



## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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Pursuant to Article 31 and Article 64 paragraph 1 item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" no. 3/2002, 51/2003, 85/2003, 40/2004, 61/2005 and 129/2006) and Article 71 paragraph 8 and Article 72 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 exposure limits ("Official Gazette of RM" No. 31/2008)**

#### **I. GENERAL PROVISIONS**

1. This Decision sets forth:

- the scope of the bank's total exposure to individual person/entity,
- the manner of determining bank's exposure limits,
- the manner of determining limits on bank's capital holdings in non-financial institutions,
- the internal systems for monitoring of exposures and capital holdings,
- the limits on exposure and capital holdings in non-financial institutions on consolidated basis,
- the contents, the manner and deadlines for reporting to the National Bank of the Republic of Macedonia (hereinafter: the National Bank).

#### **II. SCOPE OF BANK'S EXPOSURE TO INDIVIDUAL PERSON/ENTITY**

2. The bank's exposure to individual person/entity shall include the bank's total on-balance sheet and off-balance sheet claims on such person/entity, securities investments issued by such person/entity and capital holdings in such person/entity (hereinafter: total exposure).

The total exposure to individual person/entity shall be the sum of:

- bank's exposure to individual person/entity arising from the banking book  
and
- bank's exposure to individual person/entity arising from the trading book.

3. As an exception to item 2 of this Decision, the total exposure to individual person/entity shall not include:

- in case of foreign currency transaction settlement, the exposure that occurred within 48 hours after the payment,
- in case of settlement of transactions of purchasing or selling securities, the exposure that occurred within three business days after the payment date or after the securities delivery date, whichever occurred earlier.

The calculation of the total exposure to individual person/entity shall not include items, which, as specified by the Decision on methodology for determining capital adequacy, are deductions from the bank's own funds.

4. The bank's exposure to individual person/entity, arising from the banking book, shall include all on-balance sheet and off-balance sheet assets claims on such person/entity which, according to the Decision on credit risk management, are considered credit risk exposure (hereinafter: credit risk exposure).

The on-balance sheet and off-balance sheet assets claims referred to in paragraph 1 of this item shall be presented in a net amount, by applying accounting standards stated by the Banking Law and the bylaws resulting thereof, as a difference between their carrying value and the respective impairment, i.e. special reserve, accumulated amortisation and effects from the change in the fair value.

5. Bank's exposure to individual person/entity arising from the trading book (hereinafter: market risk exposure) shall be a sum of the following items:

- difference between the long and the short position in all instruments issued by the individual person/entity, only the value of such difference is positive,
- bank's net-position in equities or debt instruments issued by individual person/entity, the issue of which is underwritten by the bank,
- positions related to transactions and agreements with the individual person/entity exposing the bank to settlement/delivery risk and counterparty risk.

The bank shall determine the positions referred to in paragraph 1 of this item in accordance with the provisions on the Decision on methodology for determining capital adequacy.

6. Large exposure to individual person/entity shall be the total exposure equal or higher than 10% of the bank's own funds specified under item 9 paragraph 1 of this Decision.

Should the large exposure to individual person/entity includes only credit risk exposure, the bank's own funds shall be determined as specified by item 9 paragraph 2 of this Decision.

7. The bank shall include the amount of deductions referred to in item 18 of this Decision in the large exposure calculations.

8. Individual person/entity, for the purposes of this Decision, shall be any bank's client, including shareholder and person with special rights and responsibility of the bank and any legal entity and natural persons, who, according to the Banking Law and the bylaws resulting thereof, are considered person/entity connected to such client, shareholder or person with special rights and responsibilities.

9. For the purposes of determining and monitoring the limits stated by this Decision, the bank's own funds shall be calculated as specified by the Decision on methodology for determining the capital adequacy.

As an exception to paragraph 1 of this item, if the total exposure to individual person/entity includes only credit risk exposure, the bank's own funds shall be the sum of the core capital and the supplementary capital I, less the deductions from the core capital and the supplementary capital I, i.e. the own funds shall not include the supplementary capital II.

10. For the purposes of this Decision, capital holdings in non-financial institutions shall not include capital holdings in ancillary service undertakings of the bank.

### **III. EXPOSURE LIMITS**

11. The total exposure to individual person/entity shall not exceed 25% of the bank's own funds.

12. The total exposure to bank's subsidiary shall not exceed 10% of the bank's own funds.

13. The total exposure to individual person/entity who is shareholder with qualified holding in the bank shall not exceed 10% of the bank's own funds.

14. The total exposure to individual person who is a person with special rights and responsibilities in the bank shall not exceed 3% of the bank's own funds.

The determination and monitoring of the limit referred to in paragraph 1 of this item shall not include bank's exposure to shareholder who appointed such person with special rights and responsibilities to be its representative in the bank's bodies. The total exposure to the person with special rights and responsibilities and the shareholder, who appointed him/her for its representative in the bank's bodies, shall not exceed the limit referred to in item 13 of this Decision.

15. The amount of total exposure to persons stated under items 12, 13 and 14 of this Decision shall not exceed 65% of the bank's own funds.

16. The total amount of large exposures shall not exceed eight times the amount of bank's own funds.

In the determination of the limit referred to in paragraph 1 of this item, the total amount of large exposures shall be decreased by the amount of deductions referred to in item 18 of this Decision.

17. When the bank's total exposure and large exposure to individual person/entity includes only credit risk exposure, the limits under items 11, 12, 13, 14, 15 and 16 of this Decision shall be calculated as a ratio of a credit risk exposure to own funds, determined according to item 9 paragraph 2 of this Decision.

18. When determining and monitoring of the exposure limits referred to in items 11, 12, 13, 14 and 15 of this Decision, the bank may exclude the following items, which are considered deductions, from the total exposure to individual person/entity:

- a) exposures collateralized with cash deposit and cash in the depot, to the amount of cash deposit, i.e. cash in the depot, which entails fulfilling of the following requirements:
- the cash deposit maturity shall be equal or longer than the maturity specified in the exposure agreement, i.e. cash in the depot may be withdrawn only if the bank's exposure is fully settled,
  - there is a written document proving the purpose of the deposit, i.e. the cash in the depot, as a collateral for the bank's exposure,
  - in case of foreclosure, the bank shall be the sole user of the deposit, i.e. cash in the depot and
  - the foreclosure to occur when the client is in default on liabilities arising from the exposure agreement.

Cash deposit shall also include certificates of the deposits issued by the bank.

- b) exposures to the National Bank and exposures collateralized by securities issued by the National Bank,
- c) exposures to the Republic of Macedonia and exposures collateralized by irrevocable, unconditional guarantees payable on first written call and securities issued by the Republic of Macedonia ,
- d) exposures to the European Central Bank and to governments and central banks of the EU member-states, Switzerland, Canada, Japan, Australia, Norway and the USA and exposures collateralized by irrevocable, unconditional guarantees payable on first written call and securities issued by the European Central Bank and by the governments of these countries or their central banks,
- e) exposures to multilateral development banks, as defined by the Decision on methodology for determining the capital adequacy and exposures collateralized by irrevocable, unconditional guarantees and securities issued by these banks,
- f) exposures collateralized with securities:
- that are valued daily, at their market value,

- the market value of which exceeds the collateralized exposure value as follows: 50% - in case of debt instruments issued by first-class banks, defined by the Decision on the methodology for determining the capital adequacy; 150% - in case of shares and 100% - in case of all other securities,
  - that are traded on the stock exchange or other regulated market that enables verification of their market value at all times, in order to determine whether the requirement referred to in indent 2 of this sub-item has been met,
  - the maturity of the debt securities is equal or longer than that indicated in the agreement on the collateralized exposure and
  - that are not part of the bank's own funds.
- g) exposures collateralized by irrevocable, unconditional guarantees issued by first-class bank, defined by the Decision on the methodology for determining capital adequacy.

The exposures referred to in paragraph 1 of this sub-item shall be considered exposures to first-class bank that issued the irrevocable unconditional guarantee.

- h) off-balance sheet items that, as specified by the Decision on the methodology for determining capital adequacy, get 0% conversion factor,
- i) off-balance sheet items that, as specified the Decision on the methodology for determining capital adequacy, get 20% conversion factor, only in the amount of up to 50% of the value of such off-balance sheet items.

When determining and monitoring the exposure limits of first-class banks, the bank shall include 20% of the credit risk exposure to individual bank. The exposure to first-class bank shall also include the exposures referred to in paragraph 1 sub-item g) of this item.

The bank may determine the exposure to first-class banks as defined by paragraph 2 of this item, only if such items are not included in the amount of own funds of such banks.

19. The bank shall, at all times, observe the exposure limits stated by this section.

20. As an exception to item 19, the bank may exceed the exposure limits stated by this section if:

- the exceeding resulted from merger and acquisition of two legal entities,
- the exceeding resulted from reasons beyond control of the bank,
- the exceeding resulted from market risk exposure.

21. In the cases referred to in item 20 indents 1 and 2 of this Decision, the bank shall, within five business days after the occurrence of the exceeding, submit to the National

Bank written elaboration, indicating the reasons behind the exceeding and the measures it has taken to comply with the set limits.

The bank shall not increase the exceeding referred to in item 20 indents 1 and 2 of this Decision.

The National Bank may require from the bank to comply with the set exposure limits within a certain time period, by assigning measures for that purpose.

22. The bank may achieve the exceeding referred to in item 20 indent 3 of this Decision, if the following requirements have been met:

- if the exceeding results solely from the higher amount of market risk exposure, i.e. if the bank's credit risk exposure to individual person/entity does not exceed the exposure limits,
- if the bank holds an adequate amount of capital requirement for the exceeding of the exposure limits, specified by the Decision on the methodology for determining capital adequacy,
- if the market risk exposure to individual person/entity where the exceeding of the exposure limits that lasts for ten days or less, does not exceed 500% of the bank's own funds, as defined by item 9 paragraph 1 of this Decision,
- if the exceeding of the market risk exposure to individual person/entity that lasts for more than ten days, does not exceed 600% of the bank's own funds, as defined by item 9 paragraph 1 of this Decision.

The bank shall not take activities that imply avoiding the liability for allocating and holding capital requirement for exceeding exposure limits, by temporary transfer of such exposure to other person/entity or by conducting unrealistic transactions that enable closing of the exceeding and creating a new exposure, after the end of the reporting period referred to in item 38 of this Decision.

The bank shall have an adequate system for preventing the transfer of exposure referred to in paragraph 2 of this item. If the bank makes such transfers, it shall notify the National Bank the next day.

#### **IV. LIMITS ON CAPITAL HOLDINGS IN NON-FINANCIAL INSTITUTIONS**

23. Individual bank's capital holding in non-financial institution shall not exceed 15% of the bank's own funds.

The aggregate amount of capital holdings in non-financial institutions shall not exceed 30% of the bank's own funds.

For the purposes of determining and monitoring the limits referred to in paragraphs 1 and 2 of this item, the own funds shall be determined under item 9 paragraph 2 of this Decision.

24. The bank shall not exert control in the non-financial institutions.

25. When determining and monitoring the capital holding limits referred to in item 23 of this Decision, the bank shall not include the items below, considered to be deductions:

- capital holdings acquired on the basis of uncollected claims only in the first three years after being acquired,
- capital holdings acquired by underwriting issue of shares of non-financial institution,
- capital holdings acquired when the bank acts on behalf of its client when performing investment services for such client,
- capital holdings acquired for trading.

26. The bank shall permanently observe the limits and restrictions defined in this Section.

27. As an exception to item 26 of this Decision, the Bank may exceed the capital holding limits referred to in item 23 of this Decision if the total amount of exceeding has been covered by adequate amount of own funds, i.e. if the amount of exceeding represents deduction from the bank's own funds.

If the bank exceeds one of the limits referred to in item 23 of this Decision, deduction shall be the amount of the limit exceeding. If the bank exceeds the both indicated limits, deduction shall be whichever higher amount of exceeding of the both limits.

## **V. INTERNAL SYSTEMS FOR MONITORING OF EXPOSURES AND CAPITAL HOLDINGS**

28. The bank shall have the following in place:

- procedures for monitoring the exposure to individual person/entity, including the monitoring of capital holdings in non-financial institutions,
- adequate IT system for timely identification and monitoring of large exposures and of the interconnection of the clients and of the persons/entities connected to the bank,
- internal limits of exposure to certain clients, individually and with the connected persons,
- systems for monitoring the observance of the legally set exposure limits and of the established internal limits,
- system for timely information to the bank's bodies on the adherence to the established limits and exceeding, if any, thus ensuring undertaking of actions

in due course by the bank's bodies, depending on their activities stated under the Banking Law and the bylaws resulting thereof and the bank's internal acts.

29. By January 31 each year, the persons with special rights and responsibilities and shareholders with qualified holding in the bank, after the insight in the list of bank's shareholders and borrowers, shall complete a statement indicating the bank's clients who, according to the Banking Law and bylaws resulting thereof, are considered connected thereto.

30. Person with special rights and responsibilities who is granted an exposure or connected to the person who was granted an exposure, shall not take part in the decision making on granting the exposure.

31. The bank shall maintain and permanently update the list of persons with special rights and responsibilities and shareholders with qualified holding and bank's clients connected thereto.

32. The bank shall not grant any exposure to a new client without providing documentation for its ownership structure and for the composition of its supervisory and management bodies and without making the required checks for the connection of the new client with the other bank's clients, its shareholders and persons with special rights and responsibilities.

The bank shall permanently update the documentation on the ownership structure and the composition of the management bodies of the bank's existing clients.

33. Each acquisition of capital holdings in individual person/entity or purchase of securities issued by individual person/entity, other than the National Bank and the Republic of Macedonia, equal or above 5% of the bank's own funds, and each large exposure to individual person/entity, shall be approved by a decision of the bank's Supervisory Board.

Decision of the Supervisory Board shall also be required for each increase, which makes the total exposure to individual person/entity equal or above 15% and 20% of the bank's own funds.

When the exposure to individual person/entity exceeds the restrictions referred to in paragraphs 1 and 2 of this item as a result of the reduction in the bank's own funds, the bank's Supervisory Board shall adopt the respective decision within one month after the exceeding occurred.

## **VI. EXPOSURE LIMITS AND LIMITS ON CAPITAL HOLDINGS IN NON-FINANCIAL INSTITUTIONS ON CONSOLIDATED BASIS**

34. Banking group, as defined by the Banking Law, shall observe the limits specified by this Decision that pertain to individual bank.

35. The total exposure, credit risk exposure, market risk exposure and large exposure to individual person/entity on consolidated basis shall be the sum of the respective exposures of the banking group entities to such individual person/entity.



The capital holding in the non-financial institution and the aggregate amount of capital holdings in non-financial institutions on consolidated basis shall be the sum of the respective capital holdings in non-financial institutions of the banking group entities.

36. The amount of own funds on consolidated basis shall be determined in accordance with the Decision on the methodology for determining capital adequacy.

The provisions of item 9 of this Decision shall be taken into account in the determination and monitoring of the limits referred to in this Decision on consolidated basis.

## **VII. CONTENTS, MANNER AND DEADLINES FOR REPORTING TO THE NATIONAL BANK**

37. The bank shall compile reports on the implementation of this Decision including data on:

- large exposure to individual person/entity, including data on the amount of credit risk exposure and the amount of market risk exposure,
- total amount of large exposure, including data on the total amount of credit risk exposure and the total amount of market risk exposure,
- total exposure to persons/entities related with the bank, including data on the amount of credit risk exposure and the amount of market risk exposure,
- amount of deductions from the total exposure to individual person/entity,
- amount of exceeding the exposure limits in a manner defined by this Decision and the exceeding period,
- amount of capital holding in non-financial institution,
- aggregated amount of capital holdings in non-financial institutions,
- amount of deductions from capital holdings in non-financial institutions,
- amount of exceeding of the capital holding limits in a manner defined by this Decision and the exceeding period.

38. The bank shall compile the report referred to in item 37 of this Decision as of March 31, June 30, September 30 and December 31 and shall submit it to the National Bank.

The submission date of the report as of December 31 shall be five working days after the expiration of the submission date for the non-audited annual financial statement.

The submission date of the report as of March 31, June 30 and September 30 shall be fifteen working days after the expiration of the period the report refers to.

As an exception to paragraph 1 of this item, the bank subject to consolidated supervision shall submit a report on exposure limits and limits on capital holding in non-financial institutions on consolidated basis according to the accounting value as of June 30 and December 31, within 30 days after the expiration of the deadlines referred to in paragraphs 2 and 3 of this item that refer to submitting the exposure limits and capital holding limits report on individual basis.

39. At a special request of the National Bank, the bank shall compile a report as of date and within deadlines different from those indicated in item 38 of this Decision.

40. The bank shall prepare the first report referred to in item 37 of this Decision as of June 30, 2008 and submit it to the National Bank within the period stated under item 38 of this Decision.

41. The bank shall submit the statements referred to in item 29 of this Decision by February 10 each year.

42. The Governor of the National Bank shall adopt instructions for implementation of this Decision.

#### **VIII. TRANSITIONAL AND CLOSING PROVISIONS**

43. The provisions of this Decision that apply to banks, shall respectively apply for foreign bank branches and savings houses, in accordance with the Banking Law and the bylaws resulting thereof.

For determining the exposure limits of a foreign bank branch, own funds shall be considered the deposit required to be available to the branch, under the Banking Law.

44. This Decision shall enter into force on the eighth day after the date of its publication in the "Official Gazette of the Republic of Macedonia", and shall start being applied on June 30, 2008.

Once this Decision starts being applied, the Decision on bank's credit exposure limits ("Official Gazette of the Republic of Macedonia" no. 1/2004 - revised text) shall become void.

**D. no. 02-15/II-4/2008**  
**February 28, 2008**  
**Skopje**

**Petar Goshev, MSc.**  
**Governor**

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