



## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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Pursuant to Article 47 paragraph 1 item 6 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15 and 6/16) and Article 65-f paragraph 7 of the Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), the National Bank of the Republic of Macedonia Council adopted the following

### **DECISION on the methodology for developing a recovery plan for systemically important banks (Official Gazette of the Republic of Macedonia No. 26/17)**

#### **I. GENERAL PROVISIONS**

1. This Decision lays down the methodology for developing a recovery plan of a bank, which pursuant to the methodology adopted by the National Bank of the Republic of Macedonia (hereinafter: National Bank) is identified as a systemically important bank.

The methodology from paragraph 1 of this item includes:

- recovery plan elements;
- methods and deadlines for submitting the recovery plan to the National Bank;
- the method of assessing the recovery plan by the National Bank.

2. The terms used in this Decision shall denote the following:

2.1. "Recovery plan" (hereinafter: plan) shall denote a plan which includes measures and activities which shall be taken by the systemically important bank (hereinafter: bank) to restore the normal operation and financial position, in conditions of serious financial disruptions.

2.2. "Serious financial disruption" shall denote situations caused by internal or external events which might endanger the normal operation of the bank i.e. further execution of its financial activities.

2.3. "Critical functions" shall denote products, services or activities of the bank whose termination of execution in the country or abroad, due to the systemic importance of the bank, and especially due to the difficulties amid substitution of these products, services or activities, most likely would cause a negative impact on the real economy or disruption of the financial stability.

2.4. "Core business lines" shall denote business lines and associated services, which represent significant impact on the income, profit or the franchise value of the bank or to the group to which it belongs.

2.5. "Recovery options" shall denote activities, contracts, measures or strategies of the bank which are covered by the plan and enable restoration of a normal operation or financial position, in conditions of serious financial disruptions.

2.6. "Significant change" shall denote any change which might have an impact on the possibility of implementing the plan or on the application of any recovery option provided in the plan.

## **II. RECOVERY PLAN ELEMENTS**

3. The plan at least covers the following elements:
- Plan summary, pursuant to item 4 of this Decision;
  - Organizational structure in relation to the development, adoption, implementation and update of the plan, pursuant to items 5, 6 and 7 of this Decision;
  - Strategic analysis, pursuant to items 8, 9, 10, 11, 12, 13, 14, 15 and 16 of this Decision;
  - Plan communication, pursuant to items 17 and 18 of this Decision;
  - Preparatory activities which shall be taken in order to create conditions for the implementation of the plan, pursuant to item 19 of this Decision.

Despite the elements from paragraph 1 of this item, the plan shall contain indicators for disruption of the financial position or operation, pursuant to items 20, 21, 22, 23, 24, 25, 26 and 27 of this Decision, and simulations, pursuant to items 28, 29, 30 and 31 of this Decision.

### **Plan summary**

4. The plan summary shall contain:
- brief overview of all the plan elements of item 3 of this Decision;
  - brief overview of the significant changes which took place in the bank, in the group to which it belongs, environment or in the plan, in the period after its last submission to the National Bank.

### **Organizational structure**

5. Information on the organizational structure shall at least contain a detailed description of:

5.1. The procedure of development, adoption, implementation and update of the plan, including a description of how the plan is integrated in the corporate governance system and in the overall risk management system. This part also lists the persons and organizational units included in the development, adoption, implementation and update of each part of the plan, a description of their role is given (duties and responsibilities) and the person/persons which are responsible for timely identification of the need to update the plan shall be listed. If the banks is part of a group, a description of the measures and activities taken at a group level which secures the coordination and compliance of the options for recovery at a group level and at the level of an individual group member shall be described.

5.2. The method and deadlines for assessment of the plan by the Internal Audit Department, Audit Company or Bank's risk management committee.

5.3. The internal acts (rules, procedures, etc.) for timely execution of the recovery options, which shall at least include:

- detailed description of the indicators from items 20, 21, 22, 23, 24, 25, 26 and 27 of this Decision;
- detailed description of the decision making-process determining which recovery option will the bank apply, pursuant to the measures and activities provided in the plan, including at least a description of: the role and responsibilities of persons included in the decision-making process, procedures which shall be followed in the decision-making process, and the deadline for the decision on the taking of certain recovery option, as well as the deadlines and method of reporting to the National Bank.

5.4. The description of the reporting system to the bank's bodies, including the information which shall allow bank's bodies to make a timely and correct choice of the recovery options provided in the plan.

5.5. Other internal acts (rules, procedures, etc.) which relate to the development, implementation, adoption and update of the plan.

6. The plan is adopted by the Management Board of the Bank, and is approved by the Supervisory Board.

The bank's management board is responsible for the organizational structure of the plan, especially in terms of the distributions of responsibilities of individual organizational units, boards or persons in the bank for development, implementation and update of the plan, pursuant to item 5 of this Decision.

7. The bank is responsible to update the plan at least once a year, and more frequently at the request of the National Bank, as well as in case of significant changes in the bank, group to which it belongs or in the environment.

The bank is responsible to regulate with an internal act the method of development, implementation and update frequency of the plan, as well as the cases of significant changes from paragraph 1 of this item.

### **Strategic analysis**

8. In the strategic analysis the bank is responsible to identify the core business lines and critical functions and determine the activities which shall be taken to continue their execution in conditions of disruption of its financial position.

Amid identifying critical functions, the bank shall take into account the impact that the termination of the performing that function will have on the bank's clients or on the financial stability, as well as the possibility for the function be assumed by another legal entity present in the market of that critical function, at the same scope and quality, with an acceptable cost for the client and within a reasonable deadline.

9. In the strategic analysis the bank shall include at least:
- information about the bank, pursuant to item 10 of this Decision;
  - description of the recovery options, pursuant to items 11, 12, 13, 14, 15 and 16 of this Decision.

10. Information about the bank, shall include at least:

10.1. Description of the bank's main features, and especially:

- detailed description of the business strategy and risk management strategy;
- list of countries in which it mainly performs its activities;
- detailed description of the core business lines and critical functions, along with the reasons for identifying individual critical functions.

10.2. If in the performance of core business lines and critical functions, other entities (members of the same group, ancillary banking services undertakings or other entities) shall be included, an overview on the inclusion of these entities in the performance of the core business lines and critical function and description of the impact of these entities on the implementation of the plan shall be given.

10.3. If the bank is a member of the group, a description of interconnectedness of the individual members shall be given, based on significant exposures, contractual commitments, financial support contracts, etc.

10.4. Description of the connection of the bank with third parties, which includes information for significant exposures and liabilities and significant services which the banks uses from third parties.

11. The bank shall be responsible to identify recovery options and give description for each option, pursuant to the requirements from items 12, 13, 14, 15 and 16 of this Decision, including a description of the measures which shall be taken in each option.

12. The plan shall include all the recovery options, whether or not an adequate option requires a change in the existing business operation of the bank.

The plan shall not provide access to and use of the funds from the budget of the Republic of Macedonia.

13. Each recovery option shall include activities and measures which will enable restoration of the normal operation and financial position of the bank, and whose key objective is maintaining the core business lines and critical functions, and at least:

- activities and measures the primary aim of which is to maintain or reach an adequate level of own funds both on an individual or consolidated level, through recapitalization from external sources or through internal measures for improvement of bank's solvency position;
- activities and measures which provide the bank with access to contingency funding sources to ensure that it can carry on its operations and meet its obligations as they fall due, whereby the potential resources of financing are also listed, assessments of funds which might be used as a collateral and assessment of possibilities for redistribution of liquid assets in the group or between individual business lines;
- activities and measures to decrease the risk profile and the leverage ratio or change the core business lines, including an analysis of the possibility of sale of assets, investments in other legal entities or individual business lines, depending on what is applicable for the bank;
- activities and measures for voluntary restructuring of liabilities.

If a certain recovery option does not include any of the activities from paragraph 1 of this item, the plan shall contain an explanation why that activity is excluded i.e. is not important for the bank.

14. Any recovery option shall contain an assessment for its impact, which shall at least cover:

- assessment of the impact on the assets, solvency, liquidity, financing possibility, profitability and operation of the bank;
- assessment of the impact on the external environment or on the financial system, given the critical functions executed by the bank, as well as assessment of the impact on the shareholders, clients, depositors or other creditors, other counterparties or the group as a whole (if the banks is a member of a group);
- assumptions based on which the assessments are made from indents 1 and 2 of this item.

15. Each recovery option shall include assessment of the possibility for its application, which at least includes:

- assessment of risks associated with the option, with a detailed description of the possible significant impediments which might decrease the efficiency or timely implementation of the plan;
- if the bank is a member of a group, analysis of the possible impediments for efficient implementation of the recovery option which arises from the structure of the group or from the relationships in the group, especially restrictions for prompt transfer of funds and payment of liabilities and assets within the group;
- description of possible solutions for removal or overcoming the impediments from indents 1 and 2 of this paragraph.

For the needs of paragraph 1 of this item, significant impediments refer to any factor which might have a negative impact on the timely implementation of the recovery option, for example in any legal, operational, business, financial or regulatory risk.

16. Each recovery option shall be clearly linked with a specific simulation, pursuant to items 28, 29, 30 and 31 of this Decision, where the method in which the recovery option enables continuous operation of the bank and continuous access to the financial markets shall be described.

### **Plan communication**

17. The bank is responsible with an internal act to determine the method of communicating the plan within the bank, with the shareholders, the National Bank and other regulatory or supervisory bodies.

18. The plan shall also include the method of communication in case of implementing one or more measures, whereby a different method of communication in different recovery options can be provided.

### **Preparatory activities**

19. The plan shall include the preparatory activities that the bank has taken or shall take in order to create conditions for implementing the plan or increase its efficiency.

The plan shall determine the deadlines for the implementation of the preparatory activities from paragraph 1 of this item.

The activities from paragraph 1 of this item include all the activities which are necessary to overcome the impediments for efficient application of the recovery options.

### **Indicators for disruption of the bank's financial position or operation**

20. In the plan, the bank is responsible to define the indicators which show a possible disruption of its financial position or its operation.

For each indicator defined in this chapter of the Decision, the bank shall set a level whose exceeding shall mean taking a certain recovery option.

By way of derogation from paragraph 2 of this item, if the bank's bodies consider that it is adequate for the condition in which the bank is, the bank may:

- take a measure or activity from the plan even when the indicator level is not exceeded; or
- take a measure or activity from the plan, regardless of exceeding the indicator level.

The bank is required within five days to inform the National Bank for the cases from paragraph 3 of this item, with an appropriate explanation for the choice.

21. The bank is required to include in the plan indicators for at least the following categories which relate to its operation:

21.1. Capital indicators: Common Equity Tier 1 capital, capital adequacy ratio and leverage ratio. The bank shall set the level for these indicators at the level which is above the minimum legal requirements for Common Equity Tier 1 capital and own funds and above the level of internal capital. Amid determining the level of these indicators, the bank shall take into consideration that normally a long time period is needed in order to implement the measures for improving the solvency position and that these measures are more sensitive on the market movements.

21.2. Liquidity indicators: share of liquidity assets in total assets and cost of interbank money market financing.

21.3. Profitability indicators: rate of return on assets, rate of return on equity and indicators for operational efficiency.

21.4. Assets' quality indicators: non-performing loans growth rate, share of non-performing loans in total loans and coverage of non-performing loans with impairment for non-performing loans.

22. Along the indicators from item 21 of this Decision, the bank is required to also use macroeconomic indicators (ex. gross domestic product growth rate - or reduction of the credit rating of the government) and market indicators (ex. changes in the exchange rate, price of shares, interest rates, etc.).

23. By way of derogation from items 21 and 22 of this Decision, the bank may replace any of the listed indicators or exclude it from the plan, if it assesses that the indicator is not significant for its risk profile, size and/or complexity, for which an appropriate explanation is submitted to the National Bank, as a special notice or part of the plan.

Unlike paragraph 1 of this item, the bank is responsible to include at least one indicator in the categories from item 21 of this Decision.

24. The plan shall contain an explanation for the choice of each indicator and for the determined level of that indicator.

25. Indicators and determined levels shall:

- be appropriate for the business model, strategy and risk profile of the bank;
- be appropriate for the size and complexity of the activities of the bank;
- enable timely decision for taking measures or activities from the plan;
- comply with the risk management system and with the indicators included in the liquidity risk management plan in extraordinary conditions and with the continuity plan.

Amid determining the indicators level, the volume and dynamics of reaching the level for each indicator shall be taken into consideration.

26. Amid righteous update of the plan, pursuant to item 7 of this Decision, the bank is required to re-examine the justification of using the chosen indicators and their determined levels.

27. Amid determining the quantitative indicators from this chapter, the bank shall establish a system for continuous monitoring of the level of individual indicators, due to timely informing to the bank's bodies for the possibility of a certain indicator to reach its determined level.

## **Simulation**

28. The bank is required to determine at least four simulation for serious financial disruptions, on the basis of which the efficiency of each recovery option and adequacy of determined indicators are tested.

The type and number of simulations from paragraph 1 of this item is determined taking the type, volume and complexity of the activities into account which are performed by the bank and the environment in which it operates.

The Bank shall at least once a year conduct the testing from paragraph 1 of this item.

29. The simulations from item 28 of this Decision shall at least cover system shocks and shocks which are specific for the operation of the bank, such as:

- disturbance of the operation of a certain activity which is important for the banking system and for the bank, which would negatively impact the financial stability;
- reduction of the liquidity in the interbank market;
- increase of the country's risk or significant capital outflow of the country where the bank operates;

- unfavorable price developments in one or more markets;
- unfavorable economic developments;
- serious disruption of the reputation of the bank or the group to which it belongs;
- significant outflow of the bank's liquid assets;
- unfavorable developments of assets' prices (securities, real estate and so on) which are important for the bank or the group to which it belongs;
- significant credit losses;
- significant losses due to the realization of the operational risk; and/or
- cessation of the operation of the other contractual party which is important for the bank.

30. Each individual simulation shall fulfill the following requirements:

- shall be important for the bank i.e. based on the shocks which are the most significant for the bank or the group to which it belongs, given its business model and method of financing, its financial activities, size and connection with other financial institutions or with the financial system as a whole, as well as identification of weaknesses and deficiencies in operation of the bank or the group to which it belongs;
- the provided shock shall be of such nature that if the measures shall not be taken on time as provided in the plan, the bank or the group to which it belongs, shall cease its operation;
- shall be based on shocks which are exceptional but possible.

31. Each simulation, to the extent to which is possible, shall include the effects from the shocks provided in that simulation on the own funds, liquidity, risk profile and bank's reputation and its continuous participation in the payment systems and settlement systems.

### **III. METHODS AND DEADLINES FOR SUBMITTING THE RECOVERY PLAN**

32. The deadline for submitting the plan to the National Bank is six months after the date when the National Bank has notified the bank that it is identified as a systemically important bank, pursuant to the Methodology of the National Bank for identifying systemically important banks.

By way of derogation from paragraph 1 of this item, the bank which for the first time is identified as systemically important bank is required to submit the plan to the National Bank, within 9 months after the date when the National Bank has notified that it has been identified as a systemically important bank.

If the National Bank requests changes in the plan, pursuant to chapter IV of this Decision, the bank is required to submit the new plan to the National Bank within the deadline specified in the notice of the National Bank.

33. The bank shall submit the plan in written and in electronic form.

### **IV. METHOD OF ASSESSING THE RECOVERY PLAN**

34. The National Bank is required within 6 months from the submission of the plan to assess whether the submitted plan meets the requirements prescribed in this Decision i.e. assess if:



- the application of the measures and activities provided in the plan shall enable maintaining and restoration of normal operation and financial position of the bank or the group, bearing in mind the preparatory activities that have been taken or shall be taken;
- the plan and individual recovery options can be applied promptly and efficiently in conditions of shocks, without causing significant negative impact on the financial system.

The assessment from paragraph 1 of this item, is conducted by the National Bank through assessing the completeness, quality, possibility of application of the plan and adequacy of the recovery operations, given the structure of own funds and sources of financing of the bank, complexity of its organizational structure and risk profile.

35. The assessment of the completeness of the plan includes the following aspects:

- if the plan at least covers the elements provided in chapter II of this Decision;
- if the plan contains updated data and information, primarily in terms of the occurred significant changes in the bank or other entities included in the plan, especially in the organizational structure, business operation or financial position, after the last submission of the plan to the National Bank.
- if the plan includes an analysis of the possibility when and how the bank shall address the National Bank to get credit of last resort, as well as if the assets that shall be used as a collateral for the loan are determined.
- if the plan contains appropriate selection of simulations for serious macroeconomic and financial shocks which are relevant for the operation of the bank;
- if the plan contains indicators on the basis of which shall be determined when measures need to be taken, pursuant to the plan;
- if the plan provides possibilities for financial support within the group, if the bank is a member of a group.

36. Amid assessing the quality of the submitted plan, the National Bank assesses the following requirements:

36.1. Clarity of the plans provisions, which is considered as completed if:

- the plan is written in a clear and understandable language;
- definitions and description of the activities are clear and have the same meaning throughout the whole plan;
- appropriately are explained the assumptions and method of evaluating individual positions;
- reference to documents, data and information which are not included in the plan, as well as annexes to the plan do not represent obstacle for identifying adequate recovery options.

36.2. The significance of information included in the plan, which are considered as achieved if the information are identified as adequate recovery options.

36.3. The comprehensiveness of the plan, shall be considered achieved if the nature of the activities of the bank and other bodies included in the plan, their size, connection with other bodies or groups and financial systems as a whole are taken into account.

37. Amid assessing the possibility of application of the plan, the National Bank assesses the following requirements:

- inclusion of the plan in the corporate governance and bank's risk management system;
- the plan includes sufficient number of possible and achievable recovery options which give base to the bank or group to deal with the different shocks on a quick and efficient manner;
- recovery options include adequate activities for managing the macroeconomic or financial shocks;
- the anticipated timetable for implementing the recovery options is real and taken into consideration in developing the procedures for the implementation of the plan;
- the adequacy of different simulations is tested;
- the assumptions provided in the plan in each recovery option are real and achievable.

38. Amid assessing the recovery option included by the bank in the plan, the National Bank assesses:

- if the timely and efficient application of the plan and certain recovery option in conditions of serious macroeconomic or financial shocks is possible;
- if the application of the plan or certain recovery option in a manner in which the objectives will be achieved without causing a significant negative impact on the financial system is possible;
- the level to which recovery options of the bank might be in conflict with other recovery options from other institutions or groups which have similar characteristics (similar business model, business strategy, scope of activities they perform), in case of simultaneous performance of recovery plans from more financial institutions or groups;
- the level to which the simultaneous application of recovery options from more institutions or groups might have a negative impact on the implementation of the provided recovery options.

39. If the National Bank assesses that the plan submitted by the bank has significant deficiencies or significant restrictions of its application, it informs the bank in writing and gives it the opportunity within 15 days from receiving the notice to submit an opinion for identified deficiencies or restrictions.

If within the deadline from paragraph 1 of this item, the bank shall not submit the opinion or if the National Bank finds that the opinion does not give appropriate explanation for the identified deficiencies or restrictions for the application of the plan, it will order the bank that within two months it shall submit a changed plan in which the identified deficiencies and restrictions will be removed.

40. If the bank shall not submit the changed plan or if the identified deficiencies or restrictions for its applications are not removed in the changed plan, the National bank may take any measure, pursuant to the law.

41. If the National Bank finds that the plan meets the requirement prescribed with this Decision or if it accepts the opinion of the bank submitted pursuant to item 39 paragraph 1 of this Decision, it notifies the bank that the plan is accepted.

## **V. TRANSITIONAL AND CLOSING PROVISIONS**

42. This Decision shall enter into force on the eighth day from the day of its publication in the Official Gazette of the Republic of Macedonia.

43. By way of derogation from item 32 paragraphs 1 and 2 of this Decision, the bank which until 30 April 2017 has notified the National Bank that is identified as a systemically important bank, is required to submit the plan to the National Bank by 30 June 2018 at the latest.

**D. No. 02-15/II-7/2017**  
**27 February 2017**  
**Skopje**

**Governor**  
**and Chairman**  
**of the Council of the National Bank**  
**of the Republic of Macedonia**  
**Dimitar Bogov**