HNB

Prudential Regulation and Supervision Area

REPORT ON THE IMPLEMENTATION OF THE INTERNAL CAPITAL AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

updated
November 2017

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1 GENERAL INFORMATION AND SUMMARIES

1.1 Key information

Name and head office of the credit institution	

Period covered by the report	*[1 January 20xx – 31 December 20xx]*

Date of report compilation	
Date of management approval	

Contact person(s)	
Function	
Organisational unit	
Phone, Fax and e-mail address	

Management board member responsible for the content of the report	*[Name and surname]*

Signature of the management board member_____

[*In this part of the report, the credit institution (hereinafter: CI) has to state key information on the internal capital adequacy assessment process (hereinafter: ICAAP) and the internal liquidity adequacy assessment process (hereinafter: ILAAP) which include the name of the CI, if ICAAP/ILAAP are applied on an individual basis, i.e. the name of the parent CI if ICAAP/ILAAP are applied on a consolidated basis for a group of CI in the Republic of Croatia or on a consolidated basis on a subgroup level in accordance with Article 3, paragraph (6) of the Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions (Official Gazette 20/2014 and 126//2017, hereinafter: Decision). Also, specify the period to which the data contained in this report pertain and the dates of compiling the reports and approval by the management board. At the end, provide data on the person(s) appointed for contacts with the Croatian National Bank and the signature of the person responsible for the contents of the report (management board member).*
Unless otherwise specified, all numerical amounts have to be shown in thousand HRK.]

1.2 Scope of application	
Level of application	*[Specify if it is on a consolidated basis on the level of a group of CI in the Republic of Croatia, on a consolidated basis on subgroup level in accordance with Article 3, paragraph (6) of the Decision or on an individual basis.]*
Name and head office of the members of a group of CI	*[Specify the names of the undertakings included in ICAAP/ILAAP on a consolidated basis.* *If a CI considers that an individual undertaking is not adequately included in ICAAP/ILAAP, it has to indicate such information and specify the measures and the timeframe for resolving such a situation.]*

1.3 Summaries
Risk profile and capital requirements
[Specify all significant risks to which the CI is or might be exposed and the amount of total internal capital requirements and the amount of capital requirements in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6. 2013; hereinafter: Regulation (EU) No 575/2013). Also, explain the differences between internal and own funds requirements. *Provide a summary of internal liquidity assessment, indicating the amount and key characteristics of the eligible liquidity buffer and the reasons why it is considered sufficient in relation to the risk profile of the CI.]*
[Provide a summary of the analysis of the risk profile.]
Business model and strategy
[Describe briefly the business model and the present financial condition of the CI, specifying the amount of total assets and the most important asset items, total income, total expenses and profit. *Specify any expected changes in the present business model, the expected future business environment, business plans and the projected financial condition for the following year.* *Describe briefly the link between the business strategy and ICAAP and ILAAP.]*
Governance
[Describe briefly overall governance arrangements of the CI (risk assumption, risk management and risk control in general) and the role of the management board in ICAAP/ILAAP. Specify also other key persons and organisational units involved in ICAAP/ILAAP, including their powers and responsibilities. State if risk management arrangements of the CI are adequate and if they have any deficiencies. Describe the key components of ICAAP and ILAAP (such as identification and measurement of risks, stress testing, capital and liquidity planning, structure of limits and escalation procedures in cases where the limits are exceeded. Describe the degree of ICAAP/ILAAP integration in risk management and overall governance of the credit institution. *Describe the degree of integration of solvency and liquidity stress testing and particularly ICAAP/ILAAP stress testing and the role of reverse stress testing.]*
Capital and liquidity plan
[Briefly describe capital and dividend policy planning for the next three years. Specify how the CI plans to manage capital in the future and how it will be used. Describe briefly liquidity planning and the measures which the CI plans to take to ensure that liquidity is kept on an adequate level (or that it reaches an adequate level).]
Self-assessment and planned measures for ICAAP and ILAAP improvement
[Briefly specify self-assessment of ICAAP and ILAAP adequacy, and, where applicable, specify the planned improvements and the timeframe for their implementation.

Provide internal audit report on ICAAP and ILAAP and the results of validation of the methodologies used in ICAAP and ILAAP (where applicable). *Indicate whether, based on the results of ICAAP and ILAAP, any significant changes have been planned (or were made) to strategies, risk appetite frameworks, risk management framework or business model.]*
Other information
[Provide other information and the results of ICAAP and ILAAP not covered by other parts of this report. Describe briefly the manner of data collection for the purposes of ICAAP/ILAAP, IT infrastructure used (including subsidiaries, where relevant) and, if relevant, any planned changes to the existing framework.]

2 BUSINESS MODEL AND STRATEGY

2.1 Business model and strategy
[Describe the business model, indicating core business lines, geographic concentrations, subsidiaries and key products offered by the CI, as well as main income and cost drivers by core business lines, markets and subsidiaries. *Specify any expected changes in the present business model, the expected business environment, business plans and the projected financial condition for the next year for main core business lines, markets and subsidiaries. Describe in more detail if the CI intends to make operating changes to its business (e.g. IT infrastructure).* *Describe the link between the business strategy and ICAAP and ILAAP.]*

3 GOVERNANCE

3.1 Role of the supervisory board, the management board and senior management
Organisational structure
[Provide a detailed organisational chart of CI management, indicating the boards, functions and organisational units included in ICAAP and ILAAP. The diagram of the reporting lines related to risk management and ICAAP and ILAAP may be indicated in the organisational chart or separately.]
ICAAP and ILAAP
[Describe ICAAP and ILAAP setup and their key components. *Indicate the factors that were taken into account in the definition of ICAAP and ILAAP.* *Indicate the frequency of ICAAP and ILAAP.* *Specify reports associated with ICAAP and ILAAP, their frequency and whom they are submitted to.* *State internal bylaws that define the manner of setting up ICAAP and ILAAP and indicate their status (new, unamended, slightly amended, etc.).* *State ICAAP-related powers and responsibilities.* *The Croatian National Bank will, should it deem necessary, require from a CI to provide information/records on the meetings of governing bodies and relevant boards which prove that ICAAP has been set up and implemented adequately, and in particular: the approval for the framework and key elements of ICAAP (e.g. risk measurement and assessment, internal capital, capital planning, stress testing scenarios and their assumptions and results), proof that the risks and capital situation have been discussed, proof of management actions in the event of an internal escalation procedure related to exposure/capital.* *The Croatian National Bank shall, should it deem it necessary, require from a CI to provide information/records from governing bodies' and relevant boards' meetings which prove that ILAAP has been set up and implemented adequately, and in particular: the approval for the framework and key ILAAP elements (e.g. funding plan and its feasibility, liquidity contingency planning, the assumptions and results*

of stress testing, liquidity risk and funding risk appetite, the target level and structure of liquidity reserves and their marketability in the event of crisis, etc.), proof that the liquidity risk and funding risk profile and change thereof have been discussed, proof of management actions in the event of an internal escalation procedure related to intra-day liquidity.]

Role of the management board and supervisory board

[Describe the role of the management and the supervisory board in ICAAP and ILAAP. Describe the role of the committees set up by the management and the supervisory board, which participate in ICAAP and ILAAP.
State the decisions adopted by the management and the supervisory board based on analysis of ICAAP and ILAAP-related reports.]

Role of the senior management

[Role of the senior management of the CI in ICAAP and ILAAP as regards their scope, methodologies and objectives.]

3.2 Risk assumption and management strategy

Principles of risk management

[State the most important principles of risk assumption and management and provide a list of internal bylaws in which they are specified.
Describe the process and frequency of risk management strategy and business strategy harmonization.]

Risk assumption and risk appetite

[Describe the risk assumption strategy and indicate who is responsible for its implementation.
Indicate the risk appetite – provide a quantitative measure in the form of an absolute amount of internal capital and internal capital requirements or in the form defined by the CI in its internal bylaws. Describe the framework of limit allocation within the group (if applicable).
Describe how the risk appetite framework is linked to the business strategy, ICAAP and ILAAP, i.e. capital and liquidity planning and risk management / governance on the level of a CI.
State internal bylaws that define the risk assumption strategy and indicate their status (new, unamended, slightly amended, etc.).]

3.3 Internal control system

[Describe the powers and responsibilities of control functions in ICAAP and ILAAP.]

3.4 ICAAP and ILAAP monitoring

[Describe the manner of assessment of ICAAP and ILAAP appropriateness by the internal audit and other independent audits.
Specify reports made by the internal audit and independent audits of ICAAP and ILAAP and provide a summary of key findings relating to the period covered by the report.
Specify measures taken based on the findings of the internal audit and independent audits of ICAAP and ILAAP.]

3.5 Self-assessment of ICAAP and ILAAP

[Indicate how it is organised and who is responsible for conducting self-assessment of ICAAP and ILAAP.
Describe briefly the findings of self-assessment of ICAAP and ILAAP: assessment of the ICAAP and ILAAP appropriateness, identified weaknesses and deficiencies and planned changes and improvements. Include also an assessment of ICAAP and ILAAP appropriateness taking into account the planned changes in the risk management strategy.]

4 IDENTIFICATION OF SIGNIFICANT RISKS

4.1 Risks to which a credit institution is or might be exposed
[Describe the manner and frequency of risk identification and specify and explain the factors taken into account by the CI in the process.]
[Specify all the risks to which the CI is exposed and, if applicable, own definition of each risk. A CI using the prescribed definitions of risks should indicate that fact in the table below. If the definition of risk differs from the prescribed definition, the CI has to provide an explanation of the differences in the scope and the explanation of the impact of the use of that definition on the level of capital requirements. Also, indicate if definitions of individual risks include risk subgroups. The list of risks has to include the risks prescribed by Article 7, paragraph (2) or (4) of the Decision. *Complete the table below.* *Where different ICAAP/ILAAP processes and assumptions for group entities are used, please provide their description.]*
[Describe the framework and process used to collect, keep and aggregate data across various levels of the institution, including the flow of data from subsidiaries to the group. *Describe IT systems used for collecting, keeping, storing, aggregating and distributing data on risks used in ICAAP and ILAAP.* *Indicate if checks are made of data used for ICAAP and ILAAP and the mechanisms/methods used for these checks.]*
[State internal bylaws used by the CI to define the processes for making a list of risks to which it is or might be exposed and indicate their status (new, unamended, slightly amended, etc.).]

Table 1 Risks to which a CI is or might be exposed to

Risk	Definition of the risk	Explanation of the difference in the scope of the definition and the impact of the difference on the capital requirements level
Credit risk		
Market risks		
Operational risk		
...		

4.2 Risk profile and risk significance
[Describe the approach to the identification of risk significance and specify the factors used to determine the significance of each individual risk.]
[Describe the method for the assessment of risk factors, such as rating, assessment, risk scale, weight of individual factors in the calculation, the ratio of final score and total risk significance, i.e. the meaning of individual score.]
[State significant risks and those that are not significant. *For each significant risk, indicate the assigned risk significance score, providing an explanation for that score, and indicate how that risk is treated in ICAAP. Indicate whether it is a qualitative and/or a quantitative treatment of risk in the ICAAP framework, where the quantitative treatment implies the treatment that results in internal capital requirements.* *For each risk identified as non-significant, the CI has to provide an explanation based on the assessment of the previously defined risk factors.]*
[Complete the tables below (or enter own internal table/descriptive overviews and explanations of the risk significance score and their treatment in ICAAP).]

[State internal bylaws used by the CI to determine the identification of the risk profile and risk significance and indicate their status (new, unamended, slightly amended, etc.).]

Table 2 Significant risks

Risk	Risk significance score	Explanation of risk significance score	Treatment in ICAAP	
			Qualitative (YES/NO)	Quantitative (YES/NO)
…				

Table 3 Non-significant risks

Non-significant risks	Explanation why a risk is not significant
…	

5 MANAGEMENT OF SIGNIFICANT RISKS (EACH RISK INDIVIDUALLY)

A CI has to complete this part of the report for each significant risk individually (producing as many copies of this part of the report as there are identified significant risks referred to in item 4.2 of the report). For liquidity risk, information referred to in item 5.2 has to be entered separately and information on other significant risks has to be entered in item 5.1 of this part of the report.

5.1.1 – 5.1.x Risk management [credit risk, market risks, operational risk, interest rate risk arising from non-trading activities, concentration risk …]
[Describe the organisational setup of risk management.]
[Describe the method for identifying risk appetite.]
[Describe the methodology for measuring and assessing risks and the processes for risk containment, including the implementation of limits.]
[State measures and procedures taken in the event of non-compliance with the policies and procedures in place and in the event of crisis situations.]
[State major databases set up by the CI for the purposes of risk management and provide a brief description of how they are used.]
[Indicate regular and ad-hock risk reports made for the management and supervisory board and committees and the name of organisational unit / the person that produced the reports.]
[Describe how stress testing is made (types of tests, scope, frequency, procedures and actions taken by the CI in the event of unfavourable results of stress testing). Describe the use of stress testing and its integration in risk management and control functions.]
[Describe briefly the results of self-assessment of the adequacy of risk management, governance (e.g. organisational setup, delegation of tasks, etc.) measurement/assessment methodology and the associated procedures and the internal controls system.]

[State internal bylaws for risk assumption and management and indicate their status (new, unamended, slightly amended, etc.).]

5.2 Liquidity risk and funding risk management
[Describe the framework for liquidity and funding risk management. Include also information on the scope of ILAAP and its components, how ILAAP was set up, providing an explanation of all its components. Describe the organisational setup and the scope of the tasks and responsibilities of competent organisational units for liquidity risk management.]
[Describe the method for determining liquidity risk exposure tolerance.]
[Describe the methodology for determining, measuring and monitoring funding and its management. This should include: information on measurement and assessment of liquidity flows and funding positions within a group; an explanation of the selection of significant risk drivers and a quantitative overview of those risk drivers, indicating the frequency of their updates; an overview of funding profile and an assessment of its stability by all significant currencies.] *Specify the measures and procedures taken in the event of non-compliance with the policies and procedures in place.]*
[Describe or enclose funding plans for the next three years (particularly for a period up to six months, up to one year and from one to three years), provide a description of key products, markets and investors and maturities and currencies of funding. Describe the results of the feasibility study of the funding plan execution and funding risk analysis after the execution of the funding plan. Describe the method for measuring and monitoring funding concentration risk (including an analysis of correlation of the existing funding and economic links between the existing depositors and other liquidity providers. Provide the results of the funding plan back testing.]
[Describe liquidity risk management on an intra-day level and over a short and medium term. This should include the criteria and tools used for measuring and monitoring intra-day liquidity and escalation procedures in the case of intra-day liquidity shortages. If there were cases of missed payments in the previous year, provide a specification of them, explaining major payments/obligations which the CI failed to make on time.]
[Describe the internal limits in place (e.g. structure of liquid assets and funding by type, maturity, currency and sectors / counterparties, maturity mismatch of assets and liabilities in terms of contractual maturity and maturity based on assumptions on the behaviour of positions, loan to deposit ratio, etc.) and early warning indicators.]
[Describe the allocation mechanism of liquidity costs, benefits and risks. This should include the structure and functioning of the allocation mechanism and its connection to risk management and overall management of the CI, i.e. all information which may be used to check whether the CI complies with the provisions of Article 6 of the Decision on liquidity risk management.]
[Indicate the current level of the defined liquidity buffer needed to reach the defined survival period (and a projection of its development), describe the methodology for determining the survival period and describe the possibility / manner/ timeframe for securing the funds needed for outflow financing (the assessment of the time needed for conversion into direct liquid assets, depending on the legal or operational barriers). *Describe the structure of the liquidity buffer as regards products, currencies and counterparties and the manner in which the CI manages the concentration risk in the liquidity buffer and monitors and measures potential concentration-related losses.* *Describe how assumptions related to the liquidity value of assets included in liquidity buffer are tested in terms of the time needed to sell or pledge such assets.* *Describe how encumbered assets are measured and monitored and how the level of acceptable asset encumbrance is associated with the CI's liquidity and funding risk appetite. Indicate the existing and projected level of asset encumbrance.* *Describe the difference between high-quality liquid assets and liquidity coverage capacity.* *Describe collateral management, particularly in relation to its transferability and its role in meeting minimum prudential requirements.]*

[Describe liquidity contingency planning. Describe the lines of responsibilities for the drafting, monitoring and implementing liquidity contingency plans, strategies for resolving liquidity shortages in emergency situations, the method (tools) for market conditions monitoring which ensure timely escalation or execution of measures to ensure liquidity as well as the testing procedures used by the CI (e.g. collateral pledged with the CNB, sale of assets, etc.). *Provide a copy of the existing liquidity contingency plan and information on any measures that are planned to be taken, including an assessment of their feasibility and ability to generate liquidity in different stress scenarios. Provide recent test analyses and conclusions on the feasibility of management actions included in liquidity contingency plans (including an analysis of the access to relevant markets and the overall stability of its funding profile, both on a short-term and a long-term basis).]*
[Describe how stress testing is made (scope, number of scenarios used, risk drivers, the assumptions used, the time horizon used, frequency, procedures and actions taken by the CI when stress test results are unfavourable). Provide quantitative results of stress testing, including an analysis and the impact of the results of stress testing on internal limits, liquidity buffers, risk appetite, funding profile, reporting, etc.]
[Specify major databases set up by the CI for the purposes of liquidity risk management and briefly describe how they are used.]
[Specify regular and ad-hock liquidity and funding risk reports made for the management board and supervisory board and committees and the name of organisational unit / person who made the reports.]
[Describe briefly the results of self-assessment of the adequacy of liquidity and funding risk management, governance (e.g. organisational setup, delegation of tasks, etc.) measurement/assessment methodology and the associated procedures, as well as the internal controls system.]
State internal bylaws for the assumption and management of liquidity funding risk and indicate their status (new, unamended, slightly amended, etc.).]

6 MEASUREMENT OR ASSESSMENT OF SIGNIFICANT RISKS AND THE DETERMINATION OF RELATED AMOUNTS OF INTERNAL CAPITAL REQUIREMENTS

6.1 Methodology for the assessment of internal capital requirements for credit risk
6.1.1 A CI uses the Standardised Approach or the Internal Ratings Based Approach referred to in Regulation (EU) No 575/2013
This method may be chosen only by a CI whose internal capital requirements calculation does not differ from the calculation of own funds requirements prescribed by Regulation (EU) No 575/2013 in terms of scope or the prescribed capital adequacy ratio. *A CI using the Standardised Approach for the purposes of own funds requirements may, if it proves that all the prescribed conditions have been met, for the purposes of internal capital requirements, use the Internal Ratings Based Approach.* *If the calculation of capital requirements pursuant to Regulation (EU) No 575/2013 is based on the rating provided by an external credit assessment institution or on the fact that an exposure has no rating, a CI is obligated, when calculating internal capital requirements for credit risk, to take into account other relevant information.* *[Indicate the approach chosen by the CI and explain the reason for selecting that approach.]*
[If applicable, explain the assessment of possible credit risk underestimation due to the use of the Standardised Approach.]
6.1.2 A CI has improved the approaches used in the calculation of own funds requirements referred to in Regulation (EU) No 575/2013 or uses other approaches
[Indicate the approach chosen by the CI and explain the reason for selecting that approach.]
[Provide a detailed explanation of approach modification and arguments based on data. The level of detail must be proportionate to deviation from the prescribed methodology.]
[If the modified approach covers, in addition to the basic credit risk, specific risks such as residual risks, country risk, etc., these risks have to be specified and arguments have to be provided showing how capital

requirements for each of the specified risks have been assessed and, if possible, the relevant amount of the internal capital requirements included, for each specified risk, in the amount of the internal capital requirements for credit risk, has to be specified.
However, if the CI has identified the concentration risk and currency induced credit risk as significant risks and calculated internal capital requirements for these risks, these risks should be presented separately in item 6.4 Methodology for the assessment of internal capital requirements for currency induced credit risk, i.e. in item 6.5 Methodology for the assessment of internal capital requirements for concentration risk and in the Template for the assessment of internal capital requirements adequacy.]

[If internal models are used for the calculation of internal capital requirements, describe how the CI ensures reliable results (validation concept, a description of the approach to internal validation (procedure, frequency) and the contents of validation and indicate the reference to the available results of internal validations /assessments of methodology made by an independent validation function.]

[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for credit risk and indicate their status (new, unamended, slightly amended, etc.).]

6.1.3 If the amount of internal capital requirements for credit risk includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for credit risk based on stress testing.

6.2 Methodology for the assessment of internal capital requirements for market risks

6.2.1 A CI uses the approaches referred to in Regulation (EU) No 575/2013

This method may be chosen only by a CI whose internal capital requirements calculation does not differ from the calculation prescribed by Regulation (EU) No 575/2013 neither in terms of the scope nor in terms of the prescribed capital adequacy ratio. A CI that does not apply the internal model to calculate own funds requirements may, if it proves compliance with all the prescribed conditions, for the purposes of the internal capital requirements calculation, use the internal model as prescribed by Regulation (EU) No 575/2013.
[Indicate the approach chosen by the CI and explain the reason for selecting that approach.]

A CI has to take into account the fact that internal capital requirements for significant market risks for which no capital requirements referred to in Regulation (EU) No 575/2013 are calculated have to be adequate.
A CI which has, in the calculation of capital requirements for position risk, in accordance with Part Three, Title IV, Chapter 2 of Regulation (EU) No 575/2013 netted its position in one or more equity instruments constituting an equity index with one or more positions in an equity index futures instrument or in some other equity index-based product, has to calculate and maintain adequate internal capital for the coverage of losses arising from underlying risks due to the fact that the value of a futures instrument or other product does not move fully in accordance with the value of the component equity instruments.
A CI with opposite positions in an equity index futures instrument which are not identical in terms of their maturity, composition or both, has to calculate and maintain adequate internal capital for the risk arising therefrom.
A CI using the procedure referred to in Article 345 of Regulation (EU) No 575/2013, has to calculate the internal capital requirements for the risk of loss present in the period from the origination of an obligation until the next working day.
[If applicable, explain the assessment of a possible market risks underestimation due to the use of the prescribed approach, i.e. state all market risks exposures not covered by the prescribed approach and explain in detail their impact on the assessed internal capital requirements for market risks.]

6.2.2 A CI has improved the approaches referred to in Regulation (EU) No. 575/2013

[Provide arguments explaining approach modification. If the modified approach, in addition to position, currency and commodity risks and the exceeding of large exposures, also covers additional market risks, for instance the position risk of equity instruments in the non-trading book positions, these have to be specified and arguments have to be provided explaining how capital requirements for each of the specified risks were assessed indicating, where possible, the relevant amount of internal capital requirements.
However, if the interest rate risk arising from non-trading activities is significant for the CI and the CI calculates internal capital requirements for that risk, this risk should be shown separately in item 6.6.

Methodology for the assessment of internal capital requirements for interest rate risk arising from non-trading activities and in the Template for the assessment of internal capital requirements adequacy.]
[If internal models are used for the calculation of internal capital requirements, describe how the CI ensures reliable results (validation concept, description of the approach to internal validation (procedure, frequency) and the contents of validation and indicate the reference to the available results of internal validations/ assessments of methodology made by an independent validation function.]
[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for market risks and indicate their status (new, unamended, slightly amended, etc.).]
6.2.3 If the amount of internal capital requirements for market risks includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for credit risk based on stress testing.

6.3 Methodology for the assessment of internal capital requirements for operational risk
6.3.1 A CI uses the approaches referred to in Regulation (EU) No 575/2013
This method may be chosen only by a CI whose internal capital requirements calculation does not differ from the calculation prescribed by Regulation (EU) No. 575/2013 neither in terms of the scope nor the prescribed capital adequacy ratio. A CI using the simplified approach for the purposes of own funds requirements may, if it proves that all the prescribed conditions have been met, for the purposes of internal capital requirements, use the Standardised or Advanced Measurement Approach. A CI using the Standardised Approach for the purposes of own funds requirements may, if it proves that all the prescribed conditions have been met, for the purposes of internal capital requirements, use the Advanced Measurement Approach. *[Indicate the approach chosen by the CI and explain the reason for selecting that approach.]*
[If applicable, explain the assessment of any operational risk underestimation due to the use of prescribed approaches and provide a detailed analysis of exposures not covered by these approaches.]
6.3.2 A CI has improved the approaches referred to in Regulation (EU) No 575/2013
[Provide arguments explaining approach modification (assumptions and method for the calculation). If the modified approach covers also additional exposures to operational risk, these exposures have to be specified and arguments have to be provided showing how capital requirements for these exposures have been assessed and the relevant amount of internal capital requirements has to be specified.]
[If internal models are used for the calculation of internal capital requirements, describe how the CI ensures reliable results (validation concept, description of approach to internal validation (procedure, frequency) and the contents of validation, and indicate the reference to the available results of internal validations/ assessments of methodology made by an independent validation function.]
[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for operational risk and indicate their status (new, unamended, slightly amended, etc.).]
6.3.3 If the amount of internal capital requirements for operational risk includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for operational risk based on stress testing.

6.4 Methodology for the assessment of internal capital requirements for currency induced credit risk
6.4.1 A CI uses a modification of the prescribed approaches referred to in Regulation (EU) No 575/2013
This method may be chosen a CI whose internal capital requirements calculation for credit risk does not differ from the calculation prescribed by Regulation (EU) No 575/2013, but for the purposes of calculation of internal capital requirements for currency induced credit risk it modifies the prescribed approaches by, for instance, higher risk weights in the Standardised Approach. *[Provide a description of the approach used by the CI, explain the reasons for the selection of that particular approach and, where applicable, specify higher risk weights.]*

[Explain the assessment of a possible underestimation of the currency induced credit risk due to the use of this approach.]
6.4.2 A CI uses other approaches
[Provide a detailed explanation of the approach and arguments based on data.]
[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for currency induced credit risk and indicate their status (new, unamended, slightly amended, etc.).]
6.4.3 If the amount of internal capital requirements for currency induced credit risk includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for currency induced credit risk based on stress testing.

6.5 Methodology for the assessment of internal capital requirements for concentration risk
A CI has to analyse concentration risk by taking into account as a minimum: • *each individual exposure, direct or indirect, to a single person or a group of connected persons, i.e. to the central counterparty; and* • *a group of exposures to the same economic sector.* *A CI may also analyse other factors of concentration risk, such as for instance, a group of exposures to the same geographic region and the same activity or commodity and the use of credit risk mitigation techniques, including in particular risks associated with large indirect credit exposure to a single collateral provider which may lead to losses that might jeopardise its on-going operations or lead to a significant change in its risk profile.* *[In this part, provide basic information on the analysis and measuring of concentration risk. Describe key assumptions and the method for measuring concentration risk.]*
6.5.1 A CI uses other approaches
[Provide a detailed explanation of the approach and arguments based on data.]
[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for currency induced credit risk and indicate their status (new, unamended, slightly amended, etc.).]
6.5.2 If the amount of internal capital requirements for concentration risk includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for concentration risk based on stress testing.

6.6 Methodology for the assessment of internal capital requirements for interest rate risk arising from non-trading activities
6.6.1 A CI uses the simplified approach for the calculation of the assessment of changes in the economic value of non-trading activities, prescribed by the Decision on the management of interest rate risk in the non-trading book
[The CI may, when calculating internal capital requirements for interest rate risk arising from non-trading activities, use the simplified approach for the calculation of assessment of change in the economic value of non-trading activities prescribed by the Decision on the interest rate risk in the non-trading book (OG 120/2016 and 14/2017). The CI indicates that it has selected the simplified approach and assesses a possible underestimation of the interest rate risk arising from non-trading activities due to the use of the prescribed approach.]
6.6.2 A CI uses another method for the calculation of internal capital requirements for interest rate risk arising from non-trading activities
[Explain in detail the approach to the calculation of internal capital requirements for interest rate risk arising from non-trading activities and provide arguments supporting the selection of that approach in terms of the risk profile and risk management system of the CI.]

[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for interest rate risk arising from non-trading book activities and indicate their status (new, unamended, slightly amended, etc.).]
6.6.3 If the amount of internal capital requirements for interest rate risk arising from non-trading activities includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for interest rate risk arising from non-trading activities based on stress testing.

6.7 Methodology for the assessment of internal capital requirements for other risks
6.7.1 A CI uses the simplified calculation for the assessment of internal capital requirements for other risks
A smaller CI may, instead of assessing exposure to other significant risks (not included in items 6.1 – 6.6 of this report), allocate internal capital requirements of minimum 5% of total own funds requirements. The selection of the percentage has to be argumented and prescribed by internal policies. *[The CI specifies the selected percentage and provides the arguments for its selection.]*
6.7.2 A CI uses other methods for the assessment of internal capital requirements for other risks
[Describe key assumptions and the method for measuring each of the significant other risks.]
[State internal bylaws that prescribe in detail the methodology for the assessment of internal capital requirements for each of the other significant risks and their status (new, unamended, slightly amended, etc.).]
6.7.3 If the amount of internal capital requirements for each of the other significant risks includes an assessment based on stress testing, provide a detailed description of the assumptions and the method for the calculation and indicate the amount of additional internal capital requirements for that risk based on stress testing.

6.8 Methodology for the assessment of external factors and stress testing – for the assessment of total internal capital requirements based on the results of stress testing
[Specify external factors analysed by the CI under ICAAP and how these factors are included in ICAAP.] *Describe unfavourable scenarios taken into account in ICAAP framework, providing a specification of scenario assumptions and key macroeconomic variables and a description how reverse stress testing were used for the calibration of the seriousness of the scenarios used.* *Describe how stress testing is included in ICAAP, indicating capital planning and allocation of internal capital by scenarios reported to the management body.]*
[Provide a detailed description of the stress testing framework, the methodology and models, assumptions and the scope of data used. *Specify quantitative results of stress testing and their impact in an individual year of stress on key indicators and key values, including profit/loss, exposure amount, the amount of Tier 1, Common Equity Tier 1 capital and total capital and capital ratio.* *Where applicable, specify the amount of additional internal capital requirements based on stress testing for any of the significant risks or for the assessment of total internal capital requirements.]*
[State internal bylaws that prescribe in detail the stress testing procedure and the manner in which it is included in ICAAP and their status (new, unamended, slightly amended, etc.).]

7 DETERMINING TOTAL INTERNAL CAPITAL AND CAPITAL PLANS

7.1 Methodology for the assessment of total internal capital requirements[1]
[A CI determining total internal capital requirements by summing up internal capital requirements for all significant risks has to complete the Template for the assessment of internal capital requirements adequacy. A CI using a more complex approach for the calculation of total internal capital requirements, in addition to completing the Template for the assessment of internal capital requirements adequacy, has to explain in detail the selected approach and state the reason for selecting that approach, state the amount of total internal capital requirements before and after the effect of diversification and state the internal bylaws that prescribe in detail the methodology for the assessment of total internal capital requirements. *Provide references to information on ICAAP and ILAAP made available to the public by the CI in accordance with the provisions of Article 438, item (a) of Regulation (EU) No 575/2013.]*
If a CI includes in the amount of total internal capital requirements, additional capital requirements for risks that cannot be expressed numerically, the CI should describe the manner of calculation, state the amount of additional capital requirements and explain what they relate to.

7.2 Defining the available internal capital[2]
[Complete the table given below.]
[State and explain the differences between the component parts of the available internal capital and own funds. *Specify the methodology/assumptions for the allocation of internal capital by group entities (where applicable) and the procedures for subsequent follow-up of the use of internal capital in relation to the allocated one, as well as escalation procedures.]*
[State internal bylaws that prescribe in detail the methodology for determining the available internal capital.]

[1] Article 12 of the Decision on the internal capital adequacy assessment process for credit institutions
[2] Article 11 of the Decision on the internal capital adequacy assessment process for credit institutions

Table 4 Own funds and internal available capital

No.	Item	Own funds	Internal capital
1	**TOTAL CAPITAL**		
1.1	**ORIGINAL OWN FUNDS**		
1.1.1	**COMMON EQUITY TIER 1 CAPITAL**		
1.1.1.1	Capital instruments eligible as CET1 capital		
1.1.1.2	Share premium		
1.1.1.3	Retained earnings		
1.1.1.3.1	*Previous years' retained earnings*		
1.1.1.3.1	*Profit or loss eligible*		
1.1.1.4	Accumulated other comprehensive income		
1.1.1.5	Other reserves		
1.1.1.6	Funds for general banking risk		
1.1.1.7	Transitional adjustments due to grandfathered CET1 capital instruments		
1.1.1.8	Minority interest given recognition in CET1 capital		
1.1.1.9	Transitional adjustments due to additional minority interest		
1.1.1.10	Adjustments to CET1 due to prudential filters		
1.1.1.11	(–) Goodwill		
1.1.1.12	1.4 (–) Other intangible assets		
1.1.1.13	(–) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		
1.1.1.14	(–)IRB shortfall of credit risk adjustments to expected losses		
1.1.1.15	(–) Defined benefit pension fund assets		
1.1.1.16	(–) Reciprocal cross holding in CET1 capital		
1.1.1.17	(–) Excess of deduction from AT1 items over AT1 capital		
1.1.1.18	(–) Qualifying holdings outside the financial sector which can alternatively be subject to a 1250% risk weight		
1.1.1.19	(–) Securitisation positions which can alternatively be subject to a 1250% risk weight		
1.1.1.20	(–) Free deliveries which can alternatively be subject to a 1250% risk weight		
1.1.1.21	(–) Positions in a basket for which an institution cannot determine the risk weight under the IRB Approach, and can alternatively be subject to a 1250% risk weight		
1.1.1.22	(–) Equity exposures under an internal models approach which can alternatively be subject to a 1250% risk weight		
1.1.1.23	(–) CET1 instruments of financial sector entities where the institution does not have a significant investment		
1.1.1.24	(–) Deductible deferred tax assets that rely on future profitability and arise from temporary differences		
1.1.1.25	(–) CET1 instruments of financial sector entities where the institution has a significant investment		
1.1.1.26	(–) Amount exceeding the 17.65% threshold		
1.1.1.27	Other transitional adjustments to CET1 capital		
1.1.1.28	(–) Additional deductions of CET1 capital due to Article 3 CRR		
1.1.1.29	CET 1 capital elements or deductions – other		
1.1.2	**ADDITIONAL TIER 1 CAPITAL**		
1.2	**TIER 2 CAPITAL**		

7.3 Capital plans
[Complete the table given below. *Indicate the planned absolute amount and the structure of internal capital and own funds that the CI will use to cover significant risks arising from its operations over the next three years. Compare the amount of the capital planned with the amount currently available at 31 December 20xx and explain any differences.]*
[Specify the factors taken into account by the CI in the determination of capital planning strategy. In particular, indicate if the CI has taken into account the targeted credit rating in capital planning. If so, indicate the targeted credit rating.]
[Indicate key determinants of capital planning, such as strategic objectives of the CI, the time horizon covered by the plan, capital planning procedures and the responsibility for the procedure, the manner in which the CI will meet capital requirements in the future, relevant capital-related restrictions (e.g. the effect of legislative changes or enactment of new legislation) and general contingency planning (e.g. how additional capital is obtained, business activity limitation or use of credit risk mitigation techniques) etc. Enclose with this report the adopted capital plan.]
[Specify dividend policy of the CI and subsidiaries included in the ICAAP.]

Table 5 Capital planning

CAPITAL PLANNING				
Item	**Current year**	**Current year + 1**	**Current year + 2**	**Current year + 3**
Planned own funds ratio				
Planned own funds				
Planned available internal capital				
Planned internal capital requirements				

TEMPLATE FOR THE ASSESSMENT OF INTERNAL CAPITAL REQUIREMENTS ADEQUACY

MINIMUM CAPITAL REQUIREMENTS AND ASSESSMENT OF INTERNAL CAPITAL REQUIREMENTS				
Risk	**PILLAR I**		**PILLAR II (ICAAP)**	
	Minimum capital requirements		**Methodology for the assessment of internal capital requirements**	**Internal capital requirements**
1 Credit risk				
Counterparty risk or basic credit risk				
Currency induced credit risk				
Concentration risk				
Sovereign credit risk				
Credit valuation adjustment risk				
Residual risk				
Securitisation risk				
Migration risk				
.....				
2 Market risk				
3 Interest rate risk arising from non-trading activities				
4 Operational risk				
5 Additional risk-weighted exposure amount for fixed overheads				
6 Other risks significant for a CI				
a) Strategic risk				
b) Reputational risk				
c) Business risk				
d)				
...				
7 Risk of model deficiencies				
8 Liquidity risk (funding risk)				
9 Deficiencies in internal governance on CI level				
10 Effect of external factors and results of stress testing				
11 Effects of diversification (–)				
a) within the risk				
b) between risks				
12 TOTAL OWN FUNDS/INTERNAL CAPITAL REQUIREMENTS				

8 OTHER INFORMATION

8.1 Outsourcing
[Where a CI has outsourced a phase of a process, indicate what it has outsourced and how it has done it, indicating the service provider and its compliance with the provisions of the Decision on outsourcing (OG 1/2009, 75/2009 and 2/2010).]

8.2 Inclusion in consolidated ICAAP
[If the CI is a subsidiary of a parent credit institution / EU or third country parent undertaking, describe briefly the methods and the manner of harmonizing the internal capital and internal liquidity adequacy assessment process of the CI with the process implemented by the parent credit institution / parent undertaking.]

8.3 Other:
[Provide other information and results of internal capital and internal liquidity adequacy assessment process not covered by previous parts of this report.]