



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 64 paragraph 1 item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" no. 3/2002, 51/2003, 85/2003, 40/2004, 61/2005 and 129/2006) and Article 2 paragraph 1 item 29 and Article 64 paragraph 3 of the Banking Law ("Official Gazette of the Republic of Macedonia" no. 67/2007), the National Bank of the Republic of Macedonia Council adopted the following

DECISION

on amending the Decision on the methodology for determining capital adequacy ("Official Gazette of the Republic of Macedonia" no. 31/2009)

I. The Decision on the methodology for determining capital adequacy ("Official Gazette of the Republic of Macedonia" no. 159/2007 and 32/2008) shall be amended as follows:

1. In Section II item 8 paragraph 1, the words: "currency risk", shall be followed by the words: "operational risk",.

2. In Section II item 9 paragraph 1 indent 4, the wording: "the settlement risk and the currency risk", shall be replaced by the wording: "the settlement risk, the currency risk and the operational risk".

3. In Section II item 11 sub-item b) indent 3 sub-indent 2, the wording: "tax liabilities or other types of levies" shall be replaced by the wording: "tax or other types of similar levies".

4. In Section II item 12, sub-item b) shall be amended as follows:

"b) the amount of licenses, patents, goodwill and other intangible assets;"

5. In Section II item 12, sub-item d) shall be amended as follows:

"d) other net negative revaluation reserves that refer to the following:

- net negative revaluation reserves and other differences from the evaluation of hedging of net investments in foreign currency and the effective part of the hedging of cash flows,
- net negative revaluation reserves and other differences from the evaluation related to the non-current assets or groups intended for disposal held for sale and investments in affiliates or joint ventures evaluated by using the principal method,
- other similar revaluation reserves and other differences from evaluation;"

6. In Section II item 12, the sub-item f) shall be amended as follows:

"f) the difference between the impairment of financial assets and the special reserves for off-balance sheet assets identified by the bank and the required amount of impairment and the special reserve as specified under the Decision on credit risk management."

7. In Section IV item 27 paragraph 1, indent 2 shall be amended as follows:

"- currency risk, commodity risk and the operational risk arising from the bank's overall operation".

In paragraph 2 of this item, after the words: "as specified under Section IX of this Decision", comma shall be added, while the wording: "and the capital requirements for market risks, as defined under section VIII of this Decision", shall be replaced by the wording: "capital requirements for market risks, as defined under section VIII of this Decision and the capital requirements for the operational risk, as specified under section IX of this Decision".

8. In section V of item 34 paragraph 2, after the words: "referred to in Section IX of this Decision" a comma shall be added, while the wording: "and the capital requirements s for market risks referred to in Section VIII of this Decision" shall be replaced by the wording: "capital requirements for market risks, referred to in Section VIII of the this Decision and the capital requirements for operational risk referred to in Section IX of this Decision".

9. In Section VIII item 95 paragraph 2, the words: "defined in consistence with the Decision on credit risk management" shall be deleted.

10. Section X shall be followed by new Section XI, reading as follows:

"XI. CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

112. The bank shall determine the capital requirements for operational risk by applying the basic indicator. The basic indicator shall represent a sum of the following positive and negative positions, realized as a result of the bank's regular operation:

- 1) Interest income;
- 2) Interest expenses;
- 3) Dividend income, except income arising from investment in affiliates, subsidiaries and joint ventures;
- 4) Income from commissions and fees;
- 5) Expenses from commissions and fees;
- 6) Income and expenses from positions that are part of the trading book;
- 7) Income and expenses from exchange rate differences;
- 8) Realized income and expenses from positions which are not measured at fair value through the Income Statement;
- 9) Income and expenses from hedging positions;
- 10) Other operating income.

Other operating income shall not include the extraordinary income and the income from concluded insurance contracts on the behalf and for the account of the bank. The expenses from commissions and fees shall include the costs of outsourcing services, only if the service is provided by the bank's parent, subordinated entity of the bank, or subordinated entity of the bank's parent.

Impairment of positions shall not be included in the calculation of the basic indicator.

The basic indicator shall be calculated on annual basis for the period terminating at the end of the financial year (December 31).

When audited financial statements are not available, the bank can use unaudited statements, when determining the basic indicator.

113. On the basis of the basic indicator, the bank can determine the capital requirement for operational risk by using one of the following two approaches:

- Basic Indicator Approach, in accordance with part 10.1 of this Decision;

- Standardized Approach, if the bank fulfilled the criteria stipulated in part 10.2 of this Section.

114. The National Bank may set higher amount of capital requirements for operational risk, than the capital determined in accordance with the parts 10.1 or 10.2 of this Decision, if it determines that the capital fails to cover the bank's exposure to operational risk.

10.1 Basic indicator approach for determining capital requirements for operational risk

115. Under the Basic Indicator Approach, the capital requirements for operational risk shall be determined by multiplying the arithmetical mean of the three-year positive values of the basic indicator, determined in line with item 112 of this Decision, by 15%.

If in any of the three previous years, the bank's basic indicator is equal to or less than zero, the respective amount and the respective year shall not be included in determining the capital requirements for operational risk, i.e. they shall not be taken into account in the calculation of the arithmetical mean.

10.2. Standardized approach for determining capital requirements for operational risk

Criteria for implementation of the standardized approach

116. The bank can use the standardized approach for determining the capital requirements for operational risk, only if it fulfills all criteria for implementation of the standardized approach set forth in items 117, 118, 119 and 120 of this Decision (hereinafter: qualifying criteria).

117. The bank shall be obliged to allocate its financial activities in the business lines defined in table no. 8 and to determine the basic indicator from item 112 of this Decision for each business line.

Business lines	Activities	Ratio of capital requirements for business line
1	2	3
Services related to financing commercial entities, which according to the Law on Trade Companies are considered medium and large-scale commercial entities (corporate finance)	<p>Purchase and sale, guaranteeing and/or placement (underwriting) of securities issue with an undertaken liability for redemption of the issue and services related to guaranteeing and/or placement</p> <p>Advice to legal entities on capital, business strategies etc.</p> <p>Services provided in mergers, acquisitions, acquiring shares or stakes in other companies, privatization</p> <p>Investment advice</p> <p>Services related to investment research and financial analysis, as</p>	18%

	well as other forms of general recommendations relating to transactions in financial instruments	
Trading and sale	<p>Trading on its behalf and for its account</p> <p>Intermediation on the Money Market (money broking)</p> <p>Receipt and execution of orders related to one or more financial instruments, which are not included in the business line "Retail brokerage"</p> <p>Execution of orders on behalf of clients, placement of financial instruments without liability for their redemption (if not included in the business line "Retail brokerage")</p> <p>Operations of multilateral trading systems</p>	18%
Retail banking (natural persons, sole proprietors, which, in conformity with the Law on Trade Companies are not considered commercial entities, and commercial entities which in conformity with the Law on Trade Companies are considered small-size and micro commercial entities)	<p>Collection of deposits and other repayable funds</p> <p>Lending and other similar activities for client financing (financing of commercial projects, factoring, forfeighting etc.)</p> <p>Financial leasing</p> <p>Issuance of guarantees, backing guarantees and other similar instruments</p>	12%
Commercial banking (medium and large-scale commercial entities in conformity with the Law on Trade Companies)	<p>Collection of deposits and other repayable funds</p> <p>Lending and other similar activities for client financing (financing of commercial transactions, factoring, forfeighting etc.)</p> <p>Financial leasing</p> <p>Issuance of guarantees, backing guarantees and other similar instruments</p>	15%
Payment operations and settlement	Services in the national and international payment operations	18%

	Issuance and administration of means of payment	
Agent services	Providing services as a custodian-bank and other similar services and administering of financial assets on the behalf of and for the account of the client	15%
Asset management	Asset and portfolio management upon an order and for the account of the client Management of undertakings for collective investments (investment and pension funds) Other forms of asset management	12%
Retail brokerage (natural persons, sole proprietors, which in conformity with the Law on trade companies are not considered commercial entities and commercial entities which in conformity with the Law on Trade Companies are considered as retail and micro commercial entities)	Receipt and execution of orders for transfer of one or more financial instruments that are not included in the business line "Trading and sale" Execution of orders on the behalf of and for the account of clients, placement of financial instruments without an obligation for their redemption	12%

118. The bank shall be required to establish and to apply policy for allocation of the activities by business lines, defining the principles for allocation of its financial activities in adequate business lines and determining the capital requirements for operational risk under the standardized approach.

The bank's Board of Directors shall be responsible for preparation and for adoption of the policy under paragraph 1 of this item. The bank's Supervisory Board shall be required to review and to approve this policy.

The policy under paragraph 1 of this item shall be subjected to regular revision and reconciliation with the financial activities the bank carries out and the risks it is exposed to as a result of those activities.

119. The bank shall allocate the financial activities to individual business line by the application of the following principles:

- all bank activities are covered in a comprehensive and mutually exclusive manner;
- all activities that support other activity (auxiliary activity) are allocated to the business line of the basic activity. If the auxiliary activity is carried out to support several activities, the bank uses an objective-allocation criteria, and these criteria must be applied consistently in all similar cases;
- if the activity can not be allocated in any business line, the respective activity is allocated into the business line with the highest capital requirements ratio (column no. 3 of table no. 8). All associated auxiliary activities of that activity are allocated to the same business line;

- the costs generated in one business line, simultaneously referring to other business line, may be allocated to adequate business lines according to internal allocation methods;
- the allocation process of individual activities into business lines must be fully documented. The bank is obliged to have clear and detailed definitions for each business line;
- the allocation of the activities into business lines and the manner of calculation of the basic indicator are subject to independent review by the Internal audit department or audit house.

120. Besides the criteria under items 117, 118 and 119 of this Decision, referring to the number and the character of the business lines and principles for allocation of the financial activities into business lines, the bank shall be obliged to fulfill the following criteria for implementation of the standardized approach:

- the operational risk management system is fully documented and it covers the bank's overall operation;
- the rights and the responsibilities of the individual bank's bodies are clearly defined, as well as those of the bank's employees included in the operational risk management system;
- all relevant data for operational risk management are monitored, especially the data on the material losses arising from the exposure to this risk;
- system of regular reporting to the bank's bodies on exposure to operational risk and registered losses has been established, which enable obtaining adequate and timely data and information on the exposure to operational risk. The bank is obliged to have procedures for undertaking measures by appropriate bodies, on the basis of the obtained information;
- the operational risk management system is subjected to regular independent review by the Internal audit department and audit house.

The Internal audit department shall be obliged, before the application of the standardized approach, to determine the fulfillment of the qualifying criteria, as well as to conduct regular review whether the bank persists to meet the qualifying criteria.

Calculation of the capital requirements for covering the operational risk by applying the standardized approach

121. The bank that fulfills the qualifying criteria shall determine the capital requirements for operational risk through calculation of the risk-weighted basic indicator for each business line and the risk-weighted basic indicator for each of the last three years.

The risk-weighted basic indicator for each business line shall be product of the basic indicator for that business line, set in line with items 112 and 117 of this Decision and the capital requirements ratio defined in column no.3 of table no.8.

The sum of all risk-weighted basic indicators for each business line in one year, shall give the risk-weighted basic indicator for that year. When determining the risk-weighted basic indicator for certain year, all risk-weighted basic indicators for each business line shall be taken into account, regardless of their sign (positive or negative).

The capital requirements for operational risk shall be obtained when dividing the sum of the risk-weighted basic indicators for each of the last three years by 3. If the risk-weighted basic indicator for certain year is negative, the input to the calculation of the capital requirements for operational risk shall be zero.

122. The bank using the Basic indicator approach for determining the capital requirements for operational risk shall be obliged to notify the National Bank on the intention and the deadline within which it plans to use the standardized approach.

The bank shall be obliged to fulfill the qualifying criteria constantly. If the bank ceases to fulfill the qualifying criteria, it shall be obliged to submit a written explanation to the National Bank within five working days, listing the reasons for non-fulfillment of the criteria, the measures it undertakes to eliminate those reasons, as well as the deadline within which the qualifying criteria will be completely met.

The National Bank may order the bank different deadlines and measures than the measures and the deadlines stated in the written explanation under paragraph 2 of this item.

123. If, on the basis of the submitted written explanation under item 22 of this Decision or through its supervisory function, the National Bank determines that the bank no longer meets the qualifying criteria, nor it can provide fulfillment of the qualifying criteria within an appropriate period, it can order the bank to terminate the application of the standardized approach, i.e. to start determining the capital for operational risk by applying the basic indicator approach.

The bank applying the standardized approach can not decide to revert to the basic indicator approach for determining the capital requirements for operational risk, without prior notification to the National Bank and its consent. The bank shall be obliged to state the reasons why it plans to revert to the utilization of the basic indicator approach for determining the capital for operational risk."

11. Sections XI, XII and XIII, shall become Sections XII, XIII and XIV, and items 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130 and 131, shall become items 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142 and 143.

12. In Section XI, which becomes Section XII, item 119, which becomes item 131 shall be amended as follows:

"131. Other risk weighted asset of the banking group shall be determined by multiplying the sum of capital requirements for currency risk to the banking group, as determined by item 132 of this Decision, the capital requirements for market risks to the banking group as determined by item 133 of this Decision, the capital requirements for operational risk, as determined by item 134 of this Decision and the capital requirements for commodity risk as determined by item 135 of this Decision, by 12.5.

When determining the capital requirements for currency risk to the banking group, the capital requirements for market risks to the banking group, the capital requirements for operational risk to the banking group and the capital requirements for commodity risk to the banking group, an aggregated method shall be used as defined by items 132, 133, 134 and 135 of this Decision."

13. Section XI, which becomes Section XII, in item 121 which becomes 133, new paragraph 4 shall be added, reading as follows:

"When a group member is not bound to determine capital for market risks, its trading book positions shall be included in determining the credit risk weighted assets on consolidated basis."

14. In Section XI, which becomes Section XII, item 122, which becomes item 134 shall be amended and it shall state:

"134. Each banking group member shall be required to determine the capital requirements for operational risk on individual basis, as specified in Section XI of this Decision.

The sum of the determined capital referred to in paragraph 1 of this item for all group members shall give the capital requirements for operational risk to the banking group."

15. Section XI, which becomes Section XII, item 124, which becomes item 136, the number: "119" shall be replaced by the number: "131".

16. In Section XII, which becomes Section XIII, in items 126 and 127, which become items 138 and 139, the number: "125" shall be replaced by the number: "137".

17. In Section XIII, which becomes Section XIV, item 130, which becomes item 142, paragraph 2, the words: "and XI.3 (except for item 120)", shall be replaced by the words: "and XII.3 (except for item 132)".

II. This Decision shall enter into force on the eighth day from the day of its publishing in the "Official Gazette of the Republic of Macedonia" and its implementation shall start from December 31, 2011.

By exception to paragraph 1, items 3, 4, 5, 6 and 9 of this Decision shall be implemented once this Decision enters into force.

The bank planning to use the standardized approach for determining the capital requirements for operational risk on the day this Decision starts to be implemented, shall be required to notify the National Bank on the intention for the application of the standardized approach not later than December 31, 2010. The National Bank may request from the bank that made the notification on the intention for utilization of the standardized approach, to submit documented proof for meeting the qualifying criteria under items 117-120 of this Decision.

D. no. 02-15/II-4/2009
February 26, 2009
Skopje

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and President of the
National Bank of the Republic of Macedonia
Council