



BOSNA I HERCEGOVINA  
FEDERACIJA BOSNE I HERCEGOVINE  
AGENCIJA ZA BANKARSTVO  
FEDERACIJE BOSNE I HERCEGOVINE

**METHODOLOGY**  
**of the Banking Agency of the Federation of Bosnia and Herzegovina**  
**for Determination of the Minimum Requirement for Own Funds**  
**and Eligible Liabilities in Banks**

**Sarajevo, March 2022**

In accordance with Article 5, Paragraph (1), Item h) and Article 19, Paragraph (1), Item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 75/17) and Article 7, Paragraph (1), Item h) and Article 12, Paragraph (1), Item d) of the Statute of the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 03/18), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina enacted, at its meeting held on 31.03.2022, adopted the following:

**METHODOLOGY  
OF THE BANKING AGENCY OF THE FEDERATION OF BOSNIA AND  
HERZEGOVINA FOR DETERMINATION OF THE MINIMUM REQUIREMENT  
FOR OWN FUNDS AND ELIGIBLE LIABILITIES IN BANKS**

**1. General Provisions**

- 1.1. This Methodology prescribes the manner of determining the Minimum Requirement for Own Funds and Eligible Liabilities in line with the Decision on Minimum Requirements for Own Funds and Eligible Liabilities (FBiH Official Gazette No. 26/18).
- 1.2. The Minimum Requirement for Own Funds and Eligible Liabilities (hereinafter: MREL) represents a minimum amount of own funds and eligible liabilities ensuring the bank's capacity to absorb an appropriate amount of loss and, depending on the resolution strategy, to be recapitalised by an amount sufficient to implement the preferred resolution strategy, all for purpose of achieving the resolution objectives.
- 1.3. MREL shall be calculated as a percentage-based ratio of the sum of own funds and eligible liabilities and sum of own funds and total liabilities of a bank.
- 1.4. Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter: the Agency) shall determine MREL for each bank individually and banks shall continuously meet such requirement on individual basis, i.e. consolidated basis, if so instructed.
- 1.5. MREL shall be determined in line with clauses contained in the Law on Banks (FBiH Official Gazette No. 27/17) and the Decision on Minimum Requirements for Own Funds and Eligible Liabilities, as well as this Methodology explaining in more details the Agency's actions regarding MREL determination.

**2. Structure and Level of the Minimum Requirement for Own Funds and Eligible Liabilities**

- 2.1. When determining total MREL, the following shall be established in particular:
  - (i) amount required to ensure a loss absorption (hereinafter: loss-absorption amount) and, if necessary,
  - (ii) amount required for a bank to re-establish adequacy of the regulatory capital ratio after having ensured the loss absorption. This amount shall be at the level that would facilitate its continued unimpeded business operations and sufficient financial market confidence in the bank, i.e. to ensure continuity of its key functions, all in line with the preferred resolution strategy (hereinafter: the recapitalisation amount).
- 2.2. A starting point for setting the loss-absorption amount are the regulatory capital requirements currently applied to banks (Pillar I and Pilar II), with an option of establishing a higher or a lower amount than the regular capital requirements - subject to the Agency's assessment.
- 2.3. The recapitalisation amount is equal to an amount required to meet applicable capital requirements regarding fulfillment of conditions connected to authorisation for operations

after implementation of the preferred resolution strategy and for purposes of sustaining financial market confidence.

- 2.4. The MREL requirement level is directly linked to the selected resolution strategy and instrument/-s planned to be implemented during a bank resolution.
- 2.5. In addition to having an adequate amount to absorb expected losses during the resolution process, a bank for which a resolution strategy of operational continuity was selected through application of a bail-in instrument shall continuously maintain an appropriate amount to ensure re-establishment of the own funds rate at the level sufficient enough to maintain capital requirements and thus ensure continued authorisation and uphold sufficient financial market confidence after the resolution.
- 2.6. For a bank for which a resolution strategy of ensuring continuity of key functions was selected via transfer of these functions to another bank or a bridge bank, the recapitalisation amount must be sufficient only to the extent to cover for increased capital requirements of a party receiving a portion of assets and liabilities of a bank in resolution resulting from the assumed portion of assets
- 2.7. A bank for which a resolvability assessment shows that liquidation or bankruptcy are credible and feasible, MREL shall include only the loss-absorption amount.

### 3. Setting the Loss-absorption Amount

- 3.1. When setting the loss-absorption amount, the Agency shall start with current overall regulatory capital requirements from Article 27 of the Law on Banks (Pillars I and II), as well as Article 34 of the Decision on Capital Calculation in Banks (FB&H Official Gazette Nos. 81/17, 50/19, 37/20 and 81/20), i.e. with the financial leverage ratio as per Article 37 of the Decision on Capital Calculation in Banks, whichever amount is higher.
- 3.2. The Agency shall not perform additional adjustments when setting the loss-absorption amount.
- 3.3. A total bank risk exposure on individual basis shall be used in determining the loss-absorption amount.
- 3.4. The loss-absorption amount is a product of total risk exposure of a bank and capital requirements (sum of capital amounts required to meet the minimum rates):
  - (i) regulatory capital („Pillar I“), and
  - (ii) additional capital requirements („Pillar II“).

$$\boxed{\text{Loss-absorption amount}} = \boxed{\text{RWA}} \times \left( \boxed{\text{Pillar I}} + \boxed{\text{Pillar II}} \right)$$

- 3.5. If the loss-absorption amount calculated in manner set out above is lower than the financial leverage requirement, then the amount to be considered for loss absorption shall be the amount of financial leverage requirement.

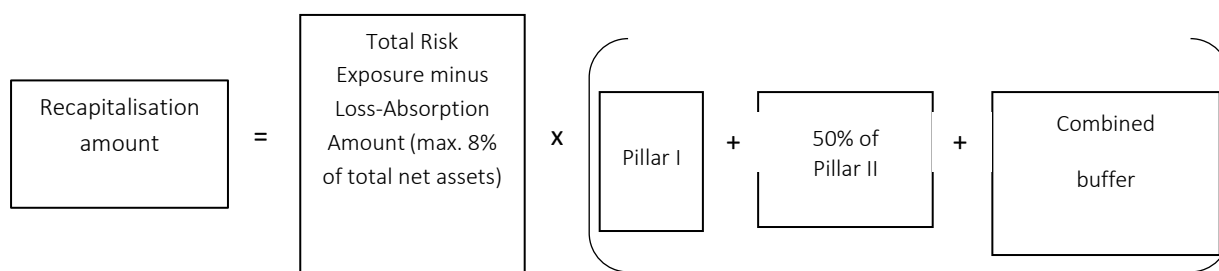
### 4. Setting the Recapitalisation Amount

- 4.1. When setting the recapitalisation amount, the Agency shall start with current overall capital requirements applicable to the bank in line with Article 27 of the Law on Banks, i.e. with the financial leverage requirement as per Article 37 of the Decision on Capital Calculation in Banks, whichever amount is higher.
- 4.2. The recapitalisation amount shall also include an amount required to sustain financial market confidence after the resolution, which is usually equal to a combined buffer requirement.

- 4.3. Setting the total risk exposure amount as a variable used in determining the recapitalisation amount depends on the preferred resolution strategy and tools planned to be implemented during a particular bank resolution.
- 4.3.1. When applying the bail-in resolution tool, determination of the recapitalisation amount shall account for total risk exposure of the bank on an individual basis.
- 4.3.2. When applying the partial transfer of assets or liabilities to an acquiring bank or a bridge bank, determination of the recapitalisation amount shall account for an estimated risk exposure amount related to the portion of assets being transferred therewith.
- 4.4. For banks where liquidation or bankruptcy is credible and feasible, the recapitalisation amount shall be equal to zero.

## 5. Adjustments to the Recapitalisation Amount

- 5.1. The Agency may adjust the bank's recapitalisation amount in relation to three segments:
- (i) capital requirements within „Pillar II“;
  - (ii) capital requirements for the combined buffer, and
  - (iii) total risk exposure of the bank after the resolution.
- 5.2. As for the capital requirements within „Pillar II“, it can be assumed that the expected general risk profile of the bank after the resolution would be much lower. Hence, in this context, the Agency may need to reduce the requested additional capital requirement within „Pillar II“ by 50% max when setting the necessary recapitalisation amount.
- 5.3. The adjustment may be performed in the segment related to the combined buffer.
- 5.4. As for the total risk exposure of the bank after resolution, the Agency may reduce the total risk exposure by the total loss absorption amount, which may not be greater than 8% of total net assets. This means that, during the process of setting the recapitalisation amount, capital requirements shall be calculated in relation to the total risk exposure minus the loss absorption amount, which may not be greater than 8% of total net assets.
- 5.5. Having made the said adjustments, the recapitalisation amount shall be determined as listed below:



- 5.6 The recapitalisation amount calculated in line with the previous item shall be compared against the amount required to meet the financial leverage requirement. Therein, a denominator of the financial leverage ratio (total exposure) shall be reduced by the total loss-absorption amount. The recapitalisation amount would be one of these two amounts, whichever is higher.

## 6. MREL for the Banking Group

- 6.1. The Agency shall set MREL for a banking group being subject to its supervision on consolidated basis.

- 6.2. MREL at the banking group level shall be determined in manner described in Items 3, 4 and 5 hereof.
- 6.3. As an exception from Item 3.3., a total risk exposure on consolidated basis shall apply when determining the loss-absorption amount.
- 6.4. As an exception from Item 4.3.1., the total risk exposure on consolidated basis shall apply when determining the recapitalisation amount, but only for those members of the group where liquidation or bankruptcy is not credible and feasible.
- 6.5. In addition to maintaining MREL on individual basis, a parent bank in a banking group shall also maintain MREL on consolidated basis for the banking group.

**7. Overall MREL Assessment**

- 7.1. An overall MREL shall consist of the sum of the loss absorption amount and the recapitalisation amount.

MREL	=	Loss-absorption amount	+	Recapitalisation amount
------	---	---------------------------	---	-------------------------

- 7.2. The Agency may increase the overall MREL if, during resolution planning, it finds it justified to exclude certain MREL-eligible liabilities from write offs or conversion, that is if such exclusion is justified by at least one of the resolution objectives (e.g. for purpose of preserving key functions or avoiding major harmful effect to the financial stability by preventing contagion, etc.).
- 7.3. The Agency shall not decrease the overall MREL subject to possible contribution from the Deposit Insurance Fund.
- 7.4. When setting MREL, subordinated and other liabilities shall be excluded from the qualifying eligible liabilities and total liabilities as they are already contained in own funds, while liabilities based on financial derivatives shall be added to the net amount since counterparty's contractual right to netting is fully observed herewith.

**8. Eligible Instruments ensuring Fulfillment of MREL**

- 8.1. MREL shall be fulfilled through instruments of own funds and eligible liabilities as per Article 204 of the Law on Banks that meet the criteria from Article 2 of the Decision on the Minimum Requirement for Own Funds and Eligible Liabilities in Banks (qualifying eligible liabilities).
- 8.2. MREL for an individual bank shall be fulfilled through own funds and qualifying eligible liabilities of the bank on an individual basis.
- 8.3. MREL for a banking group shall be met through consolidated own funds of the banking group and qualifying eligible liabilities of a parent bank of such banking group on a consolidated basis.

**9. Meeting MREL through Subordinated Debt**

- 9.1. The Agency may ask for an individual or consolidated MREL to be either fully or partially met through a subordinated debt.
- 9.2. The Agency may ask the bank to ensure either full or partial fulfillment of MREL through subordinated debt if it finds a risk that a need for qualifying eligible liabilities (meeting the conditions for MREL and not being part of the loss absorption and recapitalisation amounts) would breach a principle that no creditor shall suffer a loss in the resolution

process exceeding a loss it would have suffered if the bank was subject to a liquidation or bankruptcy proceedings

- 9.3. The Agency may also ask the bank to ensure either full or partial fulfillment of MREL through subordinated debt if it determines major resolution obstacles jeopardising implementation of the selected resolution strategy and if such obstacles may be eliminated through subordinated debt.

## **10. MREL Fulfillment Deadline**

- 10.1. Relevant MREL shall be calculated during the process of preparing and updating a resolution plan.
- 10.2. Relevant MREL shall be determined towards a particular bank through a special order. After having determined the required level of MREL, the Agency may establish a transitional period during which a bank is to meet such MREL. The transitional period shall encompass the shortest timeline possible and shall not be longer than 4 years. During this transitional period, the Agency shall define for such bank the planned MREL levels on an annual basis.
- 10.3. An integral part of the order determining MREL from Item 10.2. hereof shall include a fulfillment deadline and planned level of this requirement per each 12-month period.
- 10.4. Relevant MREL level shall be regularly reviewed and, if necessary, updated – at least as a part of a regular resolution planning.
- 10.5. Information on particular MREL level shall be delivered to the bank as a part of the summary of key elements of the resolution plan as per Article 182, Paragraph 10 of the Law on Banks.

## **11. Transitional and Final Provisions**

- 11.1. With its implementation start date, this Methodology renders ineffective the Methodology for Determining the Minimum Requirement for Own Funds and Eligible Liabilities in Banks No. 01-26/20 of 07.01.2020.
- 11.2. This Methodology enters into force on the eight day following its publication in the Official Gazette of FB&H.

**No. U.O.-74-04/22  
Sarajevo, 31.03.2022**

**CHAIRWOMAN OF THE  
MANAGEMENT BOARD**

**Ljerka Marić, M.Sc. (Econ), sgd**