Unofficial translation

BOARD OF THE BANK OF LITHUANIA
RESOLUTION No 145

of 23 November 2006

ON APPROVAL OF THE GENERAL REGULATIONS FOR THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS AND FOR THE SUPERVISORY REVIEW AND EVALUATION PROCESS

Vilnius

(*Valstybės žinios* (Official Gazette) No 143-5456, 2006)
21 October 2010, No 03-131[1] (*Valstybės žinios* (Official Gazette) No 66-2524, 2008)

Acting in observance of Article 9 of the Republic of Lithuania Law on the Bank of Lithuania ("Valstybes zinios" (Official Gazette), 1994, No. 99-1957; 2001, No. 28-890) and in implementing the requirements of Articles 22, 123, 124 and 136 and of Annexes V and XI of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (OJ 2006 L 177, p. 1) and Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (OJ 2009 L 302, p. 97), *the* ***Board of the Bank of Lithuania has r e s o l v e d:***

1. To approve:
1.1. General Regulations for the Internal Capital Adequacy Assessment Process (attached);
1.2. General Regulations for the Supervisory Review and Evaluation Process (attached).
2. To establish that the Resolution shall come into force on 1 January 2007.

Chairman of the Board   Reinoldijus Šarkinas

[1] The Resolution shall come into force on 31 December 2010.

APPROVED
by Bank of Lithuania Board
Resolution No. 145
of 23 November 2006

GENERAL REGULATIONS FOR THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

(*Valstybės žinios* (Official Gazette) No 143-5456, 2006)
21 October 2010, No 03-131[2] (Valstybės žinios (Official Gazette) No 66-2524, 2008)

I. GENERAL PROVISIONS

1. The General Regulations for the Internal Capital Adequacy Assessment Process (hereinafter – the Regulations) establish the key principles to be observed by the bank to ensure that risk assessment (management) and determination of internal capital requirement of the bank is properly organised, effective and guarantees safe and sustainable operations of the bank.

2. The Regulations have been developed in observance of the Guidelines on Supervisory Review Process under Pillar 2 issued by the Committee of European Banking Supervisors (CEBS).

3. The present Regulations regulate the bank's governance, decision-making and internal capital adequacy assessment process (hereinafter – ICAAP).

4. The present Regulations shall apply to all commercial banks and the Central Credit Union of the Republic of Lithuania (hereinafter – banks).

5. The purpose of the ICAAP is to guarantee that the effective and well-functioning mechanism for identifying the internal capital requirement is developed in each bank and approved by the bank board, irrespective of the extent and nature of the bank's business, risks assumed and operations performed by it.

II. KEY PRINCIPLES OF THE ICAAP

6. The key principles to be observed by the bank in developing and implementing its ICAAP shall be the following:

6.1. **Ensuring adequate identification of the bank's capital requirement**. The bank's ICAAP should guarantee the adequate identification of the capital requirement for covering the operating risks of the bank. The ICAAP should be incorporated in the general risk management strategy of the bank, i.e. it should be the component part of the governance policies of the bank.

6.2. **The ICAAP should be incorporated in the governance of the bank.** ICAAP should be the integral part of the bank's governance and decision-making process.

6.3. **The ICAAP should be proportionate to the bank's business**. The development and implementation of the bank's ICAAP should be carried out with due regard to the extent and nature of the bank's business, risks assumed and operations performed by it. Additionally, the ICAAP should be implemented at the individual level as well as at the level of consolidated financial group of the bank.

6.4. **Responsibility of the bank's management bodies.** The bank's management shall be responsible for the development and implementation, ongoing application and further improvement of the ICAAP. The sharing of responsibility between the management bodies of the bank shall be clear, consistent and properly documented.

6.5. **Assessment of risks.** The ICAAP should assess all types of risks faced by the bank, paying particular attention to the risks which the bank considers material.

[2] The Resolution shall come into force on 31 December 2010.

6.6. **Implementation procedures and ongoing internal review.** The bank's management bodies should guarantee:

6.6.1. that all staff engaged in the ICAAP are involved in the implementation of the bank's ICAAP and ongoing functioning procedures;

6.6.2. regular review and updates of the ICAAP and of the risk management policies and procedures incorporated in this process.

III. BANK MANAGEMENT

7. ICAAP shall be part of the bank's governance. For the purpose of these Regulations the bank's management bodies shall have the meaning assigned to them by the Republic of Lithuania Law on Banks ("Valstybes žinios" (Official Gazette), 2004, No. 54-1832). The bank's management bodies shall be responsible for the internal governance of the bank and for the decision-making process, the function of control and management in the bank and implementation of strategies and policies established by the bank.

8. The corporate structure of the bank shall satisfy the following provisions:

8.1. the bank should have a corporate structure organised in a way that promotes and demonstrates the effective and prudent management of the bank both on a solo basis and at group level. The corporate structure of the bank should be transparent both to the bank's own staff and to the Bank of Lithuania and should be conductive to the supervisory oversight of the bank;

8.2. the reporting lines and the allocation of responsibilities and authority within the bank should be clear, precise, well-defined, transparent, coherent, and enforced;

8.3. guarantee the organisation of the risk management function in a way that facilitates the implementation of the tasks established under the business risk strategy and effective management of risks faced by the bank.

9. The management bodies of the bank should:

9.1. systematically and regularly (at least once a year) review the strategies and policies for managing the risks of the bank and ensure effective and regular functioning thereof;

9.2. guarantee the communication of the bank's business strategies and policies are communicated to all staff involved in the ICAAP;

9.3. assume responsibility for the development and maintenance of the effective system of internal control within the bank;

9.4. ensure that internal control systems provide for adequate segregation of duties in order to prevent the conflicts of interest;

9.5. monitor and periodically assess the effectiveness of the bank's internal governance structure;

9.6. be active and independent, and able to explain its decisions to the Bank of Lithuania and other interested parties;

9.7. in place the staff selection, compensation and planning policies;

9.8. promote high ethical and professional standards and an internal control culture.

10. The internal control system shall be part of the bank's governance. The internal control of the bank should be organised in a way that is consistent with the Regulations and requirements of legal acts of the Bank of Lithuania regulating the organisation of internal control and internal audit:

10.1. The internal control of the bank should be effective. To this end the following three primary functions should be implemented in the bank: risk control function, compliance function and internal audit function;

10.2. the bank should have in place effective and reliable management information systems covering all significant activities of the bank;

10.3. the system of internal control should cover the appropriate internal alert procedures and communicate the bank's internal governance concerns.

11. The bank's governance shall be related with the public disclosure and transparency of the bank's information, the bank's management bodies should guarantee the provision of information established by other legal acts of the Bank of Lithuania.

IV. DEVELOPMENT AND IMPLEMENTATION OF THE ICAAP

12. The ICAAP shall be developed and implemented both on a solo basis and at consolidated bank's financial group level, when:

12.1. the bank is a parent bank which together with its financial group is bound by requirements established by laws of the Republic of Lithuania and legal acts of the Bank of Lithuania on consolidated supervision. In such case the parent bank shall be held liable for the development and implementation of the ICAAP at group level;

12.2. the bank is a controlled bank whose parent bank is bound by requirements established by laws of the Republic of Lithuania and legal acts of the Bank of Lithuania on consolidated supervision. In such case the ICAAP shall be developed and implemented both, by the parent and the controlling bank.

13. With a view to ensuring the adequate development and implementation of the ICAAP, before the development of its ICAAP, the bank should perform the self-assessment. During the self-assessment the bank should identify the risks characteristic for its activities, carry out the assessment of such risks having selected the assessment methods and determine the mechanisms to be used for managing such risks.

14. For self-assessment purposes the bank shall select on its own discretion the assessment methodology, assessment indicators and assumptions for determining the extent of operating risks, however, it shall be recommended to take into consideration the following general aspects of the bank's activities:

14.1. extent of the bank's activities and market share occupied in Lithuania;

14.2. complexity of activities carried out (operations performed) by the bank;

14.3. risk level of activities carried out (operations performed) by the bank;

14.4. activities carries out (operations performed) by the bank at the international level.

15. In addition to the general aspects of business listed in item 14 above, the bank may also have the specific risk assessment measure which reflects the specific situation of the bank. Such measures should be integrated in the general risk management process of the bank.

16. The may use the specific risk assessment measures for assessing the following types of risks:

16.1. credit risk;

16.2. market risk;

16.3. operational risk;

16.4. interest rate risk arising from the Trading Book;

16.5. concentration risk;

16.6. equity risk arising from the Banking Book;

16.7. residual risk;

16.8. liquidity risk;

16.9. other material risks.

17. The bank's ICAAP may not be separated from other processes taking place in the bank and should be strategic and current.

18. Having decided to discontinue certain activities the risk assessment whereof is covered by the ICAAP and to outsource such services, the bank must ensure that:

18.1. the responsibility of the bank's management bodies with regard to the development, implementation and further improvement of the ICAAP will not be transferred;

18.2. there will be no barriers for the application of the ICAAP to outsourcing;

18.3. the outsourcing will not prevent the Bank of Lithuania from performing its supervisory function;

18.4. the outsourcing will conform to other requirements of the Bank of Lithuania regulating the outsourcing of services supplementary to the activities of the Bank of Lithuania.

19. The bank's ICAAP should be developed with due regard to the principles of transparency and comprehensiveness. The process should be fully documented at all levels of the bank's corporate structure.

20. The bank's management bodies shall be responsible for ensuring that the bank staff which is in charge of the implementation, application and updating of the ICAAP gets familiarised with the ICAAP according to its competence.

V. ICAAP COMPONENTS

21. The key element of the ICAAP shall be the risk management strategy of the bank aimed at guaranteeing that capital requirement adequately covers the bank's risks. This strategy should be documented and approved by management bodies of the bank, and its extent and level of detail should depend upon complexity of the corporate structure of the bank and upon the assumed risk profile. The strategy should incorporate the following elements:

21.1. **risk management policy:**

21.1.1. Risk management policy should cover all key principles on the basis of which the bank manages separate risks. The management bodies of the bank shall establish the key principles of the risk management policy, carry out their periodic review, supplement or revoke them. These principles should be communicated to the staff involved in the ICAAP. Risk management policies should cover the following aspects:

21.1.1.1. the bank's risk management should be based on the best risk management practices of similar institutions;

21.1.1.2. where the situation is obscure or any doubts arise as to the adequacy of risk management, the bank should be guided by the principles of cautiousness, conservatism and prudence;

21.1.1.3. the bank's risk management should be organised in a way which precludes the conflicts of interest of staff and business units;

21.1.1.4. obligation of the bank's management bodies and staff to take decisions and observe these principles in their day-to-day business;

21.1.1.5. new types of activities or products shall be incorporated in the bank's business only having assessed their risks;

21.2. risk profile:

21.2.1. The bank must define its own risk profile. The risk profile should be understood as the risks unacceptable to the bank inherent in separate activities or in products. The definition of the risk profile should serve the basis for determining consistent limits for risk mitigation, if they will be used for risk management purposes. It is recommended to take into account the following aspects when determining the risk profile:

21.2.1.1. amount of risk the bank is willing to assume (in consideration of risk effects on the bank's revenues);

21.2.1.2. capital planning, i.e. how much capital will be required to cover the risk (in consideration of separate (specific) types of risk).

21.2.2. The capital planning should clearly reflect the current capital requirement of the bank necessary to cover the risk, planned use of capital and expected capital level in consideration of additional risk intended to be assumed. Additionally, the bank should disclose future internal and external sources of capital, if the assumption of additional risk will cause the need to increase the capital. The capital planning should be carried out in observance of the cyclic nature of economy (or individual markets) (in particular for covering the credit risk);

21.3. risk structure (actual /planned);

21.3.1. In consideration of its own level of acceptable risk determined by the bank according to subitem 21.2, the bank should disclose in clear manner the actual (current) structure of risk.

21.3.2. Additionally, the bank shall disclose planned changes in the structure of risks (planned risks) clearly linked with the strategic planning of the bank's activities and established strategic tasks (structural changes of business).

21.3.3. The level and structure of the bank's risk shall be linked with the limits for risk mitigation which should be specified by the bank disclosing:

21.3.3.1. overall risk profile assumed in the bank;

21.3.3.2. limits applicable to assess the overall risk profile assumed by the bank and planned strategic changes in the risk structure;

21.3.3.3. allocation of limits to individual risk categories and business lines;

21.3.3.4. approval and adjustment procedures for limits on individual risk categories;

21.3.3.5. procedures of control over observance of limits.

21.4. risk management:

21.4.1. The main risk management requirements should be defined in the bank's strategy for managing the risks of its activities and should incorporate the following aspects:

21.4.1.1. corporate risk management structure, processes of risk management and control;

21.4.1.2. segregation of responsibility and organisation of reporting;

21.4.1.3. internal control and internal audit procedures;

21.4.1.4. compliance with requirements of legal acts;

21.4.1.5. requirements for the bank staff related with risk management.

22. **The bank's ICAAP should incorporate explicit classification of risk incurred by the bank and assessment process of all risks. Additionally, the bank's ICAAP should demonstrate the bank's ability to carry out the overall assessment of risks and to assess separate risks.** For the purpose of classifying the incurred risk, during the ICAAP the bank shall assess the risk as a possible negative divergence from expected (planned) outcomes. When classifying the risk the bank should primarily assess material types of risks followed by potential risk types which the bank is likely to incur. The bank may use the following standard risk classification and classify the risk on the basis of capital requirement calculated to cover it, i.e. risk which by virtue of legal acts of the Bank of Lithuania regulating the calculation of capital adequacy is subject to the calculation of the full capital adequacy requirement, risk subject to the calculation of not full capital adequacy requirement and other risk:

22.1.1. Fully risk-based approach to the calculation of capital adequacy requirement in observance of legal acts of the Bank of Lithuania regulating the calculation of capital adequacy:

22.1.1.1. Credit risk;

22.1.1.2. Trading Book risk:

22.1.1.2.1. Market risk:

22.1.1.2.1.1. Foreign exchange risk;

22.1.1.2.1.2. Exposure risk:

22.1.1.2.1.2.1. Debt instruments risk;

22.1.1.2.1.2.2. Equity risk;

22.1.1.2.1.3. Commodity risk;

22.1.1.2.2. Settlement and counterparty risk;

22.1.1.2.3. Trading Book risk of large exposures;

22.1.1.3. Operational risk;

22.1.2. Not fully risk-based approach to the calculation of capital adequacy requirement in observance of legal acts of the Bank of Lithuania regulating the calculation of capital adequacy:

22.1.2.1. Residual risk of securitisation;

22.1.2.2. Residual risk of credit risk mitigation mechanisms;

22.1.3. Other risk:

22.1.4. Interest rate risk arising from the Banking Book;

22.1.5. Equity risk of the Banking Book (if the method used is other than IRB);

22.1.6. Concentration risk;

22.1.6.1. concentration risk inside other risk types;

22.1.6.2. concentration risk between different risk types;

22.1.7. Liquidity risk;

22.1.8. Other material risk:

22.1.8.1. Strategic risk;

22.1.8.2. Reputation risk;

22.1.8.3. Revenue risk;

22.1.8.4. Compliance risk.

23. In observance of the principle of proportionality, the bank may use other risk classifications, however, its ICAAP should prove that risk classification used by the bank is sufficient and embraces all types of risk relevant to the bank. The bank shall have in place written policies to address each significant risk and calculate additional capital requirements.

24. **Credit risk.** The bank should have in place methodologies facilitating proper assessment of credit risk relating both, to borrowers and the entire portfolio. For risk evaluation and capital requirement identification purposes, the bank may apply techniques referred to in the General Regulations for the Calculation of Capital Adequacy. However, where credit assessment is carries out using the standardised method, the bank's credit assessment policy should assess the possible deficiency of capital requirement resulting from the application of such method and establish the requirements for the calculation of additional capital.

25. **Market risk.** The ICAAP should incorporate and implement the market risk management policies and processes aimed at identifying and managing of all material sources and effect of market risk. Market risk management should address and evaluate market risk identified in the Trading Book. For the purpose of evaluating the Trading Book's market risk, the bank may apply the standardised approach established in the General Regulations for the Calculation of Capital Adequacy. However, banks with large exposures of the Trading Book, highly diversified trading portfolio and complex trading instruments used for market risk management purposes should address such risk through more sophisticated methods, i.e. internal models.

26. **Operational risk.** The bank shall implement policies and procedures to evaluate and manage the exposure to operational risk. The bank shall articulate in clear manner what constitutes operational risk for the purpose of such policies. Additionally, the bank should prepare business continuity plans aimed at ensuring uninterrupted operation of the credit institution and to limit losses resulting from inadequate or failed operations. For the purpose of assessing the operational risk the banks may apply the standardised approach established in the General Regulations for the Calculation of Capital Adequacy. However, where the operational risk is evaluated using the basic indicator method, the bank's operational risk evaluation policies should assess the possible deficiency of capital requirement resulting from the application of such method and establish requirements for the calculation of additional capital.

27. **Residual risk.** Residual risk arising from securitisation transactions in relation to which the bank is originator or sponsor, shall be evaluated and addressed through appropriate policies and procedures to ensure in particular that the economic substance of the transaction is fully reflected in the risk assessment and management decisions. Liquidity plans to address the implications of both scheduled and early amortisation shall be developed by banks which are originators of revolving securitisation transactions involving early amortisation provision. Additionally, the bank shall assess the risk that recognised credit risk mitigation techniques used by it proves less effective than expected. The bank shall have in place written policies to assess such risk and procedures to calculate additional capital requirement.

28. **Interest rate risk arising from the Banking Book**. The bank shall implement systems to evaluate and manage the risk arising from potential changes in interest rates as they affect the bank's non-trading activities (Banking Book). To this end the bank may apply methods based on present value of the Banking Book exposures and its impact on future revenues of the bank. The bank should additionally employ stress testing scenarios based on statistical observations. In any case, assessment of interest rate identified in the Banking Book shall be carried out in consideration of the following aspects:

28.1. the bank shall furnish the Bank of Lithuania with sufficient evidence confirming that it uses risk evaluation techniques which guarantee proper assessment of interest rate changes and their effects on bank revenues and asset value and facilitate in adequately determining the capital requirement for credit risk;

28.2. the bank should be able to furnish the Bank of Lithuania with its business plans and with a list of measures to be taken to ensure business continuity, if the bank's capital declines by more than 20% as a result of a sudden change in interest rates the size of which shall be prescribed by the Bank of Lithuania.

29. **Equity risk of the Banking Book.** Prior to selecting evaluation techniques for such risks, the bank shall assess the significance of such exposures to the bank.

30. Concentration risk. The Bank must have in place the policy for management of concentration risk in observance of provisions set forth in Chapter VIII of the Regulations for the Organisation of Internal Control and Risk Assessment (Management) approved by Resolution No 149 of the Board of the Bank of Lithuania of 25 September 2008 (Valstybės žinios (Official Gazette) No 127-4888, 2008; No 114-5871, 2010). ICAAP shall cover the assessment of effectiveness of the management of concentration risk in the bank.

31. Liquidity risk. The bank shall have in place effective system for management of liquidity risk covering liquidity risk management strategy, liquidity risk management policy, acceptable liquidity risk limits, liquidity risk mitigants, other measures, procedures and processes of management of such risk The liquidity risk management strategy shall be consistent with the general operating risk management strategy of the bank and proportionate to the type and complexity of operation of the bank.

31^1. Identification, assessment and management of liquidity risk during ICAAP shall be based on the liquidity risk management policy approved in the bank, properly regulated and organised in consideration of the following aspects:

31^1.1. the bank shall maintain at all times adequate liquidity by forming liquidity buffer and establishing the counterbalancing capacity. The formation of liquidity buffer and establishment of the counterbalancing capacity shall be forecasted, planned and maintained over an appropriate set of short- and long-term time horizons to guarantee adequate daily level tailored to the developments in operations of the bank;

31^1.2. the adequate liquidity level shall be guaranteed through all main business lines of the bank, business entities, currencies, other aspects of bank activities considered significant by the bank, calculating related costs and creating appropriate system of their allocation and assessing the impact of such costs on the bank's performance;

31^1.3. adequate level of liquidity shall be guaranteed assessing all significant current and projected cash flows (cash inflows and outflows) related with contractual changes in assets and liabilities, as well as cash flows (cash inflows and outflows) arising from the off-balance-sheet items. Assessing cash flows (cash inflows and outflows) the bank shall also take into consideration other factors that are likely to impact these cash flows, i.e. changes in strategic, reputation, equity, compliance and other material risks;

31^1.4. assessing cash flows (cash inflows and outflows), in particular under stress conditions, the bank shall take into consideration and evaluate the qualities of assets (ability to generate liquid assets) distinguishing for that purpose between pledged and unencumbered assets. Assessing the ability of assets to generate cash flows (cash inflows and outflows) the bank shall consider reliability of counterparties, possible legal, regulatory and operational

limitations to the use of such assets. If the assets are in foreign countries the bank shall consider economic and political risks of these countries;

31[1].5. adequate liquidity level shall be ensured projecting cash flows (cash inflows and outflows) under stressed conditions (through stress-testing). the stress-testing shall cover three types of scenarios – specific scenario of stressed conditions, market-wide and combination of the two considering different time horizons and varying degrees of stressed conditions. The bank shall adjust its strategies, internal policies and limits on liquidity risk and develop effective contingency plans, setting out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, taking into account the outcome of the alternative scenarios. Those plans shall be regularly tested and updated according to the procedure established in the liquidity risk management policy.

32. **Other material risks.** Responsibility for identifying, classifying, evaluating and monitoring other significant risk incurred by the bank shall rest upon the bank itself, because significance of such risk faces by banks may be different. Such risk shall be identified through self-assessment referred to in item 13 above. The bank's self-assessment shall address the following types of risk and their significance to the bank:

32.1.1. strategic risk, i.e. risk arising from external and internal factors of the bank's environment which are likely to have adverse effects on the implementation of the bank's objectives, consistency and continuity of its activities due to wrong or missing evaluation;

32.1.2. reputation risk, i.e. explicit or implicit risk which is likely to have adverse effects on the bank's revenues and (or) capital due to unfavourable opinion about reputation of the financial institution among customers, counterparties, shareholders and investors **(this risk may be evaluated by the bank as a subcategory of operational risk)**;

32.1.3. revenue risk, i.e. risk arising from ineffective activities (governance) of the bank, failure to properly diversify revenue-generating asses and guarantee adequate and long-term profitability level of the bank;

32.1.4. compliance risk, i.e. risk arising from incompliance of the bank's the internal regulations or activities with laws and other legal acts of the Republic of Lithuania **(this risk may be evaluated by the bank as a subcategory of operational risk)**.

32.2. For the purpose of covering other significant risk, the bank shall establish the adequate additional capital requirement or use other qualitative internal risk management techniques the efficiency of application whereof must be proved to the satisfaction of the Bank of Lithuania. When in the opinion of the Bank of Lithuania, the capital requirement established by the bank is inadequate or that risk mechanisms employed by the bank and ineffective and do not cover other risks, the Bank of Lithuania shall have the right to impose additional capital requirements on the bank.

33. The ICAAP shall cover stress-testing performed by the bank. The bank shall apply different testing scenarios to determine the accuracy of both, capital requirement for separate types of risk and for managing the general risk incurred by the bank. In observance of stress-testing results the bank must develop contingency plans to deal with business continuity crises.

VI. AGGREGATION OF RISKS DURING ICAAP

34. Having identified the types of risks incurred, the bank shall choose and define the manner in which each risk will be incorporated in the bank's ICAAP. To this end the bank shall identify and disclose in clear manner the risks which will be significant to it and included in the ICAAP, and those which it deems insignificant. In addition, the bank shall define its selected methods for managing the types of significant risks being incorporated in the ICAAP. The bank may use this scheme or develop its own scheme, if composition of its risk and its risk assessment and management criteria are different:

Risk category	Risk subcategory	Risk profile (very high, high, medium, low,	Risk description and evidence when	Risk evaluation procedure applied	Capital requirement

		insignificant)	insignificant	(standard, internal models, etc.)	
Credit risk					
Market risk					
	Foreign exchange risk				
	Exposure risk				
	Risk of debt instruments				
	Equity risk				
	commodity risk				
	Settlement and counterparty risk				
	Large exposure risk arising from the Trading Book				
Operational risk					
	Securitisation risk				
	Residual risk of credit risk mitigation mechanisms				
Interest rate risk arising from the Banking Book					
Equity risk arising from the Banking Book					
Concentration risk					
Liquidity risk					
Other significant risk					
	Strategic risk				
	Revenue risk				
	Reputation risk				
	Compliance risk				

35. Having identified individual types of risk incorporated in its ICAAP, the bank shall consolidate them in order to **evaluate general risks incurred by it and to determine overall capital number to cover the general risks of its activities (ICAAP outcome).** The types of risks may be aggregated at the individual level and at consolidated level of the bank's financial group, where necessary under provisions of item 12 above.

36. Aggregating different types of risk at the individual level shall depend upon risk evaluation method selected by the bank:

36.1. if the bank uses standard risk evaluation methods, the types of risk shall be aggregated and capital requirement shall be calculated by summing up calculated amounts of capital requirement (credit, market and operations risks) and adding to them capital requirement calculated for covering other types of risk;

36.2. if the bank uses risk assessment methods which enable to evaluate several types of risks at one time, e.g., VaR approach, different types of risk shall be aggregated relying on certain assumptions, i.e. applying the same probability factors and holding period to all types of risks being assessed. Analogous assumptions shall be made when the bank assesses its risk according to IRB methods.

37. The bank shall prove to the satisfaction of the Bank of Lithuania that its types of risk have been aggregated correctly.

38. Additionally, the bank may use a mixture of models to aggregate the types of its risks, if it lacks data necessary for the application of more sophisticated methods of assessment of certain risks.

39. When aggregating different risks the bank shall disclose the interdependence and correlation between such risk types and assess risks in observance of the principle of conservatism.

40. When aggregating the types of risks at the group level, the bank shall in the first instance disclose types of risks material to the group and methods of assessment of such risks. Subsequent combination of risk types shall be carries out in observance of the same principles which apply to aggregate individual types of risks.

VII. FINAL PROVISIONS

41. The bank shall guarantee timely submission to the bank of Lithuania of the information about its ICAAP, which is necessary for the supervisory review and assessment of the bank.

42. Information about ICAAP of the bank shall be furnished to the Bank of Lithuania within 3 months of the end of the financial year. The bank shall notify the Bank of Lithuania in written about material changes of ICAAP within 10 business days of approval of such changes.

43. The bank shall notify the Bank of Lithuania in written about material changes of ICAAP introduced after the supervisory review and evaluation.