



# **ICAAP Submission Template**

**NOVEMBER 2019**



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## 1. Introduction

- I. The Bank is responsible for evaluating how well licensees are assessing their capital needs relative to their risks and therefore requires that the internal capital adequacy assessment process (ICAAP) be shared with the Bank. However, the Bank does not intend to make a licensee's ICAAP subject to specific approval.
- II. This template serves only as a guide to licensees in developing the ICAAP document for submission to the Bank. It is not the required format, but licensees must ensure that the ICAAP document addresses all elements.
- III. The ICAAP document must be approved by the Board prior to submission to the Bank.
- IV. Any supplementary documents, such as risk management policies, forecasts or contingency plans, may be appended to the document.
- V. Licensees are expected to submit ICAAP documents at the end of the first quarter of each calendar year, based on the portfolio as at the end of the calendar quarter.
- VI. The template is comprised of the following elements:
  - a. Executive Summary
  - b. Background on ICAAP
  - c. Statement of Risk Appetite
  - d. Material Risks
  - e. Capital Planning
  - f. Scenario Analysis and Stress Testing
  - g. Risk Management
  - h. Challenge and Approval Process

## 2. Executive Summary

The executive summary should discuss the following:

- The purpose of the ICAAP;
- The companies in the group to which the ICAAP applies, and confirmation that the ICAAP covers the consolidated operations from the top-level regulated entity in Barbados, including the risks of its foreign operations;



- For licensees which are subsidiaries of larger international banking groups, confirmation that the process resulted in a capital level that was assessed as adequate to the local institution and reflect its own circumstances, and that group-wide data and methodologies were appropriately adapted to yield internal capital targets and a capital plan that is relevant to the institution incorporated in the country;
- Commentary on the most material risks faced by the institution, why the level of risk is acceptable or, if it is not, what mitigating actions are planned;
- Summary of the main findings of the ICAAP analysis, including:
  - the level and composition of internal capital the licensee thinks it should hold, and a comparison of this to the regulatory capital requirement under the “Pillar 1” calculation (please complete the table in Appendix 1 for comparison of the components within the institution’s Pillar 1 capital and its ICAAP assessment of capital required for the individual risks),
  - the adequacy of the institution’s risk management processes,
  - whether the institution has adequate capital resources over its planning horizon, and
  - a summary of the target capital metrics ratified by the Board covering, at a minimum, Tier I Ratio and Total Capital Ratio.
  - A brief description of the Bank’s capital needs, anticipated capital expenditures, external capital sources and dividend policy.
- Summary of the financial position of the institution, its business strategy, balance sheet structure and projected profitability; and
- Description of the review, challenge and approval process of the ICAAP.

### **3. Background of the ICAAP**

This section should provide a high level overview of the institution’s ICAAP, pulling together the institution’s risk management framework, business planning and capital management. The overview should cover relevant policies and systems used by the institution to identify, manage and monitor its risks according to its risk appetite.

### **4. Risk Appetite Statement (RAS)**

This section should provide a high level overview of the institution’s risk appetite and set out the frequency of review of risk limits by management and the Board.

The RAS is the written articulation of the aggregate level and types of risk that a bank will accept, or avoid, in order to achieve its business objectives. It includes quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other relevant measures as appropriate. It should also include qualitative statements to



address reputation and conduct risks as well as money laundering and unethical practices<sup>1</sup>.

## 5. Material Risks

This section should provide a concise description of the institution's risk identification process and outline how the institution identifies material risk areas. Key risks that must be considered as part of an ICAAP are:

- Credit risk
- Market risk
- Operational risk
- Interest rate risk in banking book
- Credit concentration risk
- Counterparty credit risk
- Residual risk
- Funding risk/Liquidity risk
- Business and strategic risk
- Reputation risk
- Securitization risk
- Any other risks identified

In a separate appendix (include as Appendix 2 to your ICAAP submission), please provide further detail on the institution's risk assessment and quantification methodology, including:

- How the institution defines each of the key risks listed above and any others considered key based on the institution's risk profile;
- How the institution determines the materiality of each key risk; and
- A description of how each material risk is then quantified for capital allocation purpose, including detailed methodology to specify data, assumptions and calculations.

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<sup>1</sup> BCBS (2015), Corporate governance principles for banks (See 'Glossary') and; Financial Stability Board (FSB), Principles for an effective risk appetite framework, November 2013.



## 6. Capital Planning

On evidencing the full implementation of the capital planning, this section should include:

- An institution's "baseline" capital forecasts (with at least quarterly projections, based on annual business plan);
- A 3-year summary forecast capital position;
- A description of the institution's capital planning and management process, including an outline of how ICAAP is incorporated into this process.
- Description of the current conclusions from capital planning such as planned issuances of various capital instruments, other capital measures (e.g. dividend policy) and planned changes to the balance sheet (e.g. sales of portfolios etc.).

On internal capital definition and the capital allocation used within ICAAP institutions should include:

- Definition of the internal capital used to cover ICAAP capital estimates, including all the capital elements/instruments considered; and the amount of internal capital available to date, broken down by various elements considered;
- Description of the main differences between internal capital elements/instruments and regulatory own funds instruments, where appropriate; and
- Description of the methodology and assumptions used for the allocation of internal capital to group entities, and of the core business lines and markets, where appropriate; and the actual amounts of the internal capital allocated to risks covered by ICAAP and group entities, and core business lines and markets, where relevant.

## 7. Scenario Analysis and Sensitivity Testing

This section should provide a concise description of how the institution's stress testing program is used to support capital adequacy assessment and management.

Licensees must stress test all material portfolios and significant risks identified. Licensees must develop their own scenarios so that stress tests covering all its major risks and material portfolios are reported.



On the stress tests applied for ICAAP purposes, including on capital planning and allocation of internal capital under the different scenarios, licensees should provide:

- Description of adverse scenarios considered under ICAAP, including specification of the scenario assumptions and key macroeconomic variables, and the description of how reverse stress tests have been used to calibrate the severity of scenarios used (if applicable); and
- Description of key assumptions used in the scenarios considered, including management actions, business assumptions regarding balance sheet, reference dates and, time horizons.

To evidence the implementation of ICAAP stress tests and their outcomes, licensees should provide:

- Quantitative outcome of the scenarios considered and impact on key metrics, including Profit and Loss and capital, both internal and regulatory own funds, and prudential ratios, as well as, in integrated approaches, the impact on the liquidity position; and
- Explanation of how the scenario outcomes are relevant to the institution's business model, strategy, material risks and group entities covered by ICAAP.

## **8. Risk Management and the ICAAP**

This section should:

- Summarize how the ICAAP has been used by the institution and how it is embedded in the decision making process;
- Describe how ICAAP results have been integrated into risk limits setting and monitoring; and
- Describe how the ICAAP results are reported to the Board.

## **9. Challenge and Approval Process**

This section should:

- Summarize the extent of challenge and testing of the ICAAP and the control processes applied to the ICAAP calculations;
- Outline the Board and senior management sign-off procedures;
- Identify the nature of any independent review of the ICAAP (append any reports generated); and
- Identify any plans to enhance the ICAAP going forward.



**ICAAP Submission Template  
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**Appendix 1**

	<b>Minimum Regulatory Capital under Pillar I</b>	<b>Licensee Assessment of Capital Required for the Risk under the ICAAP</b>	<b>Methodology<sup>2</sup> (Refer to Appendix 2)</b>
	<b>Based on 8% minimum</b>		
	<b>Barbados dollars</b>		
Credit risk <sup>3</sup>			
Market risk <sup>3</sup>			
Operational risk <sup>3</sup>			
<b>Total Pillar I</b>			
Pillar II risk x <sup>4</sup>			
Pillar II risk y			
Pillar II risk z			
<b>Total Pillar II</b>			
Additional capital to cover stress testing			
Additional Capital to arrive at Target Capital			
<b>ICAAP Capital</b>			

	<b>Barbados dollars</b>
Current total capital <sup>5</sup>	
Surplus/Deficit <sup>6</sup>	

	<b>%</b>
Target ratio for total capital	
Target ratio for Tier I capital	

<sup>2</sup> Please provide reference to Appendix 2 which should outline how each material risk is quantified for capital allocation purposes, including detailed methodology to specify data, assumptions and calculations.

<sup>3</sup> Where applicable, for each risk type, please provide a brief explanation of the difference between calculations using the regulatory methodologies and ICAAP calculations.

<sup>4</sup> Where applicable, please add rows as needed for other risks considered in ICAAP.

<sup>5</sup> Please provide definition of current available capital used in ICAAP analysis if it is other than regulatory capital (e.g. common equity, retained earnings, etc.).

<sup>6</sup> As compared to ICAAP capital.