



NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

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, 6/16 and 83/18), Article 18 paragraph 5, Article 71 paragraph 8 and Article 72 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, 190/16 and 7/19 and Official Gazette of the Republic of North Macedonia No. 101/19), the National Bank of the Republic of North Macedonia Council adopted the following

DECISION on the method of determining connected persons/entities and exposure limits

(Official Gazette of the Republic of North Macedonia No. 198/20)

I. GENERAL PROVISIONS

1. This Decision shall set forth the method of determining connected persons/entities, exposure to a person/entity and large exposure and the manner of determining and monitoring exposure limits.

2. The terms used in this Decision shall denote the following:

2.1 "Person/entity" shall denote a client of the bank, a subsidiary of the bank, a shareholder with qualified holding in the bank and a person with special rights and responsibilities at the bank.

2.2 "Exposure to a person/entity" shall denote the total on-balance sheet and off-balance sheet exposure of the bank to such person/entity, without applying the corresponding risk weights, according to the regulation of the National Bank of the Republic of North Macedonia (hereinafter: the National Bank) on the methodology for determining capital adequacy, including investments in securities issued by such person/entity, which means a sum of the bank's exposure to the person/entity arising from the banking book and from the trading book.

2.3 "Large exposure" shall denote a bank's exposure to a person/entity or an exposure to a group of connected persons/entities, equal to or higher than 10% of the bank's own funds specified according to the regulation of the National Bank on the methodology for determining capital adequacy.

2.4 "Exposure to a person/entity on consolidated basis" shall denote a sum of the exposures of all members in the banking group to such person/entity.

2.5 "Deductions from the exposure to a person/entity" shall denote:

- reverse repo agreement with another bank under which the bank purchased claims secured by real estate, if it is considered an exposure to

the persons/entities whose liabilities are purchased (exposure to a third person/entity), in accordance with item 8 of this Decision;

- guarantee or counter-guarantee issued by a third person/entity, if it is considered an exposure to the person/entity who issued the guarantee or counter-guarantee (exposure to a third person/entity), in accordance with item 9 of this Decision;
- exposures that are not included in the calculation of the exposure limits, in accordance with Section V of this Decision.

2.6 "Connected persons/entities" shall denote:

- two, or more persons/entities which represent a single risk, because one of them directly, or indirectly has control over other person/entity or other persons/entities (hereinafter: control-related persons/entities);
- two, or more persons/entities which represent a single risk, although they are not control-related, because they are interconnected such as if one of them experiences financial problems the other person(s)/entity(s) would also be likely to encounter repayment difficulties (hereinafter: economically related persons/entities), or
- two, or more natural persons if one of them is a spouse, or a person whom they live within an extramarital union (illegitimately), a child, or a foster child, parent, or person under guardianship of the other natural person (hereinafter: connected natural persons).

2.7 "Persons/entities connected to a bank" shall denote:

- bank subsidiaries and other entities the bank has close links with;
- shareholders with qualified holding in the bank and entities related thereto, and the responsible persons of those shareholders – legal entities, or
- persons with special rights and responsibilities at the bank and persons related thereto.

2.8 "Group of connected persons/entities" shall denote all persons/entities which are control-related persons/entities, economically related persons/entities and/or are connected natural persons.

2.9 "Exposure to a group of connected persons/entities" shall denote a sum of the exposures to all persons/entities that are a part of the group of connected persons/entities.

2.10 "Indirect control" shall denote the control that one person/entity exercises in another legal entity through a third legal entity with whom the first legal entity is control-related person/entity, whereby the third legal entity has direct control in the second legal entity.

Terms not defined in this Decision shall have the meaning of the terminology defined in the Banking Law and the bylaws adopted on the basis of that law.

II. EXPOSURE TO A PERSON/ENTITY

3. The classification of the individual positions in the banking book and in the trading book shall be in accordance with the provisions of the regulation of the National Bank on the methodology for determining capital adequacy.

4. The bank's exposure to a person/entity arising from the banking book, shall include the on-balance sheet and the off-balance sheet exposure to such person/entity which is not a part of the bank's exposure arising from the trading book, determined in accordance with item 5 of this Decision.

The on-balance sheet and off-balance sheet assets claims referred to in paragraph 1 of this item shall be presented on a net basis, as a difference between their carrying value and the respective amount of impairment or allocated special reserve, the premium amount or the discount and the changes in the fair value (without taking into account the accumulated depreciation).

By way of derogation from paragraph 2 of this item, the on-balance sheet and off-balance sheet assets claims referred to in paragraph 1 of this item shall not be reduced for the amount of impairment or the allocated special reserve for:

- the exposure to a person/entity (including governments and central banks) enjoying a credit rating equal to or lower than CCC+ (according to the rating of Standard&Poor's or Fitch) or Caa1 (according to the Moody's rating);
- the exposure to a person/entity enjoying a credit rating higher than the rating referred to in indent 1 of this paragraph, but whose domicile country enjoys a credit rating equal to or lower than CCC+ (according to the rating of Standard&Poor's or Fitch) or Caa1 (according to the Moody's rating);
- the exposure to a person/entity that has not been given any credit rating, but whose domicile country enjoys a credit rating equal to or lower than B- (according to the rating of Standard&Poor's or Fitch) or B3 (according to the Moody's rating) or whose domicile country has not been given any credit rating;
- the exposure to a person/entity (non-financial entity) that has claims based on financial loan, equal to or above Denar 31,000,000, on another non-financial entity enjoying a credit rating equal to or lower than CCC+ (according to the rating of Standard&Poor's or Fitch) or Caa1 (according to the Moody's rating);
- the exposure to a person/entity (non-financial entity) that has claims based on financial loan, equal to or above Denar 31,000,000, on another non-financial entity enjoying a credit rating higher than the rating referred to in indent 4 of this paragraph, but whose domicile country enjoys a credit rating equal to or lower than CCC+ (according to the rating of Standard&Poor's or Fitch) or Caa1 (according to the Moody's rating);
- the exposure to a person/entity (non-financial entity) that has claims based on financial loan, equal to or above Denar 31,000,000, on another non-financial entity that has not been given any credit rating, but whose domicile country enjoys a credit rating equal to or lower than B- (according to the rating of Standard&Poor's or Fitch) or B3 (according to the Moody's rating) or whose domicile country has not been given any credit rating.

When the exposure referred to in paragraph 3 indents 4, 5 and 6 of this item is higher than the amount of financial loan specified in such indents, exposure shall

not be reduced only for the part of impairment i.e. the special reserve which is equal to the amount of the financial loan.

5. The bank's exposure to a person/entity arising from the trading book, shall represent the net-position of the financial instruments according to the manner of determining the capital requirement for market risks specified in the regulation of the National Bank on the methodology for determining capital adequacy.

6. When determining the exposure to a person/entity in accordance with items 4 and 5 of this Decision, the bank shall also include the following positions:

- the exposures arising from financial derivatives defined according to the regulation of the National Bank on the methodology for determining capital adequacy, as well as from credit derivatives, entered into with the person/entity, for which capital requirements for counterparty risk are determined, according to the regulation of the National Bank on the methodology for determining capital adequacy;
- the exposures arising from financial derivatives defined according to the regulation of the National Bank on the methodology for determining capital adequacy, as well as from credit derivatives, entered into with other persons/entities, if the underlying of the derivative is issued by that person/entity;
- the exposures arising from transactions for which capital requirements for settlement risk are determined, according to the regulation of the National Bank on the methodology for determining capital adequacy;
- the exposures arising from securitization positions and collective investment units, taking into account the economic substance of these exposures and their inherent risk in order to determine whether it constitutes an additional exposure.

7. The exposure to a person/entity shall not include the following positions:

- the position from settlement of foreign exchange transactions, incurred within 48 hours following the payment;
- the position from settlement of transactions for the purchase or sale of securities, incurred within three business days following the payment or delivery, whichever is earlier;
- the position from execution of payment transactions, clearing and settlement in any currency and correspondent banking or clearing of financial instruments, settlement and custody services offered to clients, etc., which does not last longer than the end of the following business day;
- the position from payment transactions, clearing and settlement in any currency and correspondent banking, etc. which are carried out toward institutions, incurred during the business day;
- the positions deducted from the bank's own funds according to the regulation of the National Bank on the methodology for determining capital adequacy.

8. The bank's exposure arising from a reverse repo agreement concluded with another bank under which the bank purchased claims secured by real estate, may be treated as an exposure to the persons/entities whose liabilities are purchased (exposure to a third person/entity), if the following requirements are met:

- the claims are fully secured by a residential property that meets the requirements for a claim secured by residential property, according to the regulation of the National Bank on the methodology for determining capital adequacy;
- the bank has the right to foreclose the collateral in circumstances when the other bank fails to meet its liabilities arising from the repo agreement;
- the bank is beneficiary of these claims in case of bankruptcy or liquidation of the other bank.

The exposure to the third person/entity is equal to the amount of their liabilities to the other bank that are purchased with the reverse repo agreement. The remainder of the exposure, if any, after the division in accordance with paragraph 1 of this item, shall be considered an exposure to the other bank.

9. The bank's exposure collateralized by a guarantee or counter-guarantee from a third person/entity, may be treated as an exposure to the person/entity who issued the guarantee or counter-guarantee (exposure to a third person/entity), if the following requirements are met:

- the unsecured exposure to the third person/entity would be assigned a risk weight that is equal to or lower than the risk weight applied to the unsecured exposure to the person/entity whose exposure is collateralized by the guarantee or counter-guarantee, and
- the guarantee/counter-guarantee meets the requirements for unfunded credit risk mitigation instrument, according to the regulation of the National Bank on the methodology for determining capital adequacy, taking into consideration the corresponding provisions for correction of the value of the unfunded credit risk mitigation instrument in case of partial coverage, maturity and currency mismatch of the unfunded credit risk mitigation instrument and the exposure collateralized by a guarantee or counter-guarantee from a third person/entity.

III. CONNECTED PERSONS/ENTITIES

Control-related persons/entities

10. For the purposes of item 2 sub-item 2.6 indent 1 of this Decision, control-related persons/entities shall be at least the following persons/entities:

- two, or several persons/entities in which the majority members of the supervisory and management bodies are the same;
- legal entity and natural person who is a member of a supervisory and/or management body in that entity, unless the person who is a member of a supervisory and/or management body does not exercise significant influence on the management and the adoption of policies and financial and business decisions in that entity;
- persons/entities controlled by same person/entity or persons/entities;
- persons/entities controlled by a parent entity who according to the accounting standards meet the requirements for inclusion in the consolidated financial statements.

In case of indirect control, the total holding or the total voting rights in the legal entity shall represent a sum of direct holdings, or voting rights of the control-

related persons/entities, including the holding, or the voting rights of the person/entity who acts on their behalf and for their account.

By exception to paragraph 2 of this item, the total holding, or the total voting rights shall not include the holding or the voting rights arising from shares held by the persons/entities under paragraph 2 of this item, if there are restrictions, in any form, for using the voting right arising from that holding, i.e. those shares.

11. For the purposes of item 2 sub-item 2.7 indent 2 of this Decision, the bank shall determine a group of persons/entities connected to the bank, at least in the following cases:

- shareholder that controls the bank, together with the persons/entities connected thereto and all entities the bank exercises control in and the persons/entities connected thereto, or
- shareholder with qualified holding in the bank, together with the persons/entities connected thereto and the person appointed as its representative in the Supervisory Board of the bank and all persons/entities connected with that person.

12. The bank shall also determine control-related persons/entities in cases when the exposure to any person/entity represents deduction of the exposure to a person/entity.

Economically related persons/entities

13. For the purposes of item 2 sub-item 2.6 indent 2 of this Decision, economically related persons/entities shall be at least the following persons/entities:

- at least 50% of claims or liabilities of a person/entity in the last twelve months is derived from transactions with the other person/entity;
- the exposure extended to a person/entity is fully or partially guaranteed by the other person/entity or subject to other form of collateral provided by the other person/entity - collateral provider, and the exposure is in the amount that could cause financial problems for the collateral provider, in case of foreclosure of the collateral;
- a significant portion of products/services of one legal entity is purchased by the other person/entity, which cannot be easily replaced with another buyer for those products/services on the market;
- two or more persons/entities rely on same supplier and/or same source of funding and/or repayment of liabilities, whereas in case of unavailability of that supplier/source, no another supplier/source of funding can be easily found;
- persons/entities who have joint liabilities based on a contract concluded with the bank (e.g. borrower and co-borrower).

Two or more persons/entities who meet one or more of the criteria listed in paragraph 1 of this item, might not be regarded as connected persons/entities if the bank has indisputable evidence that the person/entity will find other sources of funding or other business partners on time, to overcome financial problems caused by the connection referred to in paragraph 1 of this item.

The bank shall not be required to determine the connection referred to in paragraph 1 of this item for a person/entity whose total exposure, including the

exposure to the other persons/entities of the group of control-related persons/entities and the exposure to the group of connected natural persons, does not exceed 2% of the bank's own funds.

14. The bank shall establish a connection between two or more persons/entities who are economically related to a third person/entity, even in cases when the bank has no exposure to the third person/entity, except if the requirement referred to in item 13 paragraph 2 of this Decision is met.

The bank shall also determine economically related persons/entities in cases when the exposure to any person/entity represents deduction of the exposure to a person/entity.

15. In cases when one person/entity is economically related to several persons/entities who are not interconnected, according to the provisions of this Section, the bank may determine several different groups of connected persons/entities.

16. In cases when one person/entity is control-related or is economically related to the central government in the Republic of North Macedonia, the local government in the Republic of North Macedonia or a public sector entity with a treatment of central government in the Republic of North Macedonia (hereinafter: central and local government), the bank shall form a separate group of connected persons/entities that consists of that person/entity and the central and local government it is connected with, including legal entities and natural persons connected with that person/entity.

In cases where the persons/entities are control-related or economically related to a central and local government are economically related on each other, the bank shall form a separate group of connected persons/entities that consists of those persons/entities, including legal entities and natural persons connected with those persons/entities, excluding the central or local government.

17. Besides the cases stated in this Decision, a group of connected persons/entities shall also be formed in other cases for which the bank or the National Bank, estimates that there is a single risk, because they are connected in a manner similar to the cases determined by this Decision.

IV. EXPOSURE LIMITS

18. The exposure to a borrower of the bank and the persons/entities connected thereto, the exposure to bank's subsidiary, the exposure to shareholder with qualified holding and the persons/entities connected thereto, the exposure to a person with special rights and responsibilities in the bank and the persons/entities connected thereto, the total amount of exposure to the persons/entities connected to the bank, as well as the total amount of large exposures, shall not exceed the exposure limits prescribed in the Banking Law.

The determination and monitoring of the exposure limit of a member of a Supervisory Board in the bank shall not include bank's exposure to the shareholder who appointed such person with special rights and responsibilities to be its representative in the bank's Supervisory Board, except if the member of the

Supervisory Board exercises control over that shareholder. The exposure to the member of the Supervisory Board in the bank together with the exposure to the shareholder, who appointed him/her for its representative, shall not exceed the exposure limit prescribed in the Banking Law (10% or 25% of the bank's own funds).

19. When determining and monitoring the limits referred to in item 18 of this Decision, the bank shall reduce the exposure for the amount of deductions.

20. To determine and monitor the exposure limits of this Decision, the bank's own funds shall be determined according to the regulation of the National Bank on the methodology for determining capital adequacy.

21. The bank shall be required to constantly observe the limits of this Decision.

22. As an exception to item 21 of this Decision, the bank may exceed the exposure limits referred to in item 18 of this Decision if:

- the exceeding resulted from merger or acquisition of two legal entities;
- the exceeding resulted from reasons beyond control of the bank;
- the exceeding resulted from trading book exposure.

The bank shall not increase the exceeding referred to in paragraph 1 indents 1 and 2 of this item, by increasing the credit exposure.

The bank may achieve the exceeding referred to in paragraph 1 indent 3 of this item, if the following requirements have been met:

- the exceeding results solely from the higher amount of trading book exposure, i.e. the bank's banking book exposure to the person/entity or the group of connected persons/entities does not exceed the exposure limits;
- the bank holds an adequate level of capital for covering the exceeding of the exposure limits, determined according to the regulation of the National Bank on the methodology for determining capital adequacy;
- where ten days or less have elapsed since the exceeding, the trading book exposure does not exceed 500% of the bank's own funds;
- any excess arising from trading book exposures that have persisted for more than ten days, in aggregate, do not exceed 600% of the bank's own funds.

23. The bank shall not take activities to avoid allocating and holding capital in accordance with item 22 paragraph 3 indent 2 of this Decision, by temporarily transferring the exposure where more than ten days have elapsed to other person/entity (regardless of whether it is within the banking group or not, if the bank is part of a banking group) or by undertaking transactions to close out the exposure during the 10-day period and create a new exposure after the expiration of this period.

24. The individual capital holding (investment) of the bank in non-financial institution, the aggregate, i.e. the total amount of capital holdings in non-financial institutions and the bank's property in land, buildings, equipment and capital

holdings in non-financial institutions, shall not exceed the exposure limits on the basis of a bank investment, prescribed by the Banking Law.

The bank may exceed the limits on capital holding in non-financial institutions referred to in paragraph 1 of this item, if the total amount of the exceeding has been covered by adequate amount of own funds, i.e. if the exceeding represents deduction from the bank's own funds.

The determination and monitoring of the limits referred to in paragraph 1 of this item shall not include the bank's capital holding in ancillary banking service undertakings.

V. EXPOSURES THAT ARE NOT INCLUDED IN THE CALCULATION OF EXPOSURE LIMITS

25. The following exposures shall not be taken into account in the determination and monitoring of the exposure limits referred to in item 18 of this Decision:

25.1. Exposure collateralized with cash deposit placed with the bank, with the parent entity or with a subsidiary of the bank, which entails fulfilling of the following requirements:

- the cash deposit maturity shall be equal or longer than the maturity specified in the exposure agreement;
- the cash deposit may be withdrawn by the person/entity up to the amount of the settled portion of exposure;
- there is a written document proving the purpose of the deposit, as a collateral for the exposure;
- the cash deposit is defined as a collateral in the exposure agreement;
- in the case of foreclosure, the bank shall be the sole beneficiary of the cash deposit;
- the foreclosure occurs when the person/entity is in default on liabilities arising from the exposure agreement.

25.2. Exposure collateralized with certificate of deposit issued by the bank, a subsidiary of the bank or by the parent entity of the bank, whereby the certificate shall meet the requirements referred to in sub-item 25.1 of this item.

25.3. Exposure to central banks, central governments or public sector entities for which, according to the regulation of the National Bank on the methodology for determining capital adequacy, the unsecured part is regulated by a risk weight of 0%.

25.4. Exposure to international organizations or multilateral development banks which unsecured would be assigned a 0% risk weight, according to the regulation of the National Bank on the methodology for determining capital adequacy.

25.5. Exposure collateralized with irrevocable, unconditional guarantees payable on first written call issued by central banks, central governments, public sector entities, international organizations or multilateral development banks where the unsecured claims on the issuer of the guarantee would be assigned a 0% risk

weight, according to the regulation of the National Bank on the methodology for determining capital adequacy.

25.6. Exposure collateralized with securities issued by central banks, central governments, public sector entities, international organizations or multilateral development banks where the unsecured claims on the issuer of the guarantee would be assigned a 0% risk weight, according to the regulation of the National Bank on the methodology for determining capital adequacy.

25.7. Exposure to or exposure collateralized with irrevocable, unconditional guarantees payable on first call issued by the local authorities in the Republic of North Macedonia or by the local authorities or regional government in a member state of the European Union on which a risk weight of up to 20% is applied, according to the regulation of the National Bank on the methodology for determining capital adequacy.

25.8. Exposure that the bank approves as an intermediary of the Development Bank of North Macedonia, to that portion of the exposure for which the bank as an intermediary does not cover the credit risk.

25.9. Exposures to central banks from other countries in the form of required minimum reserves denominated in the currency of the country of the central bank where the reserve requirement is being held.

25.10. Exposure collateralized with claim insurance policy issued by the Development Bank of North Macedonia or by a foreign exports crediting agency qualifying for a credit rating from recognized ECAI or ECA, which is at least the lower than: (1) the credit quality step 2 or (2) the credit quality step corresponding to the central government foreign currency rating of the domicile country of the agency, endorsed for the benefit of the bank.

25.11. Off-balance sheet position for which, according to the regulation of the National Bank on the methodology for determining capital adequacy, a conversion factor of 0% is determined.

25.12. Off-balance sheet position for which, according to the regulation of the National Bank on the methodology for determining capital adequacy, a conversion factor of 20% is determined, but only in the amount of up to 50% of the value of that off-balance sheet position.

25.13. Exposure collateralized with real estate that meets the requirements for claims covered by a residential property, according to the regulation of the National Bank on the methodology for determining capital adequacy, but only to the lower amount of 50% of the market value of the real estate or 60% of the exposure covered by the residential property.

25.14. Exposure to the Deposit Insurance Fund (hereinafter: the Fund) or to a deposit insurance scheme in another country, if there is a legal obligation to fund the scheme.

25.15. Exposure, including participation or another type of holdings to institutions which, according to legal or contractual provisions, are responsible for

cash-clearing operation within the system or network in which the bank is a member.

25.16. Exposure from extremely high-quality covered bonds that are part of the level 1 liquid assets, according to the regulation of the National Bank on the methodology for liquidity risk management;

When determining and monitoring the exposure limits referred to in item 18 of this Decision, the bank may apply only one of the exceptions referred to in paragraph 1 of this item to the same exposure to a person/entity or to the same portion of the exposure to a person/entity.

26. When determining and monitoring the exposure limits referred to in item 24 of this Decision, investments in non-financial institutions shall not include capital holdings acquired on the basis of outstanding claims, only in the first three years of their acquisition.

VI. MONITORING OF CONNECTED PERSONS/ENTITIES AND EXPOSURE LIMITS

27. The bank shall be required to establish an appropriate system for determining, monitoring, reporting and recording of connected persons/entities, large exposures and exposure limits.

The system referred to in paragraph 1 of this item shall consist at least of:

- policy to monitor connected persons/entities, large exposures and exposure limits, in accordance with item 28 of this Decision;
- prevention of activities to avoid allocating and holding capital for exceeding exposure limits, in accordance with item 23 of this Decision;
- timely reporting of the bank's bodies on large exposures, as well as on the adherence to the established limits and their exceeding;
- appropriate management of the concentration risk, according to the regulation of the National Bank on the methodology for risk management;
- monitoring of the fulfillment of the requirements prescribed in this Decision for deductions of the exposure to a person/entity.

28. The bank shall be required to establish a policy to monitor connected persons/entities and exposure limits, which can be a separate document or an integral part of another policy or another internal act of the bank (rules, procedures, etc.).

The policy under paragraph 1 of this item shall contain procedure and rules at least for:

- determining and monitoring of the exposure to a person/entity;
- determining and monitoring of the groups of connected persons/entities and the exposure to the groups of connected persons/entities, as well as of the persons/entities connected to the bank and their exposure;
- determining and monitoring large exposures;
- determining and monitoring the exposure arising from investment in non-financial institutions;

- monitoring the observance of the exposure limits referred to in items 18 and 24 of this Decision and of the established internal exposure limits;
- determining and monitoring the exposures arising from securitization positions and collective investment units in order to determine whether there is an additional exposure arising from these claims;
- monitoring the exposure to the persons/entities who are providers of unfunded credit risk mitigation instruments, the exposures on the basis of securitization positions and collective investment units, in order to mitigate the concentration risk.

29. By 31 January each year, the persons with special rights and responsibilities and shareholders with qualified holding in the bank shall be required to complete a statement indicating the persons with special rights and responsibilities, the shareholders and the borrowers of the bank who, according to the Banking Law and this Decision, are considered connected thereto.

The bank shall be required to draw up a list of the persons referred to in paragraph 1 of this item who are connected to the persons with special rights and responsibilities and to the shareholders with qualified holding and to update that list on a regular basis, taking into account the provisions of the Banking Law.

The 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.

30. The bank shall not grant any exposure to a new client without determining whether there is a connection of the new client with the other borrowers of the bank, with its shareholders with qualified holding and with the persons with special rights and responsibilities in the bank.

To determine the groups of connected persons/entities and the exposure to the groups of connected persons/entities, the bank shall be obliged to provide the necessary documentation for the ownership structure and/or for the financial standing of the persons/entities, as well as any other documentation which can provide data on the existence or non-existence of a connection.

The bank shall be required to monitor the changes in the data and information in terms of the establishing of the connection and to update the necessary documentation, at least in case of: assessment of the creditworthiness, assessment of the change in the creditworthiness of the person/entity, significant changes in the contractual terms under which the exposure to the person/entity was granted, or obtained information on changes in the documentation or in the (non)existence of a connection.

VII. EXPOSURE LIMITS ON CONSOLIDATED BASIS

31. The determination and monitoring of the limits of this Decision by a bank subject to consolidated supervision, according to the regulation of the National Bank on consolidated supervision of banks, shall take into consideration the provisions of Section IV of this Decision.

32. The amount of the own funds of the bank subject to consolidated supervision shall be determined according to the regulation of the National Bank on the methodology for determining capital adequacy.

VIII. REPORTING TO THE NATIONAL BANK

33. The bank shall be required to prepare reports on the implementation of this Decision, which will contain data on:

33.1. Large exposures, including deductions from large exposures;

33.2. The largest ten exposures to other banks on consolidated basis, as well as for the largest ten exposures to financial companies and other institutions that perform similar activities as banks, but are not covered by the domestic or foreign regulation which regulates the founding and operations of banks/credit institutions, including the deductions from these exposures;

33.3. Exposures that do not represent large exposures, but which on consolidated basis exceed Euro 10 million in denar counter-value;

33.4. Exposures to the persons/entities connected to the bank;

33.5. The amount of the capital holding (investment) in non-financial institution and the total amount of capital holdings in non-financial institutions;

33.6. The total amount of the bank's property in land, buildings, equipment and in capital holdings in non-financial institutions;

33.7. The amount of the exceeding of the exposure limits, including the limits on capital holdings in non-financial institutions, in a manner defined by this Decision and the exceeding period;

33.8. The bank's exposure pursuant to item 8 of this Decision.

34. The reports referred to in item 33 sub-items 33.1 and 33.2 of this Decision shall contain data on:

- the person/entity or the group of connected persons/entities the bank is exposed to;
- the exposure value to the person/entity or the group of connected persons/entities, before taking into account the deductions from the exposure to the person/entity or the group of connected persons/entities;
- the type of the credit risk mitigation instrument, according to the regulation of the National Bank on the methodology for determining capital adequacy, if the exposure has been covered by such an instrument, and
- the exposure value to the person/entity or the group of connected persons/entities after the deductions from that exposure.

35. The bank shall immediately notify the National Bank of any exceeding of the exposure limits referred to in item 22 of this Decision, indicating the person/entity or the group of connected persons/entities with whom the exceeding has been achieved, the amount of exceeding and the reasons behind the exceeding.

In the cases of exceeding the exposure limit referred to in item 22 paragraph 1 indents 1 and 2 of this Decision, the bank shall also be obliged, in the notification referred to in paragraph 1 of this item, to indicate the deadline in which it plans to meet the exposure limit.

If the bank plans to meet the exposure limit referred to in paragraph 2 of this item in a period longer than three months, it shall be required to submit a plan with activities for reducing the exposure to the prescribed exposure limit.

The National Bank may require a different deadline for reducing the exposure within the prescribed limit, and take appropriate measures for compliance of the bank with the prescribed limit.

36. The bank shall immediately notify the National Bank in case of undertaken activities to avoid allocating and holding capital for exceeding exposure limits in accordance with item 23 of this Decision.

37. The bank shall compile the reports referred to in item 33 of this Decision as of 31 March, 30 June, 30 September and 31 December.

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

The submission date of the reports as of 31 March, 30 June and 30 September to the National Bank 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 the reports referred to in item 33 of this Decision on consolidated basis, according to the accounting value as of 31 December and 30 June, within 30 days after the expiration of the deadlines referred to in paragraphs 2 and 3 of this item.

38. At a special request of the National Bank, the bank shall compile reports as of date and within deadlines different from those indicated in item 37 of this Decision.

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

IX. TRANSITIONAL AND CLOSING PROVISIONS

40. The Governor of the National Bank shall adopt instructions and forms of reports for implementation of this Decision.

41. The provisions of this Decision that apply to banks, shall respectively apply for foreign bank branches, taking into account the provisions of the Banking Law and bylaws adopted pursuant to this law governing the operation of foreign bank branches in the Republic of Macedonia.

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.

42. The provisions of this Decision that apply to the manner of determining and monitoring connected persons/entities and the manner of reporting to the National Bank, shall respectively apply for savings houses.

43. 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 January 2021.

44. The implementation of this Decision shall supersede the Decision on exposure limits (Official Gazette of the Republic of Macedonia No. 31/08, 163/08, 43/09, 91/11, 100/12, 127/12 and 26/17) and the Decision on the method of determining connected persons/entities (Official Gazette of the Republic of Macedonia No. 31/08, 72/13, 121/15 and 203/15).

D. No. 02-15/ XI-1/2020
30 July 2020
Skopje

Anita Angelovska Bezhoska
Governor and Chairman
of the Council of the National Bank
of the Republic of North Macedonia