



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Articles 31 and 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 114 paragraph 2 and Article 121 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 consolidated supervision** **(“Official Gazette of the Republic of Macedonia” no. 17/2008)**

I. GENERAL PROVISIONS

1. This Decision sets forth:
 - the method of conducting consolidated supervision of a banking group,
 - the subject of consolidation and the contents of consolidated reports, for the purposes of consolidated supervision, and
 - the method and deadlines of reporting to the National Bank of the Republic of Macedonia (hereinafter: the National Bank).
2. Consolidated supervision shall be a supervision of the financial conditions and the risks the banks are exposed to, as a result of their connection with other entities within the banking group.
3. Bank subject to consolidated supervision, according to the Banking Law, shall be a bank having its head office in the Republic of Macedonia (hereinafter: RM) which is:
 - a parent entity of the banking group, or
 - a subsidiary of financial holding company having its head office in the RM which is a parent entity of the banking group.

II. METHOD OF CONDUCTING CONSOLIDATED SUPERVISION

4. The National Bank shall conduct consolidated supervision of a banking group by applying the rules and procedures for supervising individual banks defined by the Banking Law and the bylaws resulting thereof.
5. The National Bank, as a competent supervisory authority for consolidated supervision of a banking group, shall also be responsible for ensuring coordination of

the common consolidated supervision approach with the domestic and foreign supervisory authorities responsible for supervising and licensing the other entities in the banking group.

The coordination referred to in paragraph 1 of this item shall include:

- gathering and disseminating information exchanged among the supervisory authorities, as specified by the Banking Law,
- planning and conducting consolidated supervision.

According to this Decision, domestic supervisory authorities are: Securities and Exchange Commission, Capitally Funded Pension Insurance Supervision Agency, Ministry of Finance and Insurance Supervision Agency.

6. For the purposes of implementing a common approach of consolidated supervision of a banking group, the National Bank shall conclude special agreements with the domestic supervisory authorities.

7. The agreements referred to in item 6 of this Decision may be concluded on bilateral and multilateral basis and shall also enclose the memorandums of cooperation concluded among the supervisory authorities.

The agreements referred to in paragraph 1 of this item shall define the exchange of information between the National Bank and other supervisory authorities regarding the issue of licenses and approvals, the conduct of supervision and undertaking actions.

8. When a bank with a head office in the RM is a part of a group where a parent entity is a bank, credit institution or financial holding company with a head office outside the RM, the National Bank shall cooperate with the supervisory authorities responsible for licensing and supervising the parent entity and other entities in the group, at least in a manner specified by the Banking Law, concerning the implementation of a common consolidated supervision approach.

9. When a bank with a head office in the RM is a part of a group where a parent entity is a financial institution other than those specified by item 8 of this Decision, with a head office outside the RM, the National Bank shall cooperate with the supervisory authorities responsible for licensing and supervising the parent entity and other entities in the group, at least in a manner specified by the Banking Law concerning the implementation of a common consolidated supervision approach.

10. If the supervisory body of the parent entity referred to in items 8 and 9 of this Decision with a head office outside the RM seeks to exercise on-site supervision of the bank with a head office in the RM, it shall submit a written notice to the National Bank.

The National Bank may act upon the notice referred to in paragraph 1 of this item by either:

- conducting on-site supervision,
- enabling the supervisory authority to conduct on-site supervision, or
- organizing joint on-site supervision.

11. For the purposes of conducting the cooperation and the supervision referred to in items 8, 9 and 10 of this Decision, the National Bank and other supervisory authorities may conclude bilateral and multilateral agreements that enclose the memorandums of cooperation concluded between the supervisory authorities.

III. SUBJECT OF CONSOLIDATION AND CONTENTS OF THE CONSOLIDATED REPORTS ON THE BANKING GROUP

12. The banking group shall operate in a manner that ensures adherence to the provisions of the Banking Law that pertain to an individual bank.

13. The banking group shall be organized in a manner that provides the bank subject to consolidated supervision to be able to monitor the risks the group is exposed to and to undertake risk management measures.

Each entity of the banking group shall have adequate systems in place which will ensure gathering data and information required for the purposes of consolidated supervision.

14. The bank subject to consolidated supervision shall compile consolidated reports on the banking group.

The consolidated reports referred to in paragraph 1 of this item shall compose of consolidated financial statements and consolidated supervisory reports.

15. The consolidated reports shall be compiled by applying the provisions of the Banking Law and the bylaws resulting thereof, taking into account the provisions of this Section.

III. 1 Consolidated financial statements

16. For the purposes of consolidated supervision, the consolidated financial statements of the banking group shall consist of:

- Income statement,
- Balance sheet,
- Report on changes in the equity and reserves,
- Cash flow report,
- Notes to the financial statements.

17. For the purposes of consolidated supervision, consolidated financial statements shall be compiled by applying the method of full consolidation of all subsidiaries in the banking group.

As an exception to paragraph 1 of this item, consolidated financial statements worked out for the purposes of consolidated supervision in line with the method of full consolidation shall not include the financial statements of the subsidiaries - insurance and reinsurance companies.

18. As an exception to item 17 paragraph 1 of this Decision, when the responsibility of the parent entity is clearly defined and restricted to its share in the equity of the subordinated entity, i.e. when the responsibility of other shareholders or members may be clearly determined, the proportional method of consolidation may be used in the process of compilation of the consolidated financial statements of the banking group for the purposes of consolidated supervision.

Besides the cases referred to in paragraph 1 of this item, the method of proportional consolidation may also apply to the equity holdings of persons/entities managed by subordinated entity included in the consolidation, together with one or several other persons/entities not included in the consolidation, provided that the liability of such persons/entities is limited to their equity holdings.

To determine the liability of other shareholders and members, the bank subject to consolidated supervision shall submit to the National Bank evidence on:

- the method of regulating the rights and liabilities between the shareholders or members;
- the amount of equity of the other shareholders or members;
- the amount and manner of calculating the capital adequacy ratio or other corresponding indicator showing the solvency of other shareholders or members.

If, on the basis of submitted data, the National Bank finds that the requirements for applying the proportional consolidation method have not been met, it shall make sure that the bank, subject to consolidated supervision, includes in the consolidated financial statements the persons/entities referred to in paragraphs 1 and 2 of this item by applying the full consolidation method. The bank subject to consolidated supervision shall submit the new consolidated financial statements within 1 month after receiving the notification submitted by the National Bank.

19. In case the subordinated entities of the banking group have equity holding different from the holding referred to in items 17 and 18 of this Decision, consolidation shall be conducted by applying the equity method.

Equity method shall also apply to the equity holding of the persons/entities referred to in item 17 paragraph 2 of this Decision.

20. Subordinated entity shall not be included in the consolidated financial statements, for the purposes of consolidated supervision in the following cases:

- when its head office is outside the RM, in a country where there are legal impediments to the transfer of information needed for consolidated supervision,

- when its inclusion has no significant influence on the financial standing of the banking group, and when the total assets of such subordinated entity do not exceed 1% of the parent entity's assets. If more subordinated entities meet this criteria, such entities will be excluded from the consolidation when they jointly do not exceed 1% of the assets of the parent entity,
- when the parent entity acquired equity holding in the subordinated entity with the intention to be disposed within the next 12 months,
- when the inclusion in the consolidation might produce misleading or inappropriate conclusions with regard to the purposes of consolidated supervision.

Regardless of the basis for exclusion from consolidation, the requirement for submitting all necessary information to the bank subject to consolidated supervision remains for all subordinate entities, as specified by the Banking Law.

21. The bank subject to consolidated supervision shall submit a notification to the National Bank on the banking group entities it intends to exclude and on the reasons behind their exclusion, 30 working days prior to the date of compiling the consolidated financial statements.
22. On the basis of the reasons specified in the notification referred to in item 21 of this Decision, the National Bank shall, within 10 working days, assess whether the proposed scope of consolidation ensures full and accurate understanding of the financial position of the banking group.

IV. 1 Consolidated supervisory reports

23. The consolidated supervisory reports shall consist of the respective reports on:

- the amount of own funds, risk-weighted assets and capital adequacy ratio ,
- large exposures,
- investments in capital holdings in non-financial institutions.

The consolidated supervisory reports shall be compiled on the basis of consolidated financial statements of the banking group and by adequate application of the rules stated by the bylaws adopted on the basis of the Banking Law that refer to the compilation of the reports referred to in paragraph 1 of this item.

V. METHODS AND DEADLINES OF REPORTING TO THE NATIONAL BANK

24. The bank subject to consolidated supervision shall submit to the National Bank a banking group composition report and consolidated banking group reports.

V. 1 Banking group composition report

25. The banking group composition report shall include a list of entities in the group and describe their connection.

The data on the entities in the group shall contain the name and head office of the entity, registration number, prevailing activity, total assets, amount of capital i.e. own funds, equity structure, equity holding and/or voting rights of other entities in the group, data on the members of the supervisory and management bodies of the entity composing the banking group, name of the supervisory authority that issued the founding and operating license to the entities in the group, name of the audit company which will audit the consolidated financial statements.

The relations and the type of connection among the entities shall be presented in a chart, showing the direct and indirect equity holdings and/or the voting rights in other entities in the group.

26. The bank subject to consolidated supervision shall submit the report referred to in item 25 of this Decision as of the end of each calendar year, to January 31 the next year.

27. Provided that, during the year, changes occur in the composition of the banking group, changes in data referred to in item 25 paragraph 2 concerning each individual entity or the relations among entities in the group, the bank subject to consolidated supervision shall submit notification to the National Bank within 30 working days after the occurrence of such changes.

28. At a special request of the National Bank, the bank subject to consolidated supervision shall prepare the report referred to in item 25 of this Decision as of day and deadline different from those stated under item 26 of this Decision.

29. When, as specified by the Banking Law, there is no banking group, a bank with a head office in the RM which is subsidiary of another legal entity, or which is a parent entity of another legal entity, shall submit to the National Bank a Report on the composition of the entire group, compiled in line with item 25 of this Decision.

The bank referred to in paragraph 1 of this item shall submit the Report on the composition of the entire group within the deadline specified by item 26 of this Decision.

If, on the basis of the Report on the composition of the entire group, the National Bank determines an existence of a banking group, it shall require from the bank referred to in paragraph 1 of this item, or another bank which, as defined by the Banking Law, is considered to be subject to consolidated supervision, to compile consolidation reports and shall set the deadlines within which the bank shall start submitting these reports to the National Bank.

V.2 Consolidated reports of the banking group

30. The consolidated reports on the banking group shall be prepared semi-annually as follows:

- non-audited consolidated reports as of June 30, and
- audited consolidated reports as of December 31.

The submission date for the reports referred to in paragraph 1 indent 1 of this item shall be September 30 in the current year, and the submission date for the reports referred to in paragraph 1 indent 2 of this item shall be May 30 the next year.

31. At a special request of the National Bank, the bank subject to consolidated supervision shall prepare the reports referred to in item 30 of this Decision as of date and deadline different from those referred to in item 30 of this Decision.

VI. CLOSING PROVISIONS

32. This Decision shall enter into force on the eighth day after its publishing in the "Official Gazette of the Republic of Macedonia".

Once this Decision enters into force, the Decision on consolidated supervision of banks ("Official Gazette of the Republic of Macedonia" no. 84/2003) shall be void.

**D. no. 02-15/I-4/2008
January 31, 2008
Skopje**

**Petar Goshev MSc.
Governor**

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