) interest-rate futures;
e) interest-rate options purchased;
f) other contracts of similar legal nature.

2. Foreign-exchange contracts and contracts concerning gold:

a) cross-currency interest-rate swaps;
b) forward foreign-exchange contracts;
c) currency futures;
d) currency options purchased;
e) other contracts of a similar nature;
f) contracts of a nature similar to a) to e), concerning gold.

3. **Options, futures, swaps, forward rate agreements and any other derivatives** relating to securities, currencies, interest rates or yields, or other derivatives, financial indices or financial measures which may be settled physically or in cash.

4. **Options, futures, swaps, forward rate agreements and any other derivatives** relating to commodities, that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or **other** termination event).

5. **Options, futures, swaps, forward rate agreements and any other derivatives** relating to commodities, that can be physically settled provided that they are traded on a regulated market.

6. **Options, futures, swaps, forwards and any other derivatives** relating to commodities, that can be physically settled, not mentioned in previous point, and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls

7. **Options, futures, swaps, forwards and any other derivatives** relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, and if they are cleared and settled through recognised clearing houses or are subject to regular margin calls.

II. <u>Other financial instruments:</u>

a) Transferable securities;
b) Money-market instruments;
c) Investment fund units.

ANNEX III - RECOGNIZED STOCK EXCHANGES AND CLEARING HOUSES

Recognised stock exchanges not trading financial derivatives referred to in Annex II

Name	MIC
Euronext Paris	XPAR
Boerse Berlin (Regulierter Markt)	BERA
Boerse Berlin (Berlin Second Regulated Market)	BERC
Boerse Duesseldorf (Regulierter Markt)	DUSA
Boerse Duesseldorf - Quotrix (Regulierter Markt)	DUSC
Boerse Berlin Equiduct Trading (Regulierter Markt)	EQTA
Boerse Berlin Equiduct Trading (Berlin Second Regulated Market)	EQTB
Hanseatische Wertpapierboerse Hamburg (Regulierter Markt)	HAMA
Niedersaechsische Boerse Zu Hannover (Regulierter Markt)	HANA
Boerse Muenchen (Regulierter Markt)	MUNA
Boerse Muenchen - Market Maker Munich (Regulierter Markt)	MUNC
Baden-Wuerttembergische Wertpapierboerse (Regulierter Markt)	STUA
Frankfurter Wertpapierboerse (Regulierter Markt)	FRAA
Tradegate Exchange (Regulierter Markt)	XGRM
Irish Stock Exchange - Main Securities Market	XDUB
Euronext Lisbon	XLIS
Bolsa De Barcelona	XBAR, XMCE
Bolsa De Bilbao	XBIL, XMCE
Bolsa De Madrid	XMAD, XMCE, MERF
Bolsa De Valencia	XVAL, XMCE
Bondvision Market	BOND
Electronic Open-End Funds And Etc Market	ETFP
Market For Investment Vehicles (Miv)	MIVX
Electronic Bond Market	MOTX
Electronic Share Market	MTAA
Mts Government Market	MTSC
Mts Corporate Market	MTSM
Securitised Derivatives Market	SEDX

Mercado De Deuda Publica En Anotaciones	XDPA
Aiaf - Mercado De Renta Fija	XDRF, SEND
Bourse De Luxembourg	XLUX
Cyprus Stock Exchange	XCYS
Spot Regulated Market - Bmfms	SBMF
Spot Regulated Market - Bvb	XBSE
Rm-System	XRMZ
Prague Stock Exchange	XPRA
Bats Europe Regulated Market	BATE, CHIX
Isdx Main Board	ISDX
Euronext London	XLDN
London Stock Exchange - Regulated Market	XLON
Nasdaq Omx Riga	XRIS
Gxg Official List	GXGR
Nasdaq Omx Stockholm Ab	XSTO
Nasdaq Omx Copenhagen A/S	XCSE
Oslo Axess	XOAS
Oslo Børs Asa	XOSL
Nasdaq Omx Tallinn	XTAL
Nasdaq Omx Helsinki (Arvopaperipörssi)	XHEL
Vienna Stockexchange Official Market (Amtlicher Handel)	WBAH
Vienna Stockexchange Second Regulated Market (Geregelter Freiverkehr)	WBGF
Nasdaq Omx Iceland Hf	XICE
Budapest Stock Exchange	XBUD
Bratislava Stock Exchange	XBRA
Zagreb Stock Exchange	XZAG
Electronic Secondary Securities Market	HDAT
Athens Exchange Securities Market	XATH
Ab Nasdaq Omx Vilnius	XLIT
Euronext Amsterdam	XAMS
Bondspot Securities Market	RPWC
Warsaw Stock Exchange/Bonds/Catalyst/Main Market	WBON
Warsaw Stock Exchange/Etps	WETP
Warsaw Stock Exchange/Equities/Main Market	XWAR

Ljubljana Stock Exchange Official Market	XLJU
Banjaluka stock exchange	BLSE
Sarajevo stock exchange	SASE
Belgarde stock exchange	BELEX

Recognised stock exchanges which have a clearing mechanism whereby contracts listed in Annex II are subject to daily margin requirements which provide appropriate protection

Name	**MIC**
Matif	XMAT
Monep	XMON
Powernext Derivatives	XPOW
European Energy Exchange	XEEE
Eurex Deutschland	XEUR
Mercado De Futuros E Opcoes	MFOX
Mercado Regulamentado De Derivados Do Mibel	OMIP
Meff Exchange	XMRV, XMPW
Mercado De Futuros De Aceite De Oliva - S.A	XSRM
Derivatives Regulated Market – Bmfms	BMFM
Derivatives Regulated Market – Bvb	XBSD
Power Exchange Central Europe	XPXE
Cme Europe Limited	CMED
Intercontinental Exchange - Ice Futures Europe	IFEU
Ice Futures Europe - Financial Products Division	IFLL
Ice Futures Europe - Equity Products Division	IFLO
Ice Futures Europe - Agricultural Products Division	IFLX
The London International Financial Futures And Options Exchanges (Liffe)	XLIF
The London Metal Exchange	XLME
London Stock Exchange Derivatives Market	XLOD
Italian Derivatives Market	XDMI
Nasdaq Omx Stockholm Ab	XSTO
Fish Pool Asa	FISH
Nasdaq Omx Oslo Asa	NORX
Oslo Børs Asa	XOSL
Euronext Brussels Derivatives	XBRD
Athens Exchange Derivatives Market	XADE

Vienna Stockexchange Official Market (Amtlicher Handel)	WBAH
Budapest Stock Exchange	XBUD
European Energy Derivatives Exchange N.V.	NDEX
Euronext Eqf - Equities And Indices Derivatives	XEUE
Warsaw Stock Exchange/Financial Derivatives	WDER
Izvor: http://www.esma.europa.eu/content/Final-Report-draft-Implementing-Technical-Standards-main-indices-and-recognised-exchanges-un	

Recognised clearing houses

1. Austrian Kontroll Bank (OKB)
2. Board of Trade Clearing Corporation
3. Cassa di Compensazione e Garanzia S. p. A (CCG)
4. Commodity Clearing Corporation
5. Central Securities Clearing Corporation (KDD Centralna Klirinško Depotna Družba d.d.)
6. The Emerging Markets Clearing Corporation
7. European Options Clearing Corporation Holding BV (EOCC)
8. Guarantee Fund for Danish Options and Futures (Garantifonden for Danske Optioner OG Futures) (FUTOP)
9. Kansas City Board of Trade Clearing Corporation
10. Hong Kong Futures Exchange Clearing Corporation Ltd
11. Hong Kong Securities Clearing Company Ltd
12. London Clearing House (LCH)
13. Norwegian Futures & Options Clearing House (Norsk Opsjonssentral A.S.)
14. N.V. Nederlandse Liquidatiekas (NLKKAS)
15. OM Stockholm AB (OM)
16. Options Clearing Corporation
17. OTOB Clearing Bank AG (OTOB)
18. Société de Compensation des Marchés Conditionnels (SCMC)
19. Sydney Futures Exchange Clearing House

ANNEX IV – LIST OF THIRD COUNTRIES WHICH APPLY REGULATORY AND SUPERVISORY REQUIREMENTS EQUIVALENT TO THOSE APPLIED IN THE EUROPEAN UNION

Regulatory and supervisory requirements for banks (link to Articles 43, 50 and 52)

(1) Australia
(2) Brazil
(3) Canada
(4) China
(5) Guernsey
(6) Hong Kong
(7) India
(8) Isle of Man
(9) Japan
(10) Jersey
(11) Mexico
(12) Monaco
(13) Saudi Arabia
(14) Singapore
(15) South Africa
(16) Switzerland
(17) USA

Regulatory and supervisory requirements for investment firms (link to Article 43 of this Decision)

(1) Australia
(2) Brazil
(3) Canada
(4) China
(5) Hong Kong
(6) Indonesia

(7) Japan
(8) Mexico
(9) South Korea
(10) Saudi Arabia
(11) Singapore
(12) South Africa
(13) USA

Izvor:http://eur-lex.europa.eu/legal-content/HR/TXT/PDF/?uri=CELEX:32016D0230&from=EN