



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 64 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 82 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 the basic principles of corporate governance in a bank** **("Official Gazette of the Republic of Macedonia" No. 159/2007)**

I. GENERAL PROVISIONS

1. This Decision shall prescribe the basic principles of corporate governance in a bank.
2. The corporate governance in a bank, according to this Decision, shall denote a sum of mutual relations between the Board of Directors, other persons with special rights and responsibilities performing management function in the bank, Supervisory Board, the bank's shareholders and other interested entities.

Interested entities, under paragraph 1 of this item shall mean the depositors, other bank trustees, investors, the regulatory and supervisory bodies, credit rating agencies, Deposit Insurance Fund, audit companies and other entities interested in bank's operating.

3. Corporate governance in a bank shall denote:
 - clear organizational structure of the bank with the rights and responsibilities of the members of the supervisory and management bodies and other bank employees being precisely defined;
 - efficient procedures for identification, measurement, monitoring and control of the risk the bank is exposed to;
 - efficient internal control mechanisms, which, inter alia, include detailed administrative and accounting procedures of the bank;
 - transparency in the bank operations relative to all interested entities, in accordance with the regulations and the business policy of the bank;
 - surveillance and control systems established at least at the following levels:
 - a) surveillance by the Supervisory Board and control and monitoring of operations by the Board of Directors;
 - b) internal control systems;
 - c) integrated risk management system;
 - d) establishing function for control of the compliance with the regulations, and
 - e) independent internal audit.

II. PRINCIPLES FOR GOOD CORPORATE GOVERNANCE

4. The bank shall be required to adhere to the following principles for good corporate governance:

4.1. The members of the Supervisory Board shall be appropriately qualified, understanding their role in the corporate governance of the bank and capable in actual assessment of the bank operations.

(1) Appropriate qualifications with regard to this principles shall mean:

- university degree, at minimum;
- knowledge in the regulations in banking and/or finance area and knowledge in financial industry and environment the bank operates in;
- experience contributing to stable, safe and efficient management and surveillance of the bank operations.

(2) With regard to this principle, the member of the Supervisory Board should:

- be honest, competent, capable of giving independent assessment and have strong personal integrity;
- understand his/her role in the corporate governance and fulfill his/her supervisory role efficiently;
- know the bank's risk profile;
- know the regulations and take care of establishing and maintaining professional relations with the National Bank of the Republic of Macedonia (hereinafter referred to as: the NBRM) and other competent supervisory and regulatory institutions;
- demonstrate loyalty and care for the bank;
- avoid conflict of interest, or possible conflict of interest;
- devote enough time for active fulfillment of his/her obligations;
- estimate the functioning of the bank's Board of Directors at least once a year, with the bank's business policy and operating plans being the initial basis. The written statement on the assessment results shall state the opinion for the fulfillment of the plans and the areas, or the parts of the plans that can be implemented more efficiently. Also, according to the remuneration policy, the written statement shall propose possible rewarding of the bank's Board of Directors;
- assesses the efficiency of its own operating, identify the weaknesses in the Supervisory Board activities and propose amendments on a periodical basis;
- hold regular meetings with the Board of Directors, Risk Management Committee, Audit Committee and the bank's Internal Audit Department;
- give proposals for good corporate governance;
- take no participation in everyday management of the bank.

4.2. The bank's management and surveillance bodies shall determine and monitor the fulfillment of the strategic objectives and corporate values of the bank, informing all their employees thereof.

- (1) The Board of Directors shall prepare, and the Supervisory Board shall approve the bank's code of ethics, which shall represent a sum of professional standards and corporate values applied equally to the members of the Supervisory Board, the Board of Directors, other persons with special rights and responsibilities and other bank employees. These professional standards and corporate values refer at least to the following:
 - avoiding cases of corruption and other non-ethical behavior and activities;
 - avoiding conflict of interests;
 - transactions with affiliated entities with the bank;
 - keeping bank secret.
- (2) The transactions with affiliated entities with banks, according to this Decision, shall denote transactions representing outflow of its funds, or may possibly influence on its liquidity, profitability and solvency.
- (3) Given equal risk level set in line with the supervisory standards, the bank should not approve loans, or other form of exposure, nor perform financial activities with its affiliated entities under more favorable conditions than those pertaining to other bank clients.
- (4) The Supervisory Board shall review the report on the transactions with affiliated entities with the bank, as well as the total amount of approved credits and other forms of exposures of/towards other bank employees on a three-month basis, at minimum.

The report under paragraph 1 of this item shall contain, at least, the following: the type of the transaction, the amount of the transaction and the risk category, if the loan or other form of exposure is extended to the entity affiliated to the bank and its employee.

- (5) According to the code of ethics of the bank, the Board of Directors shall be obliged to prepare policies and procedures for identifying the potential conflicts of interest, as well as define the measures and activities undertaken in case of conflict of interest.

The policy under paragraph 1 of this item shall be approved by the bank's Supervisory Board.

- (6) The Internal Audit Department shall be obliged to perform regular audit on the application of the professional standards and corporate values of the bank.
- (7) The bank's Supervisory Board and the Board of Directors shall be obliged to establish policy and procedure enabling smooth communication and creating possibility for any bank employee to report on corruption cases and other illegal and non-ethical behavior and activities.
- (8) The reporting under item (7) of Principle 4.2. of this Decision shall be submitted by the employees to the Internal Audit Department and/or the

person or the department responsible for controlling the bank's adherence to the regulations.

- (9) Both Supervisory and the Board of Directors of the bank shall provide protection of the employees' right who reported on the events under item (8) of Principle 4.2. of this Decision.

4.3. The supervisory and management bodies shall establish appropriately defined responsibilities and reporting lines among all bank employees.

- (1) According to this Principle, the supervisory and management bodies shall be obliged, in conformity with the volume and the type of its activities to enable understandable, transparent and documented decision-making procedure and clear and consistent segregation of rights and the responsibilities.
- (2) The bank's Supervisory Board and the Board of Directors shall be required to cooperate on a permanent basis. The Supervisory Board shall be obliged to define in details its rights and responsibilities, the rights and the responsibilities of the Board of Directors, as well as the cooperation between these two bodies.

The cooperation between the Supervisory Board and the Board of Directors should especially refer to the following:

- defining the bank's business objectives;
- strategies for undertaking and management of risks;
- the bank's risk profile;
- policies for fulfillment of the business objectives and the objectives relative to the bank's risk profile.

The cooperation between the Supervisory Board and the Board of Directors should be documented. The bank shall be required to manage documentation referring to the following:

- defining the duties and the responsibilities of both Supervisory Board and Board of Directors, including the operating procedures;
 - minutes from the meetings of the Supervisory Board and the Board of Directors; and
 - other documentation on the basis of which the NBRM may assess the functioning of the Supervisory Board and the Board of Directors.
- (3) If a member of the Supervisory Board considers that the decisions adopted by the Supervisory Board conflict the business objectives, strategies and the policies of the bank, as well as the responsibilities and the tasks of this body, stipulated in the Banking Law and the bank's internal acts, s/he shall be required to state his/her opinion in written together with appropriate explanation, which is enclosed in the minutes from the meeting of the Supervisory Board.

- (4) If a member of the Board of Directors deems that the decisions adopted by the Board of Directors conflict the business objectives, strategies and policies of the bank, and conflict the responsibilities and the tasks of this body envisaged in the Banking Law and the bank's internal acts, s/he shall be obliged to state his/her opinion in written together with appropriate explanation.
- (5) The Supervisory Board of the bank should be certain that the members of the Board of Directors and the other persons with special rights and responsibilities performing management in the bank had established efficient internal control system. At least once a year, the Board of Directors shall submit report to the Supervisory Board on the layout and the efficiency of the internal control system.
- (6) The Supervisory Board shall submit annual report on its operating to the bank's Meeting of Shareholders.

The Report under paragraph 1 of this item shall contain the data on the following:

- the manner the supervisory function is preformed in;
- the cooperation with the Board of Directors;
- the internal organization and structure of the Supervisory Board;
- possible conflict of interests and the manner in which it was resolved;
- the results from assessing its own operating, by individual members and collectively;
- presence of each member on the meetings of the bank's Supervisory Board, and
- performing other operations, according to law.

4.4. The bank's Supervisory Board should be sure that the Board of Directors and other persons with special rights and responsibilities perform appropriate surveillance and monitoring of the bank's operating.

- (1) The Board of Directors shall be required to set the rights and the responsibilities of the other persons with special rights and responsibilities performing management in the bank and it shall consistently supervise their fulfillment.
- (2) The persons with special rights and responsibilities performing management in the bank, within their competence, shall define and segregate the duties and the responsibilities of the employees and it shall constantly monitor their fulfillment.
- (3) The person with special rights and responsibilities performing management in the bank should be skilled and capable of managing the activities within his/her competence and implement efficient monitoring on the operating of the employees, which are directly liable to him/her.

4.5. The Supervisory Board, the Board of Directors and other persons with special rights and responsibilities performing management in the bank, should

efficiently use the work of the Internal Audit Department in the bank, as well as the operating of the audit company.

(1) The Supervisory Board, the Board of Directors and the other persons with special rights and responsibilities performing management in the bank shall be required to contribute to enhanced efficiency of the internal audit in the bank through the following:

- providing total independence in the implementation of the internal audit;
- providing objectiveness and neutrality in the implementation of the internal audit, by excluding the possibility for engagement of the employees of the Internal Audit Department in other activities in the bank;
- providing environment for access to all documents and information necessary for performing internal audit, as well as the possibility for direct communication with any bank employee;
- timely and efficient recognition of the findings and implementation of the internal audit recommendations;
- promotion of the internal audit independence;
- engagement of the internal audit in estimating the effectiveness of the internal audit systems and risk management.

(2) The scope of the bank's internal audit shall, at least, consist of the following:

- control and assessment of the appropriateness and effectiveness of the internal control systems;
- the inspection and the assessment of the implementation and the effectiveness of the procedures and the methodologies pertaining to risk management;
- the inspection and assessment of the information system layout, especially including: the information system for the needs of the management, the electronic information system, etc.;
- inspection and assessment of the correctness and reliability of the trade books and financial statements;
- inspection and assessment of the bank's systems for estimating the capital base adequacy relative to the estimated risks;
- estimation of both effectiveness and efficiency of the bank operations;
- testing of certain transactions and the functioning of the appropriate internal control procedures;
- inspection in the bank's systems providing its compliance with the legal requirements, the code of ethics and the implementation of the policies and procedures;
- testing of the accurateness, trustworthiness and timeliness in reporting, according to the regulation;
- carrying out special reviews.

The Board of Directors provides conditions according to which the Internal Audit Department is fully and timely informed on the developments in the bank of

higher importance, on the introduction of new products and other operational changes.

- (3) The Supervisory Board establishes the internal audit function on a permanent basis, through creating special organizational unit.

With exception to paragraph 1 of this item, if from justified reasons, the organizational unit for internal audit is not in possibility to perform the function, the bank's Supervisory Board, in order to provide continuity in the functioning and fulfillment of annual plan for internal audit, may engage external entity that will temporarily perform the function for continuous period of four months at most, within a one year period.

The entity under paragraph 2 of this item shall be obliged to adhere to the principles and regulations for the internal audit, prescribed in this Decision and other regulations.

- (4) The bank shall be obliged to inform the NBRM on the terms and the conditions under which the entity under paragraph 2 of this item was engaged.
- (5) When selecting the audit company, auditing the financial statements and the bank's operations, the Supervisory Board and the Audit Committee shall:
- establish a system providing the audit company to operate in conformity with the International Audit Standards, the Code of Ethics for Professional Accountants set by the International Federation of Accountants, with the respective regulation pertaining to the scope of audit of the operations and the annual financial statements of the bank and with other regulations setting the operations of the audit company;
 - providing periodical rotation of the audit company, which audit annual financial statements.

4.6. The Supervisory Board and the Board of Directors should be certain that the remuneration policy and the appropriate procedures are in line with the corporate culture, the long-term objectives and the strategy, as well as with the control environment of the bank.

- (1) The bank's Supervisory Board shall adopt a policy for remunerating the members of the Board of Directors, other persons with special rights and responsibilities performing management and the bank employees.

The policy under paragraph 1 of this item shall contain rules and criteria for determining the variable amount of the compensation, the annual bonuses and the other non-monetary income.

- (2) When defining the remuneration policy of the members of the Board of Directors, the following criteria shall be taken into consideration:

- the volume of the competencies of each member of the Board of Directors;
 - the successfulness in performing the function - member of the Board of Directors;
 - the volume of the operating and the bank's financial standing;
 - the complexness in the bank management, having in mind the volume and the complexness of the activities and its organizational structure;
 - the implementation of the strategy and the annual plan of activities;
 - the economic conditions the bank acts under.
- (3) The remuneration policy shall obligatory be approved by the bank's Meeting of Shareholders if it envisages receiving compensation in form of shares or other rights enabling acquiring shares.
- (4) The decision on rewarding shall be adopted by the Remuneration Committee, the members of which should obligatory be the independent members of the bank's Supervisory Board.

The decision under paragraph 1 of this item shall be adopted by the bank's body that appoints the members of the respective body the decision on remuneration pertains to.

- (5) The annual report on the bank's operating also contain data on the remuneration policy of the bank's Board of Directors, pertaining at least to the following elements: variable and fix compensation in place, including also the approval of annual bonuses, the basic remuneration criteria, the amount of the wages of the members of the Supervisory Board and the Board of Directors and of other persons with special rights and responsibilities performing management in the bank, as well as the amount of extended loans and other forms of exposures and other assumed liabilities to these persons.

4.7. Providing transparency of the corporate governance in the bank.

- (1) The bank shall disclose data and information on its corporate governance.
- (2) The information and the data under item (1) of Principle 4.7. should be accurate, important, timely and available to all entities that requires them.
- (3) The banks shall be obliged to prepare a corporate governance report on an annual basis.
- (4) The report on the corporate governance shall be an integral part of the annual report on the bank operations, except otherwise regulated.
- (5) The report on the corporate governance shall contain:
- information and data on the composition and the functioning of the Supervisory Board and the Board of Directors and other bank bodies (information on the number and the composition of the bank bodies, the procedure for appointing and dismissing members, their qualifications, the

criteria for independence for a member of the Supervisory Board and the Audit Committee, defining of the material interest and business relations with the bank, the obligations and the responsibilities of the members of both Supervisory and Board of Directors, the functions of the members of the Supervisory Board outside the bank, etc.);

- information and data on the organizational structure of the bank, including its subsidiaries;
- the bank's shareholders structure - the title of the shareholders with qualified holding and their share in the total number of shares and the total number of issued voting shares and their representatives in the bank's Supervisory Board;
- information and data related to the application of the Corporate Governance Code of the bank, defined in section III of this Decision, as well as explanation of the compliance, i.e. the reasons for the non-compliance of the corporate governance of the bank with certain provisions or guidelines of the Corporate Governance Code applying in the bank;
- information and data on the bank's conflict of interests prevention policy.

4.8. The bank's Supervisory Board and the Board of Directors shall know their operational structure, including also the cases when the bank operates in other countries, or through other structures reducing the transparency (i.e. "know your structure" principle).

- (1) In case the bank operates in other countries, or acts through structures that reduce its transparency, the Supervisory Board and the Board of Directors of the bank shall be required to establish policies and procedures through which:
 - the need for activities of the bank in other countries or through complex structures reducing its transparency shall be estimated;
 - all possible risks, including also the legal and reputation risk arising from such activities shall be managed;
 - the procedure for approving transactions, or new products (approving the bank exposure limits, defining the measures for reducing the legal and reputational risk, regular reporting on the volume of activities performed in the countries, or through structures lowering the bank transparency) shall be defined;
 - the compliance of the banks' activities in these countries with the laws, the regulation and the internal acts and policies of the bank shall be regularly monitored;
 - the verification of these activities by both internal and external audit shall be performed on regular basis.

The bank's Supervisory Board shall regularly be informed on the bank activities in the countries, or through other structures that reduce its transparency.

III. CORPORATE GOVERNANCE CODE IN BANKS

5. The bank's Supervisory Board shall be obliged to prepare and adhere to the Corporate Governance Code in the bank, encompassing the rules for governing the bank and those for supervising the governance.

The bank's Meeting of Shareholders shall adopt the Corporate Governance Code.

6. During the preparation of the Corporate Governance Code, the bank shall comply with this Decision and other regulations pertaining to the corporate governance.
7. The Corporate Governance Code shall be subjected to revision at least once a year.
8. The Corporate Governance Code shall contain the data on the following:
 - procedure for convening the Meeting of Shareholders, the voting procedures, shareholder's rights, including the right of the minority shareholders;
 - cooperation between the Supervisory Board and the Board of Directors, the type, the deadlines and the manners in which the Board of Directors submits information and documents to the Supervisory Board and the procedure in cases of conflict of interest.
 - the obligations and responsibilities of the Supervisory Board, the Board of Directors and other bodies and the manner they operate in;
 - the criteria and the rules for appointing members of the Supervisory Board and the manner in which they receive their remuneration;
 - criteria and rules for appointing members of the Board of Directors of the banks, the members of the Audit Committee, the members Risk Management Committee and other bank bodies;
 - the role, the meaning and the operating area of the internal audit, the external audit and the organizational part competent for performing compliance function; and
 - other elements regulated with this Decision and other regulations within this domain.

IV. COMPLIANCE FUNCTION

9. The compliance function shall denote identification and monitoring of the possible risks from non-complying the bank operations with the regulations.
10. The risk from the non-compliance of the bank operations with the regulations, according to this Decision, shall be defined as a risk of the bank exposure to legal or regulatory sanctions and risk of financial losses and jeopardizing the bank's reputation as a result of the non-compliance of the bank operations with the regulations.

11. Regulations, according to this Decision, shall denote legal act and by-laws, rules and procedures and standards effective in the Republic of Macedonia, other market usance and codes, as well as internal act of the bank.
12. The compliance function is in conformity with the bank's risk management strategy.
13. The Board of Directors shall be required to prepare and implement written policy for constant and efficient compliance function and to establish a system which shall ensure appropriate implementation in the bank operations.
14. The Supervisory Board shall be obliged to conduct oversight on management of the risk for the bank non-compliance with the regulations.
15. The Supervisory Board shall adopt the policy for constant and efficient implementation of the compliance function.
16. The supervisory and management bodies shall be required to provide complete independence of the compliance function through the following:
 - providing its formal status in the bank;
 - appointing person, or organizing organizational unit for performing the compliance function;
 - ensuring that the compliance function is placed in position that will not provoke conflict of interests;
 - providing access to all information necessary for the person, i.e. employees in the department responsible for performing the compliance function;
 - establishment of mechanism for continuous cooperation between the person, or the department responsible for performing compliance function and persons responsible for risk management.
17. The person, i.e. employees in the department responsible for performing compliance function shall be required:
 - to follow and to comply with the regulations pertaining to the bank operations;
 - to identify and monitor the risk of non-compliance of the bank operations with the regulations;
 - to monitor and test the compliance function and report to the Board of Directors for the determined incompliance and undertaken corrective actions for their overcoming;
 - to advise the members of the Board of Directors constantly and efficiently on the application of the regulations;
 - to report to the members of the Board of Directors on time on the amendments of the regulations;
 - to assess the potential influence of the amendments of the regulation on the bank operations and the environment the bank operates in;
 - to assess the harmonization of the new products and business processes in the bank with the laws and by-laws;

- to provide training and information of the employees for the manners the relevant laws and by-laws can be implemented in their everyday operating;
 - to fulfill other legal obligations (for ex. money laundry prevention activities);
 - to cooperate with other institutions;
 - to document its operations and to submit regular reports to the Board of Directors and the Supervisory Board of the bank, according to the principles.
18. The activities carried out by the person or the entity responsible for performing compliance function shall be subjected to regular audit executed by the bank's Internal Audit Department.

V. CLOSING PROVISIONS

19. This decision shall enter into force the eighth date from its publishing in the "Official Gazette of the Republic of Macedonia" and its implementation shall commence on December 31, 2008.

D.No. 02-15/XII-9/2007
December 27, 2007
Skopje

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Governor
and President of the
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