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), Article 2 item 29 and Article 64 paragraph 3 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 amending the Decision on the methodology for determining the capital adequacy  
(Official Gazette of the Republic of Macedonia No. 218/16)

1. In the Decision on the methodology for determining the capital adequacy (Official Gazette of the Republic of Macedonia No. 47/12, 50/13, 71/14 and 223/15) item 6, subitem 33) shall be followed by 11 new subitems 34), 35), 36), 37), 38), 39), 40), 41), 42), 43) and 44) that reads as follows:

"34) **Premium on capital instruments sold** shall be the difference between the selling price and the nominal value of the capital instruments. Lower sales than nominal value of capital instruments shall mean negative premium on capital instruments sold. Higher sales than nominal value of capital instruments shall means positive premium on capital instruments sold.

35) **Financial sector entity** shall be a legal entity seated in the Republic of Macedonia or abroad which is a bank, non-banking financial institution or an ancillary banking services (if the company is included in the consolidated financial statements of the bank), under the Banking Law.

36) **Synthetic investment** shall be an investment in instruments whose value is directly related to the value of capital instruments issued by financial sector entities.

37) **Minority interest** shall cover positions from the Common Equity Tier I capital of a subsidiary owned by third parties that are not members of the banking group of the bank subject to consolidated supervision.

38) **A qualifying Additional Tier I capital and qualifying Tier II capital** shall include positions of the Additional Tier I and positions of Tier II of the subsidiary owned by third parties that are not members of the banking group of the bank subject to consolidated supervision.

39) **Significant investment** in financial sector entity shall be bank’s investment that meets the following criteria:

- the bank’s investment exceeds 10% of the Common Equity Tier I instruments issued by the financial sector entity;
- the bank has close connections with the financial sector entity, regardless of the amount of investment in capital instruments of the Common Equity Tier I capital of that entity;
- the bank has investments in Common Equity Tier I capital of the financial sector entity that is not a member of the banking group of the bank, but the financial sector entity and the bank are subject to consolidation under the accounting regulations and accounting standards.

All investments that do not meet at least one of the previous three criteria shall be considered investments in the financial sector entities in which the bank has no significant investment.

40) **Current income or current loss** shall be gain or loss on the bank’s income statement, realized during a specific period shorter than one calendar year and before the decision of the bank’s General Meeting of Shareholders, that confirms the financial result for the period.

41) **Year-end profit or loss** shall be gain or loss on the bank’s income statement, realized during a calendar year and before the decision of the bank’s General Meeting of Shareholders, that confirms the financial result for the year.

42) **Dividend payout ratio** shall be the amount of dividends paid to shareholders relative to the amount of profit after tax. If this ratio is negative or greater than 100%, the dividend payout ratio is 100%. If the profit after tax is zero, the dividend payout ratio is equal to: (1) 0% if there is no dividend payout or (2) 100%, if the bank paid out dividend.

43) **Distributable items** shall comprise the amount of profit after tax confirmed by the General Meeting of Shareholders or the amount of current income that qualifies for dividend distribution or payment of advance dividend under the law.

44) **Deferred tax assets that rely on bank’s future profitability** shall be claims based on tax credits pursuant to tax regulations that can be offset against the tax liability of the bank, if the bank generates taxable profit in the future. **Deferred tax assets that rely on bank’s future profitability and arise from temporary differences** shall be claims based on tax credits pursuant to tax regulations based on the temporary differences in the calculation of tax liabilities."

2. Section **III. OWN FUNDS** shall be amended and read as follows:

'**III. OWN FUNDS**

8. Banks' own funds shall be the sum of Tier I capital as defined by section III.1 of this decision and the Tier II capital as defined in section III.2 of this decision, taking into account the provisions of sections III.3 and III.4 of this decision.

9. Positions that do not meet the requirements of this section may not be included in the calculation of bank's own funds.

Provided that the National Bank identifies that some of the positions the bank has included in the determining of own funds do not meet the requirements of this section, it shall immediately require from the bank to exclude such positions from
the amount of own funds. Bank may include those positions in the determining of own funds, only when they meet the requirements and upon approval of the National Bank.

10. When determining the amount of own funds, the bank shall take into account the following rates:
   - Common Equity Tier I capital must not be lower than 4.5% of the risk-weighted assets (Common Equity Tier I rate);
   - Tier I capital must not be lower than 6% of the risk-weighted assets (Tier I capital rate).

III.1. Tier I capital

11. Bank's Tier I capital shall be the sum of the Common Equity Tier I capital as defined by section III.1.1 of this decision and the Additional Tier I capital as defined in section III.1.2 of this decision.

III.1.1 Common Equity Tier I capital

12. Common Equity Tier I capital shall be the sum of the positions of item 13 of this decision less the sum of deductions of item 16 of this decision and corrected for the regulatory adjustments in item 19-h of this decision.

13. The bank's Common Equity Tier I capital consists of the following:

   13.1. capital instruments that meet the requirements of item 14 of this decision and approved as required by paragraph 2 of this item;

   13.2. premium on capital instruments sold referred to in subitem 13.1 of this item;

   13.3. mandatory general reserve (general reserve fund);

   13.4. retained undistributed profit unencumbered by any future obligations, stated in the balance sheet of the bank and confirmed by decision of the General Meeting of Shareholders of the bank. The decision shall contain a provision that the retained profit is not available for payment of dividends to shareholders in the future. This position shall also include accumulated loss from previous years, with a negative sign;

   13.5. current profit, or yearend profit that meets the requirements of item 15 of this decision; and

   13.6. Accumulated other comprehensive income.

The positions of subitem 13.1 of paragraph 1 of this item shall be included in the Common Equity Tier I capital only upon approval of the National Bank. The bank shall, at least 30 days prior to the intention to include these instruments in the calculation of own funds, submit documentation that proves that the requirements laid down in item 14 of this decision are met.
The National Bank shall decide on the request for approval under paragraph 2 of this item, within 30 days upon completion of the documentation that proves that the requirements referred to in item 14 of this decision are met.

The positions of subitems 13.3, 13.4, 13.5 and 13.6 of paragraph 1 of this item shall be fully and immediately available to cover bank’s operating risks and losses.

14. Capital instruments that meet the following requirements may be part of the Common Equity Tier I capital:

14.1. to be issued by the bank on the basis of a decision of the General Meeting of Shareholders;

14.2. to be fully paid in, without their purchase being financed, directly or indirectly, by the bank;

14.3. to be treated as equity according to the accounting regulations and standards applicable to banks and to be completely and unlimitedly available to cover losses;

14.4. to be clearly and separately recognized in the bank’s balance sheet;

14.5. to be unconditionally irreversible, without maturity date and irredeemable, unredeemable or irreducible in value, except in the case of bankruptcy or liquidation of the bank or upon approval of the National Bank, pursuant to item 19-I of this decision. As an exception, the requirements in this subitem shall be deemed to have been met if the value decreased as a result of a measure taken by the National Bank, as required by a law;

14.6. not to contain clauses or other provisions that allow for their redemption, repayment or reduction of their value, except in the case of bankruptcy or liquidation of the bank, and the bank has not prompted, at their issue, any expectations for their redemption, repayment or reduction of their value;

14.7. to have met the following conditions as regards the distributions to instrument holders:

- there is no preferential distribution treatment regarding the order of distribution payments, as well as in terms of other instruments that are part of the Common Equity Tier I capital;
- distributions to be payable only from distributable items;
- there are no provisions that limit the maximum level of distributions;
- the level of distributions does not depend on the purchase price of these instruments paid by the holders at their issuance;
- there is no obligation of regular payment of distributions;
- non-payment of distributions shall not be considered default of the bank;
- the cancellation of payment of the distribution does not impose any limits for the bank to make payments on other grounds.
14.8. to be of the highest quality compared to other capital instruments of the bank, or to be used first to cover any bank’s operating loss and any capital instrument which is part of the Common Equity Tier I capital used *pari passu* to cover losses. This requirement is also considered to have been met in the case of write-off of the principal of capital instruments that are part of other components of the own funds;

14.9. in the case of bank’s bankruptcy or liquidation, these instruments to be paid after all other liabilities of the bank to other creditors;

14.10. in the case of bankruptcy or liquidation of the bank, holders of these instruments to have the right to collect the rest of the bank’s assets that remains after payment of other liabilities, with the right to collection being proportional to the share of the amount of issued instruments and the maximum amount of collection is not fixed or subject to a cap;

14.11. not to be collateralized or backed by any guarantee of the bank or connected entity that would reduce the level of subordination of these instruments as determined in subitems 14.8, 14.9 and 14.10 of this item;

14.12. not to be subject to any agreement that reduces the subordination of the instrument given in subitems 14.8, 14.9 and 14.10 of this item, in the case of bankruptcy or liquidation of the bank.

15. Current profit or year-end profit may be included in the calculation of Common Equity Tier I capital of the bank only upon approval of the National Bank.

The amount of current profit or year-end profit shall be reduced for the amount of paid dividend advance and/or dividend decided by the supervisory board of the bank to be distributed to its shareholders. If the supervisory board has not adopted a decision on payment of dividend, the current profit or year-end profit shall be reduced by whichever is higher of the following:

- dividends determined on the basis of the dividend payout ratio under the dividend policy of the bank;
- dividends determined on the basis of the average dividend payout ratio for the last three years;
- dividends determined on the basis of the dividend payout ratio from last year.

The National Bank shall issue the approval under paragraph 1 of this item if the following conditions are met:

- the amount of current profit or year-end profit was confirmed by audit company;
- the amount of current profit or year-end profit was reduced by any payment of dividend, tax or other similar liabilities paid from profits;
- the bank’s supervisory board adopted a decision stipulating that the current profit or year-end profit will not be used for payment of dividend to shareholders.
To confirm the requirement under paragraph 3, indent 1 of this item, the bank shall submit:

- for the year-end profit - an audit report, prepared in accordance with the auditing regulations, or a letter from the auditor confirming that the audit of the annual financial statements is underway, but the auditor did not encounter any information that would be the basis for including a qualified opinion in the final report;
- for the current profit - an audit report or report on the verification of inter-periodic financial information prepared in consistence with auditing regulations, or an auditor’s letter that the audit of the financial statements is underway, but the auditor did not encounter any information that would be a basis for including a qualified opinion in the final report.

To prove the fulfillment of the requirement of paragraph 3, indent 2 of this item, the bank shall submit:

- a statement signed by the person with special rights and responsibilities in the bank stating that income and expenses are presented in the income statement as required by the accounting regulations and accounting standards applicable to banks;
- a statement signed by the bank’s management board members that shows each position in the current profit or year-end profit, including payments based on dividends, tax or other similar liabilities paid from the profit.

The National Bank shall decide on the request for issuing the approval under paragraph 1 of this item, within 30 days upon completing the documentation that proves the fulfillment of the requirements of this item.

The amount of current profit subject of the approval under paragraph 1 of this item may be included in the calculation of the Common Equity Tier I capital in the following periods of the current calendar year, only if the profit earned to the date of calculation of the Common Equity Tier I capital exceeds the amount of current profit subject of the approval of the National Bank.

16. Common Equity Tier I capital shall be reduced for the following deductions:

16.1. loss at the year-end or current loss;

16.2. intangible assets. The amount of deductions is reduced by deferred tax liabilities that would cease if intangible assets are damaged or derecognized as required by the accounting regulations and accounting standards applicable to banks. The amount of deduction increases by the goodwill of the significant investments of the bank;

16.3. Deferred tax assets that rely on bank’s future profitability. The amount of deductions is reduced by deferred tax liabilities only if the bank is empowered by law to offset current tax assets with current tax liabilities. When determining Common Equity Tier I capital on a consolidated basis, deferred tax liabilities can reduce the amount of deferred tax assets, only if deferred tax assets and deferred tax liabilities relate to taxes that are
charged by the same tax institution and relate to the same taxable entity. Deferred tax liabilities that may be included in the netting of deferred tax assets do not include deferred tax liabilities of subitem 16.2 of this item;

16.4. The amount of direct, indirect and synthetic investments in own capital instruments of the Common Equity Tier I capital, including capital instruments that the bank is contractually required to purchase. The amount of deduction is equal to the gross long position of the bank in own capital instruments of the Common Equity Tier I capital and can be reduced by the amount of short position in these instruments only if: (1) the long and short position are in the same instrument and the short position does not expose the bank to counterparty risk and (2) both positions (long and short) are either part of the trading book or part of the banking book. In the case of investments in stock index that includes capital instruments of the bank, the amount of deduction is equal to the proportional share of these capital instruments in the index. If the bank has both long and short position in the stock index that includes capital instruments of the bank, the long position may be reduced by the amount of short position, including short position that exposes the bank to counterparty risk only if: (1) the long and the short position are in the same index and (2) both positions (long and short) are either part of the trading book or part of the banking book;

16.5. The amount of direct, indirect and synthetic investments in capital instruments of the Common Equity Tier I capital of the financial sector entities, where such entities have investments in the bank that artificially increase its own funds. The amount of deduction is equal to the gross long position of bank in capital instruments of the Common Equity Tier I capital of these entities;

16.6. The amount of direct, indirect and synthetic investments in capital instruments of the Common Equity Tier I capital of the financial sector entities in which the bank has no significant investment. The amount of total deduction for these investments is equal to the product of:

- direct, indirect and synthetic investments in capital instruments that are part of the own funds of the financial sector entities in which the bank has no significant investment, with a total amount exceeding 10% of the Common Equity Tier I capital of the bank. For the purposes of this indent, Common Equity Tier I capital of the bank is obtained when the sum of the positions referred to in item 13 of this decision will be adjusted for the regulatory adjustments in item 19-h of this decision and will be reduced for the deductions of subitems 16.1, 16.2, 16.3, 16.4, 16.5, 16.10 and 16.11 of this item, with the exception of the amount of deferred tax assets that rely on bank’s future profitability and arise from temporary differences, and

- the amount of direct, indirect and synthetic investments in capital instruments of the Common Equity Tier I capital of the financial sector entities in which the bank has no significant investment, divided by the total amount of direct, indirect and synthetic investments in capital instruments that are part of the own funds of the financial sector entities in which the bank has no significant investment.
Calculation of the amounts referred to in indents 1 and 2 of this subitem does not include direct, indirect and synthetic investments in capital instruments of financial sector entities in which the bank has no significant investments that are held up to five days. The amount of direct, indirect and synthetic investments referred to in paragraph 1 of this subitem which does not exceed 10% of the Common Equity Tier I capital of the bank is included in the calculation of the risk-weighted assets, in accordance with section VI of this decision;

16.7. The amount of direct, indirect and synthetic investments in capital instruments of the Common Equity Tier I capital of the financial sector entities in which the bank has a significant investment, with the exception of those held up to five days;

16.8. Amount of deductions from the Additional Tier I capital of item 19-c of this decision, which exceeds the total amount of Additional Tier I capital of item 19 of this decision;

16.9. Investments in non-financial institutions. The amount of deduction represents the amount exceeding the limits under the Banking Law pertaining to individual equity holding (15%) and the aggregate, i.e. total amount of equity holdings in nonfinancial institutions (30%). If the bank exceeds one of these limits, the amount exceeding the limit shall be taken as deductible. If the bank exceeds both limits, the higher amount of exceedances of both limits shall be taken as deductible. These limits do not take into account investments held up to five days, and securities registered in the bank's name and for account of other entities;

16.10. Tax costs that may be established at the time of calculation, unless the bank has adequately adjusted the amount of positions included in the Common Equity Tier I capital to the extent to which the tax costs would reduce the amount available to cover risks or losses;

16.11. Difference between impairment and special reserves established by the bank and the required amount of impairment and special reserves, according to the National Bank’s credit risk management regulation.

17. The amount of deductions under item 16 subitems 16.6 and 16.7 of this decision is equal to the gross long position of the bank in these investments and can be reduced for the amount of short position in those investments only if the long and short positions relate to the same instrument, where: (1) the long and short positions have the same maturity or the residual maturity of the short position is at least one year and (2) both positions (long and short) are either part of the trading book or part of the banking book. In the case of investments in stock index that includes capital instruments of financial sector entities, the amount of deduction is equal to the proportional share of these capital instruments in the index.

The Bank is not required to include the following positions of item 16 subitems 16.3 and 16.7 of this decision, if their sum does not exceed the limit referred to in paragraph 3 of this item:
- deferred tax assets that rely on bank’s future profitability arising from temporary differences, whose total amount does not exceed 10% of the
Common Equity Tier I capital of the bank determined when the sum of the positions of item 13 of this decision is corrected for the regulatory adjustments of item 19-h of this decision and reduced for the deductions of item 16 subitems 16.1, 16.2, 16.3, 16.4, 16.5, 16.6, 16.10 and 16.11 of this decision, with the exception of the amount of deferred tax assets that rely on bank’s future profitability and arise from temporary differences; and

- direct, indirect and synthetic investments in capital instruments of the Common Equity Tier I capital of financial sector entities in which the bank has a significant investment, whose total amount does not exceed 10% of the Common Equity Tier I capital of the bank determined when the sum of the positions of item 13 of this decision is corrected for the regulatory adjustments of item 19-h of this decision and reduced for the deductions of item 16 subitems 16.1, 16.2, 16.3, 16.4, 16.5, 16.6, 16.10 and 16.11 of this decision, with the exception of the amount of deferred tax assets that rely on bank’s future profitability and arise from temporary differences.

For the purposes of paragraph 2 of this item, the limit is determined as the product of:
- the amount of Common Equity Tier I capital of the bank obtained when the sum of the positions referred to in item 13 of this decision is corrected for the regulatory adjustments of item 19-h of this decision and reduced for the deductions referred to in item 16 of this decision; and
- 17.65%.

The positions of paragraph 2 of this item which are not deductions from the Common Equity Tier I capital are included in the calculation of the credit risk weighted assets with risk weight of 250%.

III.1.2. Additional Tier I capital

18. Additional Tier I capital shall be the sum of the positions referred to in item 19 of this decision less the sum of deductions under item 19-c of this decision and corrected for the regulatory adjustments of item 19-h of this decision.

19. Additional Tier I capital of the bank shall include the following positions:

- capital instruments that meet the criteria of section 19-a of this decision; and
- premium on sale of capital instruments referred to in indent 1 of this item.

19 a. Additional Tier I capital may include capital instruments that meet the following requirements:

19-a.1. are issued and fully paid in, without their purchase being financed, directly or indirectly, by the bank;

19-a.2. are not purchased by the bank, its subsidiary or entity where the bank has a participation in the form of ownership;

19-a.3. are paid after the instruments that are part of Tier II capital of the bank, in case of bankruptcy or liquidation of the bank;
19-a.4. are not collateralized or backed by any guarantee by the bank or connected person/entity, which would reduce the subordination level of these instruments which is specified in subitem 19-a.3 of this item;

19-a.5. are not subject to any contract that reduces the subordination level specified in subitem 19-a.3 of this item, in case of bankruptcy or liquidation of the bank;

19-a.6. have no maturity date;

19-a.7. in cases of one or more redemption or repayment options of the instrument, the use of redemption or repayment option is the sole discretion of the issuer;

19-a.8. can be redeemed or repaid by the bank only upon approval of the National Bank, in accordance with item 19-l of this decision.

19-a.9. there are no clauses or other provisions that would require instruments to be redeemable or repayable except in the case of bankruptcy or liquidation of the bank or upon approval of the National Bank, in accordance with item 19-l of this decision;

19-a.10. the bank does not encourage expectations that the National Bank will issue the approval for redemption or repayment of the instruments;

19-a.11. the following conditions applicable to distributions to holders of capital instruments are met:
- the distributions is paid from the distributable items, where the payment of compensation can be made if the profit is not audited by certified auditor;
- the level of distributions should not be amended on the basis of the credit standing of the bank or the credit standing of its parent entity;
- the bank has full discretion at all time to cancel the distributions for an unlimited period and on a non-cumulative basis and without restrictions to use such cancelled payments of distributions to meet its obligations;
- cancellation of distributions is not considered a default of the bank;
- the cancellation of distributions imposes no restrictions on the bank to make other payments;

19-a.12. are not taken into account when determining whether the requirements for opening of bankruptcy proceedings in accordance with law are met;

19-a.13. contain provisions that stipulate that in the case of a trigger event, the value of principal of these instruments is written down or reduced on a permanent or temporary basis or the instrument be converted to Common Equity Tier I instrument;

19-a.14. the instrument must not have characteristics that could hinder the recapitalization of the bank;
19-a.15. In cases when the instrument is not directly issued by the bank: (1) it is issued by an entity who is a member of the banking group of the bank and (2) cash paid is immediately available to the bank without any restrictions, whereby all other conditions laid down in this item are met;

19-a.16. Capital instrument is not treated as a deposit (savings) and is not insured by the Deposit Insurance Fund.

19-b. To meet the conditions of item 19-a subitem 19-a.11 indent 5 and subitem 19-a.14 of this decision, the instrument shall not contain provisions that provide for: (1) mandatory payment of the distributions in the case of payment of distributions for instruments with the same or higher quality, including the Common Equity Tier I instruments; (2) mandatory cancellation of the payment of distributions for the other instruments of the Common Equity Tier I capital, Additional Tier I capital and Tier II capital, if it is not paid for the compensation for the instrument; (3) an obligation to substitute the payment of interest or dividend by a payment in any other form.

To meet the condition of item 19-a subitem 19-a.13 of this decision, the instrument arrangement shall include the following provisions:
- the trigger event is defined as a reduction in the Common Equity Tier I capital ratio below 5.125%. The bank may set a higher level of trigger event or beside such trigger event, to determine other trigger events;
- the write-down i.e. conversion creates instruments, i.e. positions that may be part of the Common Equity Tier I capital in accordance with III.1.1 of this section,
- in the case of conversion of an instrument of the Additional Tier I capital into capital instrument of the Common Equity Tier I capital, the provisions should specify: (1) the rate of such conversion and the maximum permitted amount that can be converted into Common Equity Tier I instrument or (2) the range within which the instrument will be converted into Common Equity Tier I instrument, taking into account price movements of the instruments;
- in the case of write-down i.e. depreciation of the principal amount of the Additional Tier I instrument, the reduction applies to: (1) the claim of the holder of the instrument, in the case of bankruptcy or liquidation of the bank; (2) the amount required to be paid in the event of the call or redemption of the instrument and (3) the distributions made on the instrument.

The total amount of instruments of the Additional Tier I capital which is written down or converted into Common Equity Tier I instruments after the trigger event, cannot be less than the lower amount between: (1) the amount required for achieving Common Equity Tier I capital ratio of 5.125% and (2) the full principal amount of the instrument.

In the case of trigger event, the bank should:
1) immediately inform the National Bank;
2) inform the holders of the instruments; and
3) write down the principal amount of the instruments, or convert them into positions of the Common Equity Tier I capital within 30 days after the trigger event.
The Bank shall:
- consistently hold common shares in an amount that is sufficient to convert the instruments of the Additional Tier I capital in capital instruments of the Common Equity Tier I capital;
- on the date of issue of the instruments of the Additional Tier I capital, provide all the approvals from the relevant authority, as required by law;
- at any time, have the approvals from the relevant authority competent to issue instruments of the Common Equity Tier I capital by converting the instruments of the Additional Tier I capital, in accordance with law.

In the case of write down or depreciation of the principal amount, the write down shall be made proportionally to all instruments of item 19-a of this decision.

The instruments under item 19-a of this decision may be written down on a temporary basis only if the following conditions are met:

- the amount of distributions upon write down is calculated on the basis of the depreciated principal amount of the instrument;
- the instrument principal amount may increase only from profits after tax, as confirmed by the General Meeting of Shareholders;
- the bank has full discretion in deciding to increase the instrument principal amount or to pay compensation for the depreciated principal amount;
- instrument principal amount is increased proportionally to all instruments under item 19-a of this decision, that were subject to temporary write down;
- the maximum amount of increase in the instrument principal amount along with the amount of distributions to the depreciated principal amount is determined on the date of the increase in the principal amount of these instruments and is equal to the product of the profit after tax and the share of the nominal amount (before write down) of the instruments referred to in item 19-a of this decision, that were subject to temporary write down and the total amount of Tier I capital of the bank;
- the increased instrument principal amount and the compensation payable to the depreciated principal amount decrease the amount of Common Equity Tier I and the maximum amount for the banks’ distributable items.

19.c. Additional Tier I capital is reduced for the following positions:

19-c.1. The amount of direct, indirect and synthetic investments in own capital instruments of the Additional Tier I capital, including capital instruments for which the bank has a contractual obligation to buy. In determining this amount, the bank shall properly apply the provisions of item 16 subitem 16.4 of this decision;

19-c.2. The amount of direct, indirect and synthetic investments in capital instruments of the Additional Tier I capital of financial sector entities, where such entities have investments in the bank that artificially increase its own funds. The amount of deduction is equal to the gross long position of the bank in the capital instruments of the Additional Tier I capital of these entities;

19-c.3. The amount of direct, indirect and synthetic investments in capital instruments of the Additional Tier I capital of the financial sector entities where the
bank has no significant investment. In determining this amount, the bank shall properly apply the provisions of item 16 subitem 16.6 and item 17 paragraph 1 of this decision;

19-c.4. The amount of direct, indirect and synthetic investments in capital instruments of the Additional Tier I capital of the financial sector entities where the bank has a significant investment, with the exception of those held up to five days. In determining this amount, the bank shall properly apply the provisions of item 17 paragraph 1 of this decision;

19-c.5. Amount of deductions from the Tier II capital of item 19-g of this decision, which exceeds the total amount of Tier II capital of item 19-e of this decision.

19-c.6. Tax costs that may be determined at the time of calculation, unless the bank has adequately adjusted the amount of the positions included in the Additional Tier I capital to the extent that the tax costs would reduce the amount available to cover risks or losses.

**III.2 Tier II capital**

19-d. Tier II capital is the sum of the positions referred to in item 19-e of this decision less the deductions referred to in item 19-g of this decision and corrected for the regulatory adjustments of item 19-h of this decision.

19-e. Tier II capital of the bank includes the following positions:
- capital instruments and subordinated loans that meet the criteria of item 19-f of this decision; and
- premium on capital instruments sold referred to in indent 1 of this item.

19-f. Capital instruments and subordinated loans may be part of Tier II capital if:

19-f.1. issued by or credited to the bank and fully paid-in;

19-f.2. not purchased or approved by the bank, its subsidiary or entity in which the Bank has participation in the form of ownership;

19-f.3. the purchase or approval of these positions is not funded directly or indirectly by the bank;

19-f.4. liabilities based on these positions are fully subject to the liabilities to depositors and other creditors of the bank;

19-f.5. not collateralized or backed by any guarantee by the bank or any connected person/entity, which would reduce the level of subordination of these instruments as defined in subitem 19-f.4 of this item;

19-f.6. not subject to any agreement that reduces the subordination level specified in subitem 19-f.4 of this item;

19-f.7. have a maturity of at least five years;
19-f.8. in the case of one or more options for redemption or prepayment, the utilization of redemption/prepayment option is at the discretion only of the issuer;

19-f.9. redeemable or prematurely payable only upon approval of the National Bank, in accordance with section 19-l of this decision;

19-f.10. do not contain clauses or other type of provisions, and the bank does not encourage expectations that the instruments will be redeemed or prepaid, except in case of bankruptcy or liquidation of the bank;

19-f.11. do not contain clauses or other type of provisions that entitle the holders of these instruments to require accelerated repayment of future claims based on interest or principal amount, except in case of bankruptcy or liquidation;

19-f.12. the level of interest or dividends is not changed depending on the credit standing of the bank or the credit standing of its parent entity;

19-f.13. in cases where no directly issued by the bank, i.e. not credited directly to the bank: (1) issued by, i.e. credited to an entity that is a member of the banking group of the bank and (2) cash paid is immediately available to the bank without any restriction, thus meeting all the other requirements laid down in this item;

19-f.14. not treated as deposits (savings) and not insured by the Deposit Insurance Fund.

The amount of the position of paragraph 1 of this item included in the calculation of Tier II capital of the bank over the final five years to its maturity, shall be the product of:

- the nominal amount of the position on the first day of the final five years to the contractual maturity;
- The number of remaining calendar days of the contractual maturity of the position, divided by the total number of calendar days in the period of the final five years.

19-g. Tier II capital shall be reduced by the following positions:

19-g.1. The amount of direct, indirect and synthetic investments in own instruments of the Tier II capital, including the instruments for which the bank has a contractual obligation to buy. In determining this amount, the bank shall properly apply the provisions of item 16 subitem 16.4 of this decision;

19-g.2. The amount of direct, indirect and synthetic investments in Tier II capital positions of financial sector entities, where such entities have investments in the bank that artificially increase its own funds. The amount of deduction is equal to the gross long position of the bank in the Tier II capital position of these entities;

19-g.3. The amount of direct, indirect and synthetic investments in Tier II capital positions of financial sector entities where the bank has no significant investment. In determining this amount, the bank shall properly apply the provisions of item 16 subitem 16.6 and item 17 paragraph 1 of this decision;
19-g.4. The amount of direct, indirect and synthetic investments in Tier II capital positions of financial sector entities where the bank has a significant investment, with the exception of those held up to five days. In determining this amount, the bank shall properly apply the provisions of item 17 paragraph 1 of this decision.

III.3 Regulatory adjustments

19-h. The bank does not include the following items in the calculation of the individual components of own funds:

- any increase in individual components of own funds which stems from securitization positions;
- gains or losses from protection against cash flow risk;
- gains or losses on bank’s liabilities measured at fair value, resulting from changes in the creditworthiness of the bank;
- gains or losses related to liabilities arising from derivatives measured at fair value, resulting from changes in the creditworthiness of the bank, where these gains and losses cannot be offset with those arising from counterparty risk.

Notwithstanding paragraph 1, indent 3 of this item, the bank may include gains and losses on liabilities that are measured at fair value in the case of bonds issued by the bank and are at all times backed by the bank’s claims (covered bonds), whereby there is a high correlation between changes in the value of bonds and changes in the value of the covered claims of the bank, i.e. changes in the value of the bonds result from changes in the creditworthiness of the bank.

III.4. Other provisions

19.i. Before including the positions of items 19-a and 19-f of this decision in the calculation of own funds, the bank shall notify the National Bank of the conditions under which they have occurred and submit documentation confirming that the conditions prescribed in this decision for the respective position are met, at least 30 days before the intention to include these positions in the calculation of own funds. In addition, the bank shall also submit:

- calculation of the level of own funds and the capital adequacy ratio before and after the inclusion of these positions in the calculation of own funds as of the reporting date;
- forecast of the total internal capital for covering risks, including capital buffers for the next three years;
- forecast of the bank’s income and expenses that takes into account the effect of using positions, at least for the next three years.

The bank may not include certain positions in the calculation of own funds, which according to items 16, 19-c and 19-g of this decision are considered deductions, if they are temporary positions and if the bank has an approval of the National Bank. The approval of the National Bank shall specify the period in which the bank may not include those positions as deduction in the calculation of own funds.
19-j. The distributions to instruments of the Common Equity Tier I capital, the Additional Tier I capital and the Tier II capital may be in cash or in the form of an instrument that can be part of the bank’s own funds.

19-k. In the deductions of item 16 subitems 16.5, 16.6, 16.7, item 19-c subitems 19-c.2, 19-c.3, 19-c.4 and item 19-g subitems 19-g.2, 19-g.3 and 19-g.4 of this decision, the bank shall include only direct, indirect and synthetic investments in positions of financial sector entities who, in accordance with the regulations governing the operation of these entities, have treatment of regulatory capital.

All other instruments that do not meet the requirement of paragraph 1 of this item shall be included in the calculation of risk-weighted assets in accordance with section VI of this decision.

The bank shall allocate the positions referred to in paragraph 1 of this item to the deductions of the Common Equity Tier I capital, Additional Tier I capital or Tier II capital, taking into account their quality, as specified in the respective regulation that governs the operation of these entities.

If the allocation referred to in paragraph 3 of this item cannot be made on the basis of the regulation governing the operations of financial sector entities, the positions referred to in paragraph 1 of this item shall be deducted from the Common Equity Tier I of the bank.

19-l. Without the approval of the National Bank, the bank may not:
   1) redeem or reduce the amount of instruments that are part of the Common Equity Tier I capital;
   2) redeem or repay the instruments that are part of the Additional Tier I capital;
   3) redeem or repay positions that are part of the Tier II capital, before the contractual maturity.

Notwithstanding paragraph 1 of this item, the bank may redeem instruments that are part of the Common Equity Tier I capital without the approval of the National Bank if the amount of the total instruments redeemed does not exceed 1% of the total amount of such kind of instruments issued by the bank.

The bank may not announce the depreciation, redemption or early repayment of the positions referred to in paragraph 1 of this item before obtaining the necessary approval by the National Bank.

The National Bank shall issue the approval referred to in paragraph 1 of this item if at least five years have passed since the date of issuance/approval of the instrument and if:

- the bank replaces this instrument with a new instrument with the same or better quality, where the replacement cost does not jeopardize the bank's capacity for profitable operations, or
- the bank can prove that its own funds, after their reduction due to the activities referred to in paragraph 1 of this item, will exceed the required level, taking into account the provisions of item 10 of this decision, the total internal capital for covering risks and capital buffers.
For the purposes of paragraph 4 indent 1 of this item, the replacement cost does not jeopardize the bank's capacity for profitable operations if the cost of the new instrument is not significantly higher than the cost of the bank for the instrument replaced, thus allowing the bank to keep or increase its profitability.

Notwithstanding paragraph 4 of this item, the National Bank may issue an approval for the redemption or early repayment of the instruments that are part of the Additional Tier I capital and Tier II capital before the expiration of five years from the date of their issue/approval, only if the requirements referred to in paragraph 4, indents 1 and 2 of this item are met, and if:
- due to regulatory changes these instruments are excluded from their own funds or deployed in lower quality positions;
- there are changes in the tax treatment of these instruments, and the bank can prove that these are significant changes that could not have been foreseen at the moment of issuing/approving the instruments.

In order to obtain the approval referred to in paragraphs 4 and 6 of this item, the bank shall, at least three months prior to the implementation of the activities referred to in paragraph 1 of this item, submit to the National Bank at least:
- detailed explanation of the reasons for carrying out the activities referred to in paragraph 1 of this item;
- forecast of the level of capital requirement for covering risks for a period of at least three years;
- structure of own funds before and after the implementation of the activities referred to in paragraph 1 of this item;
- profitability forecast for the next three years, taking into account the instrument replacement cost;
- assessment of risks the bank is or could be exposed to and assessment of whether its own funds are at a level that ensures coverage of such risks, including the results of the stress tests performed by the bank.”

3. In item 40, the word: “core” shall be replaced by the words: “Common Equity Tier I capital, Additional Tier I capital”.

4. In item 71, indent 6, the words: “amount of claim” shall be replaced by the words: “total amount of claim”.

5. In item 72 paragraph 2, indent 1 shall be followed by a new indent 2 that reads as follows:
“- the business property is owned by the debtor/co-borrower;”.

Indents 2, 3 and 4 shall become indents 3, 4, and 5.

6. In item 80 indent 1 the word: “core” shall be replaced by the words: “Common Equity Tier I capital, Additional Tier I capital”.

7. In item 108 paragraph 3, the word: “core” shall be replaced by the words: “Common Equity Tier I capital, Additional Tier I capital”.

8. In item 220 paragraph 2, indent 1 shall be amended and read as follows:
“- the amount of minority interest and the amounts of qualifying Additional Tier I capital, qualifying Tier I capital, qualifying Tier II capital and qualifying own funds of a subsidiary of the bank in accordance with items 220-a and 220-b of this decision;”

Paragraph 3 shall be amended and read as follows:

“The positions referred to in paragraph 2 of this item shall be an integral part of the Common Equity Tier I capital, Additional Tier I capital and Tier II capital of the banking group. If these positions have a negative value, they represent a deduction from the Common Equity Tier I capital, Additional Tier I capital, and Tier II capital, respectively.”

9. Item 220 shall be followed by two new items 220-a and 220-b that read as follows:

“220-a. The minority interest, the qualifying Additional Tier I capital, qualifying Tier I capital, qualifying Tier II capital and qualifying own funds shall consist of the positions of the Common Equity Tier I capital, the positions of the Additional Tier I capital and the positions of the Tier II capital of a subsidiary of the bank, respectively, that belong to third parties.

The minority interest and the amounts of the qualifying Additional Tier I capital, the qualifying Tier I capital and the qualifying Tier II capital of the subsidiary shall be included in the respective part of the bank’s own funds on a consolidated basis if:
- the subsidiary is a bank;
- the subsidiary is a member of the banking group of the bank subject to consolidated supervision;
- third parties that have invested in positions that are part of the own funds of the bank’s subsidiary are not members of the banking group of the bank subject to consolidated supervision.

The minority interest and the amounts of the qualifying Additional Tier I capital, the qualifying Tier I capital and the qualifying Tier II capital of the subsidiary that are directly or indirectly funded by the bank (the parent) or its subsidiary, may not be included in the calculation of the bank’s own funds on a consolidated basis.

220-b. The amount of the minority interest of a subsidiary that can be included in the bank’s Common Equity Tier I capital on a consolidated basis is equal to the product of:
1) the lower amount between:
- the amount of the Common Equity Tier I capital of the subsidiary required for fulfilling the capital requirement, taking into account the provisions of item 10 of this decision, the total internal capital for covering risks, the capital buffers, as well as any other amount to be maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;
- the amount of the Common Equity Tier I capital of the subsidiary to be maintained for the purposes of determining the Common Equity
Tier I capital on a consolidated basis for fulfilling the capital requirement, taking into account the provisions of item 10 of this decision, the total internal capital for covering risks, the capital buffers, as well as any other amount to be maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;

2) the ratio between the amount of the Common Equity Tier I capital that belongs to third parties that have investments in the subsidiary and the total amount of the Common Equity Tier I capital of the subsidiary, expressed as a percentage.

The amount of the qualifying Tier I capital of a subsidiary that can be included in the bank's own funds on a consolidated basis is equal to the product of:

1) the lower amount between:
   - the amount of the Tier I capital of the subsidiary required for fulfilling the capital requirement, taking into account the provisions of item 10 of this decision, the total internal capital for covering risks, the capital buffers, as well as any other amount to be maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;
   - the amount of the Tier I capital of the subsidiary to be maintained for the purposes of determining the Tier I capital on a consolidated basis for fulfilling the capital requirement, taking into account the provisions of item 10 of this decision, the total internal capital for covering risks, the capital buffers, as well as any other amount to be maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;

2) the ratio between the amount of the Tier I capital that belongs to third parties that have investments in the subsidiary and the total amount of the positions of the Tier I capital of the subsidiary, expressed as a percentage.

The amount of the qualifying Additional Tier I capital of the subsidiary that is included in the Additional Tier I capital of the bank on a consolidated basis shall be equal to the difference between the amount of the qualifying Tier I capital referred to in paragraph 2 of this item and the amount of the minority interest referred to in paragraph 1 of this item.

The amount of the qualifying own funds of a subsidiary that can be included in the bank's own funds on a consolidated basis is equal to the product of:

1) the lower amount between:
   - the amount of own funds of the subsidiary required for fulfilling the capital requirement, the total internal capital for covering risks, the capital buffers, as well as any other amount to be maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;
   - the amount of own funds of the subsidiary to be maintained for the purposes of determining the own funds on a consolidated basis for fulfilling the capital requirement, the total internal capital for covering risks, the capital buffers, as well as any other amount to be
maintained by the subsidiary in accordance with the regulations or the requirements of the competent authority;

2) the ratio between the amount of own funds of third parties that have investments in the subsidiary and the total amount of the positions of the own funds of the subsidiary, expressed as a percentage.

The amount of the qualifying Tier II capital of the subsidiary included in the bank’s Tier II capital on a consolidated basis shall be equal to the difference between the amount of qualifying own funds referred to in paragraph 4 of this item and the amount of qualifying Tier I capital referred to in paragraph 2 of this item.”

10. This decision shall enter into force on the eighth day from the date of its publication in the Official Gazette of the Republic of Macedonia, and shall apply from 1 March 2017.

Notwithstanding paragraph 1 of this item, the provisions of item 4 of this decision shall apply from 1 June 2017.

11. Common shares, as well as directly paid-in funds (for savings houses that are not incorporated as joint stock companies), subscribed and paid in by the day of entry into force of this decision, shall be classified as positions of the Common Equity Tier I capital and no approval of the National Bank shall be required.

12. Hybrid capital arrangements and subordinated instruments arrangements concluded before the date of entry into force of this decision, as well as cumulative preference shares, subscribed and paid in by the date of entry into force of this decision, shall be allocated to the Tier II capital.

If the bank makes changes to the arrangements referred to in paragraph 1 of this item that facilitate the fulfillment of the conditions for their inclusion in the positions of the Additional Tier I capital, it shall inform the National Bank and submit documentation showing that the conditions set in this decision are met, at least 30 days before the intent to include these instruments in the Additional Tier I capital.

D No. 02-15/XIV-1/2016
15 December 2016
Skopje

Dimitar Bogov
Governor

Chairman
of the National Bank
of the Republic of Macedonia