

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 and 6/16) and Article 114 paragraph 2 of the Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), 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. 58/18)**

**I. GENERAL PROVISIONS**

1. This Decision sets forth the manner in which the National Bank of the Republic of Macedonia (hereinafter: the National Bank) conducts bank supervision (hereinafter: supervision) and inspection of the operations of persons/entities connected to the bank, other entities in the banking group and the ancillary banking services undertaking (hereinafter: inspection).

2. Assigned supervisors, for the purposes of this Decision, shall be employees of the National Bank who are authorized by the Governor to conduct supervision and inspection, according to the internal regulations of the National Bank.

3. Certain terminology used in this Decision shall have the meaning of the terminology defined in the Banking Law and the bylaws adopted on the basis of this law.

**II. MANNER OF CONDUCTING SUPERVISION**

4. The National Bank shall perform its supervisory function through:
- permanent off-site bank supervision by gathering and analyzing the reports and data submitted by the bank (hereinafter: off-site supervision), in accordance with Section III of this Decision;
  - full-scope or targeted on-site, supervision in the bank (hereinafter: on-site supervision), in accordance with Section IV of this Decision;
  - maintaining contacts with the bank's body members and with the audit company, in accordance with Section V of this Decision, and
  - cooperation and exchange of data and information with other supervisory authorities, in accordance with Section VI of this Decision.

5. The National Bank shall assess the bank's safety, soundness, risk exposure and regulations compliance, so that through the supervision referred to in item 4 of this Decision it carries out an assessment at least of:

- the fulfillment of the conditions for performing banking and financial activities;
- the compliance of the bank's operations with the regulations governing the bank's operations or with its policies and internal regulations;

- the bank's business model, i.e. the nature, the type and the scope of financial activities performed by the bank and the risks it is or may be exposed to as a result of such activities, including risks arising from the macroeconomic environment;
- the bank's influence upon the maintenance or disruption of the safety and soundness of the banking system as a whole;
- the adequacy of the capital adequacy ratio of the bank, taking into account the bank's business policy, its risk profile and the requirements for maintaining capital buffers;
- the adequacy of the liquidity condition and profitable position of the bank;
- the compliance with the supervisory standards prescribed by the Banking Law, the bylaws adopted on the basis of this law or on the basis of a measure undertaken by the Governor of the National Bank, in accordance with the Banking Law;
- the established corporate governance in the bank and the compliance with the good corporate governance rules;
- the appropriateness of the internal control system, including the adequacy of the three control functions;
- the adequacy of the AML/CTF system;
- the application of accounting standards, especially in terms of whether the bank compiled the financial statements as specified by the applicable regulations concerning financial reporting;
- the timeliness in the submission of the reports and data to the National Bank and whether the reports and data have been compiled as specified by the regulations governing the bank's operations;
- the method of conducting audit by audit company and the adequacy of the audit report on the bank's annual financial statements and operations.

6. 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 documentation and information requested by the assigned supervisors.

When conducting supervision referred to in item 4 of this Decision, at the request of the assigned supervisors, the members of the bank's Board of Directors and other persons with special rights and responsibilities in the bank shall provide to the assigned supervisors answers, together with documented evidence, to all the questions that are of importance to its conduct.

7. If the bank uses services provided by outsourcing companies, it shall provide to the assigned supervisors an access to the premises of the outsourcing company, insight in the overall available documentation, including data kept in electronic form, and the documentation and information requested by the assigned supervisors for the needs of conducting the National Bank supervision.

### **III. OFF-SITE SUPERVISION**

8. The off-site bank supervision shall be conducted by gathering reports and data on the bank and their analysis by the assigned supervisors, for the purpose of carrying out the assessment referred to in item 5 of this Decision.

The reports and data referred to in paragraph 1 of this item shall include the reports and data the bank is required to submit to the National Bank, the reports and data obtained from the audit company that audited the bank's annual financial statements and operations (hereinafter: audit company), the written communication between the bank and the assigned supervisors, as well as any other available reports and data related to the bank and/or its shareholders.

9. Taking into account the analysis referred to in item 8 of this Decision, and the results of the on-site examinations in accordance with Section IV of this Decision, the assigned supervisors shall determine the overall risk profile of the bank which includes an assessment of:

- the business model;
- the corporate governance;
- the liquidity condition and
- the risks to the bank's capital position (at least credit, operational, currency risk and interest rate risk in the banking book).

10. Taking into account the determined overall risk profile of the bank, the assigned supervisors shall prepare a supervisory activity plan for the bank, if necessary shall propose measures against the bank and at least once a year shall assess the need for prescribing ratios above those stipulated in Article 65 paragraphs 1 and 2 of the Banking Law (hereinafter: capital requirement).

When determining the capital requirement one takes into account also the risks present in the bank's operations that may have influence upon the maintenance or disruption of the safety and soundness of the banking system as a whole and the results of the stress tests conducted by the bank and/or the National Bank, bearing in mind the bank's business model.

The capital requirement could be determined in a period shorter than one year, if necessary, due to the nature, type and scope of the activities the bank performs and risks arising from those activities.

11. The assigned supervisors shall prepare report on the capital requirement to be maintained by the bank in the next year, which provides an explanation for the overall risk profile on the basis of which the capital requirement is determined, stating also the possible differences between the bank's internal capital, determined in accordance with the National Bank's regulation on the risk management and the capital requirement, determined in accordance with item 10 of this Decision.

The assigned supervisors shall submit the report on the capital requirement to the members of the Board of Directors of the bank to which that report refers.

12. The bank may submit observations to the National Bank about the report on the capital requirement, within a period defined by the National Bank, which shall neither be shorter than eight days nor longer than fifteen days of receipt of the report on the capital requirement.

For a more detailed consideration of the observations referred to in paragraph 1 of this item and/or for complying with the paragraphs regarding the capital requirement to be maintained by the bank in the next year, the National Bank may organize a meeting with the bank.

13. Taking into account the report on the capital requirement to be maintained by the bank in the next year and the observations and the meeting referred to in item 12 of this Decision, not later than 15 December of the current year, the Governor of the National Bank shall adopt a decision on attaining or maintaining higher amount of own funds and/or higher capital adequacy ratio or shall undertake other measures, in accordance with the Banking Law.

In the cases referred to in item 10 paragraph 3 of this Decision, the Governor of the National Bank shall adopt the decision or shall undertake the measures referred to in paragraph 1 of this item within thirty days after the date of submitting the report on the capital requirement.

#### **IV. ON-SITE SUPERVISION**

14. The on-site bank supervision shall include:
- on-site bank examination which assesses the bank's safety, soundness, risk exposure and regulations compliance;
  - inspection of the regulations (hereinafter: inspection).

The on-site supervision referred to in paragraph 1 of this item shall be conducted by assigned supervisors based on written authorization granted by the Governor of the National Bank for conducting bank on-site examination or inspection.

15. The bank shall provide appropriate technical conditions for conducting the on-site examination, primarily in terms of the provision of an adequate space in the bank for the assigned supervisors referred to in item 14 paragraph 2 of this Decision in which the physical access will be limited, as well as providing access to Internet and other information equipment requested by the assigned supervisors.

##### **On-site examination**

16. The on-site examination shall be conducted through:
- review of business and accounting documentation, reports and data on the bank, policies and internal regulations of the bank, and other documentation concerning the bank's operations, which is available to the assigned supervisors or requested by the assigned supervisors;
  - verification of the bank's professional, organizational and technical abilities;
  - written or oral explanations provided by the persons with special rights and responsibilities and other employees of the bank.

The on-site examination can cover the bank's entire operations (full-scope on-site examination) or cover only a certain part of the bank's operations (targeted on-site examination).

17. On-site bank examination shall be conducted according to a pre-specified on-site examination plan, approved by the Governor of the National Bank.

The on-site examination plan referred to in paragraph 1 of this item shall rest on the overall risk profiles and supervisory activity plan defined through the off-site bank supervision, as well as on the systemic risks present in the financial system of

the Republic of Macedonia and/or of the parent entity's home country or the bank's subsidiary/subsidiaries.

As an exception to paragraph 1 of this item, the on-site bank examination shall be conducted if needed in the following cases:

- if the off-site supervision shows that the bank's operational trends have deteriorated, thus adversely affecting its safety and soundness and/or the safety and soundness of the banking system;
- if necessary to check the bank's action with respect to the measures imposed by the Governor of the National Bank, and
- for the purpose of gathering, processing and analyzing the data required for performing the National Bank functions.

18. The National Bank shall submit a notice to the bank on its intention to conduct on-site examination, within thirty days prior to the commencement of the on-site bank examination. The notice shall contain:

- information on the subject of examination,
- information on the supervisor in charge,
- the examination commencement date,
- the planned duration,
- a list of information to be compiled by the bank for the needs of the examination.

The notice referred to in paragraph 1 of this item shall also state the deadlines in which the appropriate information should be compiled and submitted to the assigned supervisors referred to in item 14 paragraph 2 of this Decision.

The information which is to be compiled by the bank for the needs of the examination shall be comprehensive, accurate and final and the bank shall not change them in the course of examination.

19. As an exception to item 18 of this Decision, prior to the commencement of the on-site examination referred to in item 17 paragraph 3 of this Decision, the National Bank shall not be obliged to submit a notice to the bank on its intention to conduct on-site examination.

20. Should the on-site examination 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 written on-site examination authorization.

21. The National Bank may not commence or terminate the conduct of the on-site examination if:

- the requested data and information are not compiled in accordance with the deadlines stated in the notice referred to in item 18 of this Decision;
- the examination is impeded due to untidy records, lack or failure to present documentation, lack of cooperation or insufficient cooperation with the bank's bodies;
- the examination is otherwise hindered.

22. Once the full-scope or targeted on-site examination is completed, the assigned supervisors referred to in item 14 paragraph 2 of this Decision shall prepare examination report, in accordance with the internal rules adopted by the Governor of the National Bank.

The report under paragraph 1 of this item shall contain the following elements:

- final findings on the individual areas covered by the on-site examination;
- a detailed review of all examination findings concerning the identified weaknesses or irregularities in the bank's operations;
- findings that represent non-compliance with the relevant legislation;
- bank's responsiveness to previously imposed measures by the National Bank.

As an exception to paragraph 1 of this item, for the on-site examinations referred to in item 17 paragraph 3 indent 3 of this Decision, the assigned supervisors referred to in item 14 paragraph 2 of this Decision shall prepare a report that is not submitted to the bank.

23. The examination report shall be a professional secret of the National Bank and the bank shall keep it. The bank may quote or otherwise disclose the contents of the examination report only for the purpose of auditing the annual financial statements and trading books, due diligence of the bank and in other cases provided by law, upon written approval obtained by the Governor of the National Bank.

24. The examination 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 examination report, inform the members of the Supervisory Board of its contents and submit a copy to the Internal Audit Department.

25. The bank subject to on-site examination shall be entitled to objection to the examination report in which it provides an explanation with documented evidence of the findings that are considered unfounded or inconsistent with the real condition in the bank. 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 from the day of the receipt of the report.

Together with the objection referred to in paragraph 1 of this item, the bank shall submit a plan of activities that are to be undertaken by the bank in order to eliminate the identified weaknesses or irregularities in the operations and the deadlines for their implementation.

26. The assigned supervisors shall discuss the bank's objection to the examination report and produce a response to the objection in which they declare for (non)acceptance of certain explanations of the bank for the findings of the examination report.

The response to the objection referred to in paragraph 1 of this item shall be submitted to the bank within twenty-five days from the day of the receipt of the

objection. In the response to the objection, the assigned supervisors shall also inform the bank of the possible changes in the plan of activities referred to in item 25 paragraph 2 of this Decision.

27. When the examination report contains findings concerning the operations of the audit company, an excerpt from the examination report shall be submitted to the audit company as well.

The audit company referred to in paragraph 1 of this item shall be entitled to objection to the examination report, within eight days after receiving the excerpt from the examination report.

After receiving the objection of the audit company, the assigned supervisors shall act in accordance with item 26 of this Decision.

28. After submitting the response to the objection referred to in items 26 and 27 of this Decision, the on-site examination shall be considered complete, and the examination report final. The responses to the objections referred to in items 26 and 27 of this Decision shall be an integral part of the final examination report.

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

The letter referred to in paragraph 1 of this item shall be a professional 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.

A copy of the letter referred to in paragraph 1 of this item shall be submitted to the President of the bank's Supervisory Board, requesting to be discussed by the Supervisory Board members at the first coming session.

30. The President of the Supervisory Board shall submit to the National Bank a report from the session of the Supervisory Board that discussed the final examination report and the letter referred to in item 29 of this Decision, signed by each member of the Supervisory Board who attended the session, thereby confirming that they are familiar with the contents of the final report and the letter and with the activities to be undertaken by the bank in order to address the identified weaknesses, deficiencies or shortcomings.

The assigned supervisors may attend the session of the Supervisory Board subject matter of which is the final examination report and the letter referred to in item 29 of this Decision.

## **Inspection**

31. 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.

32. Once the inspection is completed, the assigned inspectors referred to in item 14 paragraph 2 of this Decision shall prepare inspection report.

33. The provisions referred to in items 23, 24, 25, 26, 28 and 30 of this Decision shall be respectively applied to the inspection report and the procedure to its finality.

As an exception to paragraph 1 of this item:

- the bank shall be entitled to objection to the inspection report within a period defined by the National Bank, which shall neither be shorter than five days nor longer than ten days;
- the assigned inspectors shall submit the response to the objection to the inspection report within fifteen days upon receipt of the objection.

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

34. Besides the contacts with the bank's bodies specified in Sections III and IV of this Decision, if needed, the assigned supervisors shall convene a meeting with the members of the Board of Directors, Supervisory Board members, Audit Committee members, internal auditors, persons in charge of the function of control of the compliance of the bank's operations with the regulations and the risk management function and with the audit company.

The objective of these meetings shall be, through exchange of data and information on the bank, to provide to the assigned officers more detailed information on the corporate governance, the risks the bank is exposed to in the operations and the manner of their management, the changes in the bank's business policy and on other issues related to the bank's safety and soundness.

35. Prior to the commencement of the on-site examination, the assigned supervisors referred to in item 14 paragraph 2 of this Decision may convene a meeting with the Internal Audit Department and with the audit company.

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

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

36. For supervisory purposes, the assigned supervisors shall cooperate and exchange data and information with other supervisory authorities in the Republic of Macedonia and abroad, in accordance with the law.

## **VII. MANNER OF CONDUCTING INSPECTION**

37. The National Bank may conduct an inspection of the operations of persons connected to the



bank, other entities in the banking group and ancillary service undertakings of the bank (hereinafter: entities subject to inspection).

If the persons referred to in paragraph 1 of this item are subject to inspection by other authorized body, the National Bank shall conduct the inspection referred to in paragraph 1 of this item in cooperation with such body.

Inspection referred to in paragraph 1 of this item shall be based on written authorization granted by the Governor of the National Bank, indicating the subject of inspection and assigned inspectors.

38. The National Bank shall submit a notice to the entities subject to inspection on its intention to conduct inspection, within a period not shorter than 8 days prior to the commencement of the inspection.

The provisions referred to in item 18 of this Decision shall be respectively applied to the notice referred to in paragraph 1 of this item.

39. The entities subject to inspection shall provide, to the assigned inspectors referred to in item 37 paragraph 2 of this Decision, conditions for smooth conduct of inspection, insight in their operations, and the overall necessary documentation, data and information requested of any assigned inspector.

40. Once the inspection is completed, the assigned inspectors referred to in item 37 paragraph 2 of this Decision shall prepare inspection report.

41. The entities subject to inspection shall be entitled to objection within eight days of the receipt of the inspection report, in which they provide an explanation with documented evidence of the findings that are considered unfounded or inconsistent with the real condition.

The assigned inspectors referred to in item 37 paragraph 2 of this Decision shall discuss the objection referred to in paragraph 1 of this item, produce a response to the objection in which they declare for (non)acceptance of certain explanations of the entity subject to inspection and submit the response to the objection to the entity subject to inspection within fifteen days from the day of the receipt of the objection.

After submitting the response to the objection referred to in paragraph 2 of this item, the inspection shall be considered complete, and the inspection report final.

42. Once the report is final, the National Bank shall inform the bank connected to the entity subject to inspection or which is client of the entity subject to inspection on the findings that may have influence upon its operating or risk exposure.

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

43. The provisions of this Decision shall also apply to supervision of savings houses, branches of banks from the EU member-states, foreign bank branches and branches of banks from the Republic of Macedonia abroad.

44. On the day of the entry into force of this Decision, the Decision on the manner of conducting supervision and inspection (Official Gazette of the Republic of Macedonia No. 31/08, 74/12, 100/12 and 170/17) shall become void.

45. This Decision shall enter into force on the eighth day from the day of its publication in the Official Gazette of the Republic of Macedonia.

**D. No. 02-15/VI-1/2018**  
**29 March 2018**  
**Skopje**  
**Bank**

**Dimitar Bogov**  
**Governor and Chairman**  
**of the Council of the National**  
**of the Republic of Macedonia**