

## Appraisal of Banks Regarding the OP8.30 Criteria

According to Operational Policy 8.30, the Bank normally requires that all banks wishing to participate in a Bank operation be viable financial institutions. This means that an interested bank should be able to meet the established eligibility criteria in order to become a participating financial institution (PFI). Once qualified, a PFI should be expected to continue to meet the eligibility criteria at all times.

### Eligibility Criteria for PFIs

Eligibility criteria for PFIs follow principles recommended by the OP8.30. These include:

1. The bank must be *duly licensed* and at least two years in operation.
2. The bank's owners and managers must be considered "*fit and proper*". It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
3. The bank must be in "*good standing*" with its supervisory authority (i.e., it should meet all pertinent prudential and other applicable laws and regulations) and remain in compliance at all times.
4. The bank must have well defined policies and written procedures for *management of all types of financial risks* (liquidity, credit, currency, interest rate and market risk, as well as risks associated with balance sheet and income statement structures).
5. The bank must maintain *capital adequacy* prescribed by prudential regulations in Bosnia and Herzegovina.
6. The bank must have *adequate liquidity*.
7. The bank must have *positive profitability and acceptable risk profile*. It must maintain the value of its capital<sup>1</sup>.
8. The bank must classify its assets and off-balance-sheet credit risk exposures (at least four times per year) and make adequate provisions. It must have *adequate portfolio quality*. The bank should not have more than 10% of problem assets (i.e., classified as substandard, doubtful and loss).
9. The bank must have *adequate internal audits and controls* for its specific risk profile.
10. The bank must have *adequate management information systems*.

### Bank Assessment – Information Needed

An interested bank that wishes to be considered for participation should normally be required to confirm that it agrees to allow the qualified Bank's representatives access (on a need-to-know basis) to privileged and confidential information necessary to appraise whether the bank meets and/or continues to meet the eligibility criteria. This includes access to: (i) full scope external audit report; (ii) to

---

<sup>1</sup> / "Maintaining the value" of its capital means that the bank is adequately provisioned for the level of risk it is taking and that the bank's retained earnings are at least at the level of inflation.

prudential reports submitted to the supervisory authority; and (iii) recent reports on on-site examinations prepared by the supervisory authority.

Once the appraisal starts, a PFI should provide all necessary information for the World Bank to appraise whether the bank meets the eligibility criteria. This should normally include:

- External audit of the bank as of end-of-previous-period for the last two years;
- Most recent available un-audited financial statements. These should specifically include asset classification and provisioning levels.
- A copy of the bank's license and the names of its significant owners holding more than 5% of the shares, including summary information on each significant owner;
- Bank's organizational chart and names of all senior managers and members of the bank's board;
- Copy of written policies, procedures and operational manuals related to the lending and liquidity management functions. Policies and written procedures for management of other financial risks (cash and liquidity risk management, credit risk, currency risk, interest rate risk, price risk). This could be in local language and would be reviewed during bank appraisal process;
- Internal control manual. Internal audit schedule for all key banking functions and samples of internal audit reports.
- Organizational chart for the data processing function. Data processing and MIS hardware, software and communication equipment. Copies of key daily, weekly and monthly reports available to senior management on key banking functions and financial risks.

### **Bank Assessment – Practical Guidelines**

Normally the assessment will take one to one-and-half days and include the following:

- Opening meeting with management.
  - Capital and ownership structure of the commercial bank.
- Individual meetings with the heads of the key departments, including:
  - (i) Accounting -- discussion about the balance sheet and profit and loss account for last year (on the basis of the audited financial statement) and the most current financial results.
  - (ii) risk management, possibly more than one department may be involved -- description of the risk management process - liquidity and asset/liability management -- creditworthiness analysis procedures – asset classification and provisions - ALCO arrangements.
  - (iii) credit department -- organization, credit appraisal, structure of the loan portfolio - in breakdown by types of clients, or other segments. Loan risk classification and level of provisions.

(iv) internal audit department -- Organization of the internal audit and internal control procedures

(v) MIS – organization – technology used - key management reports.

- Wrap up meeting with management to summarize the assessment.