Pursuant to Article 37, Paragraph 9, Item 3 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska" No. 4/17, 19/18 and 54/19), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" No. 59/13 and 4/17), Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska" No. 63/17), and Article 5 of the Decision on capital buffer for systemic risk ("Official Gazette of Republika Srpska" No. 6/24), the Management Board of the Banking Agency of Republika Srpska, at the 7th session, held on 21 May 2024, adopted the

DECISION

ON THE RATIO AND METHOD OF MAINTAINING THE CAPITAL BUFFER FOR STRUCTURAL SYSTEMIC RISK

Subject of the Decision

Article 1

(1) The Decision on the ratio and method of maintaining the capital buffer for structural systemic risk (hereinafter: the Decision) shall determine the ratio and method of calculating and maintaining capital buffer for structural systemic risk.

(2) The ratio of capital buffer for structural systemic risk the bank shall maintain in the form of Common Equity Tier 1 capital on an individual basis.

(3) The ratio referred to in Paragraph 1 of this Article shall be applied and maintained by the banks headquartered in Republika Srpska to which the Banking Agency of Republika Srpska issued an operating license, and which meet the criteria determined in accordance with Article 3, Paragraphs 6 and 7 of this Decision.

Definitions

Article 2

Definitions used in this Decision shall have the following meanings:

1) **Non-performing loan** – in accordance with Article 2, Paragraph 1, Item 3 of the Decision on credit risk management and determining expected credit losses;

2) **Expected credit losses (ECL) –** in accordance with Article 2, Paragraph 1, Item 4 of the Decision on credit risk management and determining expected credit losses.

The ratio of capital buffer for structural systemic risk

Article 3

(1) The ratio of capital buffer for structural systemic risk is set by buffer of 0%, 1% or 2%, depending on the combination of indicator rates referred to in Paragraphs 2 and 6 of this Article.

(2) Indicators based on which the applicable ratio of capital buffer for structural systemic risk at the level of an individual bank is determined, shall be the ratio of non-performing loans, hereinafter: NPL and coverage ratio of NPL by recorded expected credit losses (ECL).

(3) Determining the NPL ratio and the coverage ratio of NPL by recorded expected credit losses (ECL) shall be performed after accounting write-offs, i.e. the amount of executed accounting write-offs shall not be included in the value of non-performing loans.

(4) The ratio of capital buffer for structural systemic risk shall be determined based on an annual average of indicators referred to in Paragraph 2 of this Article, determined on the cut-off date, i.e. shall be determined on the last day of the previous calendar year (31/12), taking into account the average of four quarters, and shall be applied as of 30 June of the current calendar year.

(5) Quarter data referred to in Paragraph 4 of this Article shall represent data from the report FISKK (sector structure of loans by levels of credit risk).

(6) The bank shall determine the ratio of capital buffer for structural systemic risk based on criteria defined in the following Table:

NPL ratio (%)	**Coverage ratio of NPL by ECL (%)**	**The ratio of capital buffer for structural systemic risk (%)**
< 5%	> 65%	0%
< 5%	< 65%	1%
> 5%	> 65%	1%
> 5%	< 65%	2%

(7) All banks headquartered in Republika Srpska to which the Banking Agency of Republika Srpska issued an operating license, and whose share of non-performing loans in total gross loans is higher than 5%, or whose coverage ratio of non-performing loans by recorded expected credit losses is less than 65%, or which meet both of these conditions, shall be obliged to maintain the capital buffer for structural systemic risk.

Calculating and maintaining the capital buffer for structural systemic risk

Article 4

(1) The bank shall calculate the capital buffer for structural systemic risk as follows:

$$\mathbf{B_{SR}=r_T * E_T}$$

where:

B_{SR} = capital buffer for structural systemic risk,

r_T = ratio of capital buffer applicable on the total bank risk exposure amount,

E_T = total bank risk exposure amount.

(2) For the requirements of determining the capital buffer for structural systemic risk, the bank use all domestic exposures, all exposures in the European Union Member States and third countries as exposures to which the ratio of capital buffer is being applied.

(3) Determining the average indicators referred to in Article 3, Paragraph 2 of this Decision shall be performed annually, and the same shall be used as indicators for determining the obligation of maintaining the capital buffer for structural systemic risk until the next cut-off date (annual cut-offs).

(4) The Agency shall review the thresholds for determining the capital buffer for structural systemic risk at least annually and perform supervision over the calculation and monitor maintaining of the given buffer.

Transitional and final provisions

Article 5

This Decision shall come into force on the eighth day from the day of its publication in the "Official Gazette of Republika Srpska" and shall be applied as of 30 June 2024.

Number: UO-74/24

Date: 21 May 2024

PRESIDENT OF THE

MANAGEMENT BOARD

Dejan Kusturić