



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

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Pursuant to Article 64 paragraph 1 item 9, in conjunction with Article 24 and Article 32 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 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 manner of conducting supervision and inspection ("Official Gazette of the Republic of Macedonia" no. 31/2008)**

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

1. This Decision sets forth the manner of conducting bank supervision and inspection (hereinafter: supervision) and in more details regulates the responsibilities and the procedures of the assigned supervisors in the National Bank of the Republic of Macedonia in the process of conducting supervision through:

- off-site supervision,
- on-site supervision,
- on-site inspection,
- maintaining contacts with members of the bank's bodies and with the audit company, and
- cooperation and exchange of data and information with other supervisory authorities.

2. Assigned supervisors, for the purposes of this Decision, shall be employees of the National Bank who:

- based on authorization granted by the Governor of the National Bank, conduct bank on-site supervision or inspection, and
- when performing their tasks, gather, verify and analyze the reports and data the bank is required to submit to the National Bank of the Republic of Macedonia, as specified by the provisions of the Banking Law, the bylaws resulting thereof and other regulations.

#### **II. CONTENTS AND SCOPE OF SUPERVISION**

3. During the bank supervision, the National Bank assesses the bank's safety, soundness, risk exposure and regulations compliance by:

- assessing the bank's capability for risk management, including the staffing, the organizational and technical equipment for performing bank and financial activities,

- assessing the bank's capital adequacy taking into account the bank's risk profile and its capability for risk management,
- assessing the bank's business policy and strategy,
- supervising the organization and the method of maintaining business records, the business and accounting documentation with respect to their accuracy, update and reliability, application of accounting regulations and accounting standards and whether the bank compiled the financial statements as specified by the applicable regulations concerning financial reporting,
- examining of whether the reports and data the bank submits to the National Bank have been submitted within the deadlines and whether they have been compiled in line with the regulations governing the bank's operations,
- assessing whether the bank meets the requirements for performing bank and financial activities and the bank's compliance with the founding and operating license, the bank's internal acts and the regulations adopted by the National Bank and other relevant institutions and authorities,
- examining and verifying the functioning of the bank's internal control system, corporate governance system, anti-money laundering system and the management information system;
- assessing the election and the method of conducting audit by audit company and the audit report on the bank's operations and annual financial statements,
- assessing the internal audit operations and efficiency,
- assessing the application of the IT security standards and the business continuity plan.

### **III. MANNER OF CONDUCTING SUPERVISION**

4. The National Bank shall perform its supervisory function through:

- off-site bank supervision by gathering and analyzing the reports and data the bank submits to the National Bank in line with the Banking Law, the bylaws resulting thereof and other regulations,
- on-site full-scope or targeted bank supervision, by assessing the bank's safety, soundness, risk exposure and regulations compliance,
- on-site full-scope or targeted bank inspection, by determining the bank's compliance with the regulations,
- maintaining contacts with the bank's body members and with the audit company, and
- cooperation and exchange of data and information with other supervisory authorities.

### **IV. OFF-SITE BANK SUPERVISION**

5. The off-site bank supervision shall be a system of procedures and processes based on ongoing monitoring of the bank's operations and changes in the bank's operations, by

analyzing the reports and data the bank is required to submit to the National Bank as specified by the Banking Law, the bylaws resulting thereof and other regulations.

The Banking Law allows for the assigned supervisors, besides the reports and data referred to in paragraph 1 of this item, to request additional reports, data and statements from the staff members.

6. The assigned supervisors referred to in item 2 indent 2 of this Decision, who conduct ongoing off-site bank supervision, shall:

- identify whether the reports and data have been submitted within the specified deadlines, in the required form and manner,
- verify whether the amounts stated in the reports submitted to the National Bank have been logically accurate and whether they match the data stated in the monthly report on the balance and the transactions on all accounts in the bank's chart of accounts,
- make analysis of the trends in the bank's operations and assess its safety and soundness;
- develop risk profile and supervisory strategy for the bank in accordance with the internal rules adopted by the Governor of the National Bank,
- prepare reports on misdemeanors identified by supervising the reports and data submitted to the National Bank,

## **V. ON-SITE BANK SUPERVISION**

7. The on-site bank supervision shall be a system of procedures and processes for determining the bank's safety, soundness, risk exposure and regulations compliance, applying the internal rules adopted by the Governor of the National Bank.

The on-site bank supervision shall be conducted by the assigned supervisors referred to in item 2 indent 1 of this Decision.

8. On-site bank supervision shall be conducted according to a pre-specified on-site supervision plan, approved by the Governor of the National Bank or if needed, in case the off-site supervision shows that the bank's operational trends have deteriorated, thus adversely affecting its safety and soundness, and for determining the bank's responsiveness to the measures imposed by the Governor of the National Bank.

The supervision plan referred to in paragraph 1 of this item shall rests on the risk profiles and supervisory strategies defined within the off-site bank supervision.

9. The National Bank shall submit a notice to the bank on its intention to conduct on-site supervision within a period not shorter than thirty days prior to the commencement of the on-site bank supervision.

The notice referred to in paragraph 1 of this item shall contain data on the subject of supervision, the supervisor in charge, the supervision commencement date, the planned duration and the request for submitting data and information required for conducting the supervision.

The notice referred to in paragraph 1 shall specify data and information the bank is required to submit to the National Bank prior to the commencement of the supervision and the data and information which are to be compiled as of the supervision commencement date.

Data and information referred to in paragraph 3 of this item required from the bank to submit to the National Bank shall be submitted within fifteen days upon receipt of the notice referred to in paragraph 1 of this item.

Data and information referred to in paragraph 3 of this item shall be comprehensive, accurate and final and the bank shall not change them in the course of supervision.

10. Prior to the commencement of the on-site targeted supervision, the National Bank shall not be bound to submit a notice to the bank on its intention to conduct on-site targeted supervision.

As an exception to paragraph 1 of this item, the National Bank may submit a notice to the bank on its intention to conduct on-site targeted supervision, within a period not shorter than 21 days prior to the commencement of the supervision.

The notice referred to in paragraph 2 of this item shall contain data on the subject of supervision, supervisor in charge, supervision commencement date, planned duration, data and information that will be used during the supervision.

The notice referred to in paragraph 2 of this item shall specify data and information the bank is required to submit to the National Bank prior to the commencement of the supervision and the data and information which are to be compiled as of the supervision commencement date.

Data and information referred to in paragraph 4 of this item the bank is required to submit to the National Bank shall be submitted within ten days upon receipt of the notice referred to in paragraph 2 of this item.

Data and information referred to in paragraph 4 of this item shall be comprehensive, accurate and final and the bank shall not change them in the course of supervision.

11. The bank shall, observing its security provisions, provide to the assigned supervisors an access to any premise, insight in the overall available documentation, including data kept in electronic form, and the overall documentation requested by the assigned supervisors, including written statements of the members of the Board of Directors and other persons with special rights and authorizations, elaborating issues relevant to the determination of the bank's safety, soundness, risk and regulations compliance.

12. Should the on-site supervision shows a need of extending the subject of control, under the internal rules adopted by the Governor of the National Bank, the assigned supervisors shall request from the Governor of the National Bank to amend their supervision authorization.

13. If the requested data and information necessary for conducting supervision are not compiled on the supervision commencement date, i.e. data required to be submitted to the National Bank prior to the supervision commencement date, are not submitted within the specified submission period, the National Bank shall terminate the supervision.

If the supervision is impeded due to untidy records, lack or failure to present documentation, non-cooperation of the bank's bodies or the supervision is otherwise hindered, the National Bank shall terminate the supervision.

14. Once the on-site full-scope or targeted supervision is completed, the assigned supervisors shall prepare supervisory finding in the form of report.

If the supervision identifies incompliance with the Banking Law, the bylaws resulting thereof and other regulations, regarded as misdemeanors, the assigned supervisors shall also compile a report on identified misdemeanors which shall be an integral part of the report referred to in paragraph 1 of this item.

15. The report referred to in item 14 paragraph 1 of this Decision shall be an official document compiled on the basis of internal rules adopted by the Governor of the National Bank.

The report shall contain information, data and findings of the assigned supervisors on the method of risk management of the bank and on the regulations compliance, providing an understanding for the bank's safety and soundness.

The report shall be a business secret of the National Bank and the bank shall keep it. The bank may quote or otherwise disclose the contents of the report only upon written approval obtained by the Governor of the National Bank.

16. The report shall be submitted to the members of the bank's Board of Directors.

The members of the bank's Board of Directors shall discuss the report and submit a copy to the Internal Audit Department.

17. The bank subject to on-site supervision shall be entitled to objection to the report. The bank shall submit the objection to the National Bank within a period defined by the National Bank of the Republic of Macedonia, which shall neither be shorter than eight days nor longer than fifteen days.

Within the objection, the bank shall be entitled to request for additional explanations for the bases underlying the National Bank's findings on the bank's safety, soundness, risk exposure and regulations compliance.

18. The assigned supervisors shall submit to the bank a response to the objection within thirty days upon receipt of the objection, denoting the official completion of the on-site supervision, and that the report is final.

Once the report is final, its copy shall be submitted to the President of the bank's Supervisory Board, requesting to be discussed by the Supervisory Board members on the first coming session.

19. Based on the final report, the assigned supervisors may send a letter to the members of the bank's Board of Directors indicating the composite rating of the National Bank on the bank's safety, soundness and risk exposure.

The letter referred to in paragraph 1 of this item shall be a business secret of the National Bank and the bank shall keep it. The Bank may quote or otherwise disclose the contents of the letter referred to in paragraph 1 of this item only upon written approval obtained by the Governor of the National Bank.

The letter referred to in paragraph 1 of this item shall be submitted to the members of the Board of Directors and a copy of the letter shall be submitted to the President of the Supervisory Board of the bank requesting to be discussed by the Supervisory Board members at the first coming session.

20. The President of the Supervisory Board shall submit a copy of the letter to the National Bank signed by each member of the Supervisory Board who attended the session, and a report from the session of the Supervisory Board that discussed the final report and the letter.

The assigned supervisors may attend the session of the Supervisory Board subject matter of which is the report and the letter.

## **VI. ON-SITE BANK INSPECTION**

21. The on-site bank inspection shall be a system of procedures and processes for determining the bank's regulations compliance, applying the internal rules adopted by the Governor of the National Bank.

The on-site bank inspection shall be conducted by the assigned inspectors referred to in item 2 indent 1 of this Decision.

22. On-site inspection shall be conducted according to a pre-specified inspection plan, approved by the Governor of the National Bank or if needed, in case the off-site inspection shows that the bank's operations are not in compliance with the regulations.

23. The bank shall, observing its security provisions, provide to the assigned inspectors an access to any premise, insight in the overall available documentation, including data kept in electronic form, and the overall documentation requested by the assigned inspectors, including written statements of the members of the Board of Directors and other persons with special rights and authorizations, elaborating issues relevant to the determination of the bank's regulations compliance.

24. Once the on-site inspection is completed, the assigned inspectors shall prepare supervisory finding in the form of report.

If the inspection identifies incompliance with the Banking Law, the bylaws resulting thereof and other regulations, regarded as misdemeanors, the assigned inspectors shall also compile a report on identified misdemeanors which shall be an integral part of the report referred to in paragraph 1 of this item.

25. The report referred to in item 24 paragraph 1 of this Decision shall be an official document compiled on the basis of internal rules adopted by the Governor of the National Bank.

The report shall contain information, data and findings of the assigned inspectors showing the bank's regulations compliance.

The report shall be a business secret of the National Bank and the bank shall keep it. The bank may quote or otherwise disclose the contents of the report only upon written approval obtained by the Governor of the National Bank.

26. The report shall be submitted to the members of the bank's Board of Directors.

The members of the bank's Board of Directors shall discuss the report and submit a copy to the Internal Audit Department.

27. The bank subject to on-site inspection shall be entitled to objection to the report. The bank shall submit the objection to the report to the National Bank within a period defined by the National Bank, which shall neither be shorter than five days nor longer than ten days.

28. The assigned inspectors shall submit to the bank a response to the objection within fifteen days upon receipt of the objection, denoting the official completion of the on-site inspection, and that the report is final.

Once the report is final, its copy shall be submitted to the President of the bank's Supervisory Board, requesting to be discussed by the Supervisory Board members on the first coming session.

29. The President of the Supervisory Board shall submit a copy of the report to the National Bank signed by each member of the Supervisory Board who attended the session, and a report from the session of the Supervisory Board at which the final report was discussed.

## **VII. MAINTAINING CONTACTS WITH THE BANK'S BODIES AND WITH THE AUDIT COMPANY**

30. The assigned supervisors referred to in item 2 of this Decision shall, prior to the commencement of the on-site supervision, convene a work meeting with the Internal Audit Department and with the audit company assigned by the bank.

Subject matter of the meeting shall be the findings of the Internal Audit Department and the audit company assigned by the bank.

31. The assigned supervisors referred to in item 2 indent 2 of this Decision shall, if needed, convene a work meeting with the members of the Board of Directors, Supervisory Board members, Audit Committee members, internal auditors, compliance officer/department and the audit company assigned by the bank.

At these meetings, discussions will be made and data and information on the bank's operations will be exchanged, providing to the assigned officers more detailed information on the operations of the bank's bodies, corporate governance, operational risks, risk management, changes in the bank's business policy and strategy and the bank's safety and soundness.

## **VIII. COOPERATION AND EXCHANGE OF DATA AND INFORMATION WITH OTHER SUPERVISORY AUTHORITIES**

32. The assigned supervisors referred to in item 2 of this Decision, during the bank supervision shall, if needed, cooperate and exchange data and information with other supervisory authorities in the Republic of Macedonia.

## **IX. TRANSITIONAL AND CLOSING PROVISIONS**

33. The provisions of this Decision shall also apply to supervision of branches of banks from the EU member-states, foreign bank branch, branch of a bank from the Republic of Macedonia abroad, persons/entities connected to the bank, ancillary service undertakings of banks and savings houses.

34. This Decision enters into force within eighth days upon its publication in the "Official Gazette of the Republic of Macedonia" and shall start being applied on April 1, 2008.

35. Once this Decision starts being applied, the Decision on the manner of conducting bank supervision and undertaking measures for eliminating the identified irregularities ("Official

Gazette of the Republic of Macedonia" no. 111/2000) and the Decision on the manner of conducting inspection of the regulations governing foreign exchange operations and anti-money laundering and undertaking measures against banks ("Official Gazette of the Republic of Macedonia" no. 41/2007) shall become void.

**D. no. 02-15/II-6/2008**  
**February 28, 2008**  
**Skopje**

**Petar Goshev, MSc.**  
**Governor**  
**President**  
**of the National Bank of the Republic of**  
**Macedonia Council**