

**National Bank of the Republic of Macedonia**  
Financial Stability and Banking Regulations Department



**DECISION**  
**on good corporate governance rules for banks**

February 2018

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 82 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 and 190/16), the National Bank of the Republic of Macedonia Council adopted the following

**DECISION**  
**on good corporate governance rules for banks**  
**(Official Gazette of the Republic of Macedonia No. 24/18)**

**I. GENERAL PROVISIONS**

1. This Decision shall prescribe the good corporate governance rules for banks.

2. The corporate governance in a bank shall denote a sum of mutual relations between the Supervisory Board, Board of Directors, other persons with special rights and responsibilities and the bank's shareholders, thus establishing appropriate organizational structure and adequate mechanisms for defining the bank's goals and for their achievement and monitoring. This implies defining the rights and responsibilities of these persons, and particularly how the Supervisory Board and the Board of Directors:

- define the bank's business policy;
- conduct supervision of the bank's operations, i.e. manage the bank's everyday operations;
- protect the depositors' interests, fulfill the obligations to shareholders and take into consideration the interests of other interested entities;
- establish corporate culture and values;
- select employees and monitor their operations;
- establish the control functions in the bank.

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

3.1. "Corporate culture and values" shall denote rules and standards that enable responsible and ethical action in the process of the communication with the interested entities, in the allocation of the resources for the purpose of implementing the bank's business policy, in the development of human resources and in the decision-making process in the bank's everyday operations.

3.2. "Interested entities" shall denote depositors, other creditors of the bank, shareholders, regulatory and supervisory authorities, external credit rating institutions, the Deposit Insurance Fund, the audit company and other persons having an interest in the bank's operations.

3.3. "Control functions" shall denote the following functions: the risk management, the compliance and the internal audit.

3.4. "Person in charge of risk management function" shall denote the person who is competent, i.e. the responsible person of the organizational unit competent to conduct and/or coordinate the activities and processes related to the risk management,

in accordance with the Banking Law and the National Bank regulation on risk management.

3.5. "Person in charge of compliance function" shall denote the person for control of the compliance of the bank's operations with the regulations or the responsible person of the Compliance Department.

3.6. "Person in charge of internal audit function" shall denote the responsible person of the Internal Audit Department.

3.7. "Persons in charge of the control functions" shall denote the person in charge of risk management function, the person in charge of compliance function and the person in charge of internal audit function.

3.8. "Internal control system" shall denote a sum of rules and controls established in the bank, including the activities of the control functions.

3.9. "Other persons with special rights and responsibilities" shall denote the managers in the bank determined as persons with special rights and responsibilities in accordance with the Statute of the bank. For the purposes of this Decision, other persons with special rights and responsibilities shall not include the members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors.

3.10. "Legally prescribed committees" shall denote the Risk Management Committee and the Auditing Committee.

3.11. "Protected whistleblowing" shall denote whistleblowing by a whistleblower in the bank, pursuant to law, which conveys a reasonable suspicion or knowledge that a punishable or other unlawful or inadmissible act has been committed, is being committed or will probably be committed.

3.12. "Business model" shall denote the most important products and services offered by the bank that enable generation of the planned income and the planned growth, in accordance with its business policy.

3.13. "Total compensation" shall denote all forms of fixed or variable monetary and non-monetary compensations paid to an employee and a member of the bank's bodies.

3.14. "Fixed part of the total compensation" shall denote the compensations received by an individual person whose terms for payment and for determination of their amount depend on previously determined criteria and do not depend on the success in the operations (e.g. the compensation in the form of salary). The fixed part of the total compensation shall also include all compulsory compensations, pursuant to law, which are part of the usual packages offered to employees or which are paid for the purpose of covering certain living costs (for example, due to separated life, working abroad, flat rate and the like).

3.15. "Variable part of the compensation" shall denote all compensations that are not considered fixed part of the compensation.

3.16. "Regulations" shall denote laws and bylaws, rules and standards into force in the Republic of Macedonia, as well as the bank's internal regulations.

4. The other terms used in this Decision shall have the meaning defined in the Banking Law and the National Bank's regulation on risk management.

## **II. SUPERVISORY BOARD**

### **Responsibilities of the Supervisory Board**

5. The Supervisory Board shall have the ultimate responsibility to create conditions for good operation and management of the bank and its stability.

When carrying out its responsibilities, the Supervisory Board shall take into consideration the interests of the interested entities and shall provide conditions for maintaining an efficient cooperation with the National Bank of the Republic of Macedonia (hereinafter: the National Bank) and other regulatory authorities.

6. The Supervisory Board shall be obliged:
- to adopt the bank's business policy and to monitor its implementation;
  - to be actively involved in the supervision of the bank's operations, to keep pace with the significant changes in its operations and its environment and to act on time to protect the bank's long-term goals;
  - to adopt and monitor the implementation of other policies and internal regulations within its competence, taking into consideration the provisions under item 7 of this Decision;
  - together with the Board of Directors, to establish and promote corporate culture and values in the bank, taking into consideration the provisions under item 8 of this Decision;
  - to make a self-assessment and an assessment of the members of the Risk Management Committee, the Auditing Committee and the Board of Directors, pursuant to the policy on the method of selection, monitoring of the operations and dismissal of the members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors under Chapter VII of this Decision;
  - to define the rights and responsibilities of the legally prescribed committees and the Board of Directors, taking into consideration the provisions under item 15 of this Decision, as well as to define the cooperation with the bank's Board of Directors;
  - together with the Board of Directors, to determine the acceptable level of risk, taking into consideration the market competition, the regulatory requirements, the bank's long-term goals, the risk exposure and the risk-taking capacity, which means compliance of the acceptable level of risk with the business policy, the financial plan, the process of determination of the internal capital and the remuneration system;
  - to establish and monitor the implementation of the risk management system, including the operation of the Risk Management Committee, taking into consideration the requirements of the National Bank's regulation on risk management and the requirements under item 10 of this Decision;
  - to establish and to monitor the implementation of the internal audit and to monitor the operation of the Auditing Committee.
  - to monitor the bank's financial operation and the manner in which the financial reporting is being made;

- to monitor the remuneration system in the bank and to make an assessment if it is in compliance with the remuneration policy under Chapter VI of this Decision, the risk culture and the bank's risk-taking capacity;
- to monitor the implementation of the bank's internal regulations for protected whistleblowing, taking into consideration the provisions under item 11 of this Decision;
- to review transactions with the entities connected to the bank, pursuant to item 12 of this Decision.

7. The Supervisory Board shall be obliged to adopt at least the following policies and internal regulations of the bank:

- the information system security policy;
- the risk management policy/policies, including the policy which determines the manner of managing the risk of non-compliance and implementation of the control of the compliance of the bank's operations with the regulations and the policy on using services provided by outsourcers;
- the policy on avoiding conflict of interests;
- the remuneration policy;
- the policies on the method of selection, monitoring of operations and dismissal of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors;
- the internal audit policy;
- the Corporate Governance Code;
- the Code of Conduct.

If the internal regulations adopted by the Supervisory Board arise from internal regulations of the group the bank belongs to, the Supervisory Board shall be obliged to provide those internal regulations to be appropriate to the bank and to be complied with the regulations in the Republic of Macedonia.

The Supervisory Board shall be obliged to assess the appropriateness of the internal regulations it has adopted and to review them on a regular basis.

8. In order to promote the corporate culture and values, the Supervisory Board shall adopt Code of Conduct which defines standards and the ethical norms referring at least to:

- avoiding unacceptable behavior;
- avoiding conflicts of interests;
- procedure when carrying out transactions with entities related to the bank;
- keeping banking secrecy.

Within the Code of Conduct of paragraph 1 of this item, the bank should define the acceptable and unacceptable behavior of the employees, which means:

- clear prohibition on activities contrary to law and the internal regulations;
- encouraging employees to conform to the ethical norms and to carry out their tasks conscientiously, with integrity, in accordance with their knowledge and experience and complying with the regulations.

9. The Supervisory Board shall be obliged to supervise the work of the members of the Board of Directors and to monitor the work of the persons in charge of the control functions. In cases when these persons fail to adhere to the corporate culture and values, the acceptable level of risk and the risk culture, the Supervisory Board shall be obliged to undertake appropriate measures, including their dismissal,

or request for their dismissal, if the Board of Directors is competent to appoint/dismiss them.

10. Depending on the size of the bank, the nature of the financial activities it performs and the risks it is exposed to in its operations, the Supervisory Board shall appoint one member of the Board of Directors who will be responsible for monitoring the work of the person/organizational unit in charge of implementing and/or coordinating the activities and processes related to the risk management system (hereinafter: member of the Board of Directors responsible for monitoring the risk management).

11. The bank's Supervisory Board shall monitor the implementation of the internal regulations and processes for free protected whistleblowing by the employees of the bank, pursuant to law. The internal regulations and processes should cover all types of reportings, especially the reporting to the National Bank, define the entire procedure for protected whistleblowing that should not be part of the regular system of reporting in the bank, i.e. it should be executed through an accurately determined function in the bank, which among other things may include determination of:

- the person/authority to who/which it reports;
- the manner of determining the validity of the protected whistleblowing;
- the manner of eliminating the ground for the protected whistleblowing, if it is determined that the whistleblowing was justified.
- the manner of protecting whistleblowers in the bank against any punishments or threats against them or their post.

The internal regulations under paragraph 1 of this item should be available to all employees of the bank.

12. The Supervisory Board shall be obliged, at least once quarterly, to review the report on transactions with the entities related to the bank, as well as on the amount of approved loans and other forms of exposure to the persons with special rights and responsibilities in the bank.

The report under paragraph 1 of this item shall contain at least: the type of the transaction (e.g. credit, consultative service, lease and the like), the amount of the transaction and the risk category, if it is an approved loan or other form of exposure to the person related to the bank and to the persons with special rights and responsibilities.

13. If a member of the Supervisory Board considers that the decisions adopted by the Supervisory Board conflict the long-term goals, business policy and the regulations, or the competences of this body, stipulated in the Banking Law and the bank's internal regulations, s/he shall be required to state his/her opinion in written together with appropriate explanation, which is enclosed in the minutes from the meeting of the Supervisory Board.

### **Structure and manner of operation of the Supervisory Board**

14. The Supervisory Board shall be constituted of persons who individually and together meet the criteria for a member of a supervisory board of a bank.

15. The Supervisory Board shall be obliged to adopt internal regulations which define the rights and responsibilities of the Supervisory Board, the legally prescribed committees and the Board of Directors.

The Supervisory Board and the legally prescribed committees should provide reports of the meetings held, the content of which shall present the activities of the individual members of the committees, as well as provide other documentation determined by the Supervisory Board, on the basis of which the National Bank will be able to assess the work of the Supervisory Board and the legally prescribed committees.

16. The manner of operating, the term of office, the scope of activities and the method of reporting to the Supervisory Board shall compulsorily be determined for each legally prescribed committee.

The Supervisory Board shall be obliged, within the corporate governance report under item 59 of this Decision, to disclose the legally prescribed committees, their term of office and structure.

The President of the legally prescribed committee may not be a president of any other board of the bank, with the exception of the bank's Supervisory Board.

17. In accordance with the Statute of the bank, the Supervisory Board may establish other boards from among its members who assist in the conduct of part of its competences related to the establishment and implementation of the remuneration policy, the policies on the method of selection, monitoring of operations and dismissal of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors and other competences, in accordance with the law.

The requirements under item 16 of this Decision shall appropriately be applied to the boards established under paragraph 1 of this item.

### **Assessment of the adequacy of the Supervisory Board members**

18. The Supervisory Board shall be obliged to make an assessment of the adequacy of the candidate for a member, i.e. the member of the Supervisory Board, which includes an individual assessment of the adequacy of the candidate for a member, i.e. the member of the Supervisory Board (hereinafter: individual assessment) and assessment of the adequacy of the member of the Supervisory Board together with other members (hereinafter: collective assessment) of the bank's Supervisory Board.

The individual assessment under paragraph 1 of this item shall include an assessment at least whether:

- the knowledge and experience of the candidate for a member, i.e. the member of the Supervisory Board, are appropriate to perform the duties, which means at least an assessment of his/her understanding of the established corporate governance in the bank and the role of the Supervisory Board in corporate governance, assessment of the adequacy of his/her education and the knowledge acquired through training courses, assessment of the professional experience and assessment of the knowledge of the financial standing and the risk profile of the bank;

- the existence of conflict of interest limits the ability of the candidate for a member, i.e. the member of the Supervisory Board to objectively and independently perform the duties and the ability to make an independent and objective assessment of the decisions proposed by other members of the Supervisory Board, to independently analyze the decisions of the Board of Directors and to avoid monitoring of the collective opinions;
- the candidate for a member, i.e. the member of the Supervisory Board has a reputation, which among other things means compliance with the legal provisions and contractual obligations, cooperation with the supervisory and other competent authorities and compliance with the corporate culture and values of the bank;
- the candidate for a member, i.e. the member of the Supervisory Board, will be able to devote or devotes sufficient time to carry out any obligations arising from his/her powers, taking into consideration his/her memberships in the supervisory and/or management bodies of other legal entities or non-profit organizations and the usual number of meetings that it should attend at as a result of those memberships, the nature of each membership and the competences of the candidate for a member, i.e. the member of the Supervisory Board, the involvement in the work of the bank's Supervisory Board, the time required for adequate training of the member of the Supervisory Board to perform all his/her functions and the like.

The collective assessment under paragraph 1 of this item shall refer at least to the assessment if the members together have the knowledge and experience required for independent supervision of the bank's operations, especially for understanding the activities performed by the bank and the material risks the bank is exposed to. The collective assessment should include at least if the members of the Supervisory Board:

- have experience in different areas that allow the Supervisory Board to assess and monitor the operation of the Board of Directors and the decisions it makes. Different knowledge and experience can refer to: risk management, financial analyses, financial reporting and accounting, information technology, capital markets, strategic planning, internal audit, compliance with regulations, remuneration of the success in the work, etc.;
- have an adequate understanding of the local, regional and, if necessary, the global economy and finance, as well as an understanding of the relevant domestic regulations and international standards;
- have the ability to exchange experience and knowledge and mutual cooperation.

19. The assessment under item 18 of this Decision shall be made:

- before each appointment of a new Supervisory Board member;
- before reappointment of an existing Supervisory Board member;
- once a year, pursuant to law.

As an exception to paragraph 1 indents 1 and 2 of this item, the assessment under item 18 of this Decision may also be made after the appointment of the member of the Supervisory Board of the bank's General Meeting of Shareholders, but within one month after his/her appointment, but before obtaining the approval of the Governor of the National Bank.

Besides the cases under paragraph 1 of this item, the collective assessment shall be made if there are significant changes in the bank's business model.



20. The annual assessment under item 19 paragraph 1 indent 3 of this Decision shall also include:

- self-assessment of its operations, which shall be made by each member of the Supervisory Board on an annual level;
- assessment of the size and structure of the Supervisory Board, as well as the size and structure of the legally prescribed committees and their mutual cooperation.
- assessment of the efficiency of the supervision conducted by the Supervisory Board as part of the corporate governance in the bank and identification of the activities that require advancement or changes;
- assessment of the efficiency of the legally prescribed committees.

21. The Supervisory Board shall be obliged to take into account the results of the individual assessment in carrying out the collective assessment of the members of the Supervisory Board, and vice versa.

22. The Supervisory Board shall be obliged to notify the bank's General Meeting of Shareholders of the results of the assessment under item 18 of this Decision, together with the activities it proposes or has undertaken for addressing the identified weaknesses.

### **III. BOARD OF DIRECTORS**

23. In accordance with the competences stipulated by the Banking Law, the Board of Directors shall manage the bank and shall be involved in the implementation of the business policy, the establishment and promotion of corporate culture and values, the determination of the acceptable level of risk, the establishment and implementation of the internal control system and in providing conditions for operations of the bank in accordance with the regulations.

24. If the bank has appointed a member of the Board of Directors responsible for monitoring the risk management, that member:

- shall not be responsible for activities that represent risk taking (front office);
- shall be a member of the bank's Risk Management Committee.

25. The bank's Board of Directors shall be obliged to enable an adequate implementation of the decisions of the General Meeting of Shareholders and the Supervisory Board and the policies adopted by the Supervisory Board, as well as to propose their amendment and enhancement.

The Board of Directors may adopt relevant procedures, rules or other similar internal regulations for an adequate implementation of the regulations under paragraph 1 of this item.

If the internal regulations adopted by the Board of Directors, including the policy under item 31 of this Decision, arise from internal regulations of the group the bank belongs to, the Board of Directors shall be obliged to provide those internal regulations to be appropriate to the bank and to be complied with the regulations in the Republic of Macedonia.

26. The Board of Directors shall be constituted of persons who individually and together meet the criteria for a member of a board of directors of a bank.

27. The assessment of the adequacy of the candidate for a member, i.e. the member of the Board of Directors, shall be made by the bank's Supervisory Board, whereby the provisions under item 18 of this Decision shall appropriately be applied.

The assessment under paragraph 1 of this item shall be made at least:

- before each appointment of a new Board of Directors member;
- before reappointment of an existing Board of Directors member;
- in the event of significant changes in the bank's business model.

28. The Board of Directors shall be obliged to regularly notify the Supervisory Board of all activities and changes in operations that are significant for the competences of the Supervisory Board, as follows:

- changes in the risk management;
- changes in the bank's solvency and liquidity position and its financial standing;
- exceeding of the exposure limits and non-compliance of the operations with the regulations;
- weaknesses in the internal control system and the manner of functioning of the control functions;
- cases that may cause non-compliance with the legal or regulatory requirements;
- cases related to the protected whistleblowing by a whistleblower in the bank.

29. If a member of the Board of Directors deems that the decisions adopted by the Board of Directors conflict the business policy and the regulations, or conflict the competences of this body envisaged in the Banking Law and the bank's internal regulations, s/he shall be obliged to state his/her opinion in written together with appropriate explanation.

#### **IV. OTHER PERSONS WITH SPECIAL RIGHTS AND RESPONSIBILITIES**

30. The Board of Directors shall appoint and shall dismiss the other persons with special rights and responsibilities in the bank and shall monitor their operations, shall provide conditions for their continuous training, shall determine their rights and responsibilities, and shall monitor the manner in which these persons define and assign the duties and responsibilities to the employees.

31. The Board of Directors shall be obliged to adopt a policy on the method of selection, monitoring of operations and dismissal of the other persons with special rights and responsibilities, which shall appropriately include the elements under item 51 of this Decision.

32. The policy under item 31 of this Decision shall determine the manner in which the Board of Directors makes an assessment of the adequacy of the other persons with special rights and responsibilities, which shall be made with an adequate application of the provisions under item 18 of this Decision.

The assessment of the knowledge and experience of the other persons with special rights and responsibilities shall take into consideration the competences of the appropriate person arising from his/her position or function in the bank.

The Board of Directors shall make the assessment under paragraph 1 of this item at least before the appointment of the person or before his/her reappointment, as well as in case of any significant change in the bank's operations or in the manner of performing the respective position or function.

Taking into account the assessment of the other persons with special rights and responsibilities under paragraph 1 of this item, the Board of Directors shall be obliged to undertake the activities for addressing the identified weaknesses.

33. Other persons with special rights and responsibilities should have professionalism and ability to manage the activities within their competence and to efficiently monitor the work of the employees directly responsible to them.

34. The bank shall be obliged to prescribe criteria for the identification of the other persons with special rights and responsibilities.

The criteria under paragraph 1 of this item should enable an encompassment at least of the persons in charge of the control functions, the execution of a significant business line or the operation of a significant branch or subsidiary, as well as of the persons whose competences have a significant impact upon the corporate governance, the risk profile and/or the bank's profitability.

## **V. INTERNAL CONTROL SYSTEM AND CONTROL FUNCTIONS**

35. The Supervisory Board and the Board of Directors of the bank shall be obliged to establish an internal control system which should provide:

- efficient operation of the bank;
- operation of the bank in compliance with the regulations;
- appropriate identification, measurement and control/reduction of risks;
- assessment of the efficiency and adequacy of the control functions and the entire corporate governance, including an assessment of the quality of the information system of the Supervisory Board and the Board of Directors and the efficiency of the internal control system;
- accuracy and timeliness of the information and data submitted to the bank's bodies, the interested entities and the general public;
- relevant operational and accounting procedures.

36. The manner of implementation of the internal control system should be prescribed by internal regulations that should be available to the bank's employees.

37. The Supervisory Board and the Board of Directors of the bank shall be obliged to ensure full independence of the control functions, by:

- establishing an appropriate organizational structure of the control functions through their mutual separation and separation from the activities subject to their control;
- appointing persons in charge of the control functions that are not subordinate to the persons in charge of the activities subject to their control;
- providing adequate human and material resources for an independent, objective and efficient performance of the control functions;
- structure of the functions that will enable avoidance of conflict of interests;

- providing unrestricted access to all employees of the bank and to all information necessary for the efficient implementation of the appropriate control function;
- establishing manner of remuneration of the persons involved in the performance of certain control functions which is not related to the success of the activities subject to their control;
- establishing a mechanism for the smooth cooperation between the persons involved in the performance of certain control functions and other employees of the bank.

38. The persons in charge of the control functions should have unlimited access to the members of the bank's Supervisory Board and be able to notify of the significant weaknesses, shortcomings or risks they have identified in the performance of their function.

39. The control of the compliance with the regulations and risk management should be subject to regular audits of the Internal Audit Department, in accordance with the annual plan of activities of the Department.

40. The bank's Supervisory Board should be informed of the dismissal of the person in charge of risk management function and the person in charge of compliance function and of the reasons due to which that person is dismissed.

### **Risk management**

41. Depending on the risk management system, the bank may appoint a person or establish an organizational unit competent to implement and/or coordinate the activities and processes related to the risk management system, in accordance with the National Bank's regulation on risk management.

The person/organizational unit under paragraph 1 of this item should be independent of the other persons and organizational units in the bank, especially of those who take risks, should have access to all organizational units whose operations may expose the bank to material risks and have sufficient resources for carrying out his/her responsibilities, which also includes regular training of the person or persons employed in the organizational unit.

If the bank has appointed a member of the Board of Directors responsible for monitoring the risk management, that member shall be responsible for the person/organizational unit under paragraph 1 of this item.

### **Control of the compliance of the bank's operations with the regulations**

42. The scope of the control of the compliance of the bank's operations with the regulations shall refer at least to:

- monitoring the compliance with the regulations referring to the bank's operations;
- identifying and monitoring the risks of non-compliance of the bank's operations with the regulations, including monitoring of complaints from the bank's clients;
- reporting to the Supervisory Board and the Board of Directors on the identified shortcomings during the operation and the activities undertaken for their addressing;

- advising the Supervisory Board and the Board of Directors on issues in relation to the application of the regulations;
- timely reporting to the members of the Board of Directors and the other employees on the amendments to the regulations;
- assessment of the potential impact of the amendments to the regulations upon the bank's operations and its environment;
- assessment of the compliance of the new products, activities or systems in the bank with the regulations;
- training of employees for the manner of applying the relevant regulations in their day-to-day operations;
- providing guidance on proper application of the regulations in the form of recommendations, including recommendations for amendment to the relevant internal regulations, as well as providing employees with answers to issues related to the implementation of the regulations;
- fulfillment of other legal obligations (e.g. anti-money laundering activities);
- cooperation with other institutions;
- regular reporting to the Supervisory Board and the Board of Directors of the bank, in accordance with the Banking Law.

Within the policy on managing the risk of non-compliance and conducting the control of the compliance of the bank's operations with the regulations or in some other relevant internal regulation, the bank shall be obliged to determine in detail the scope of the control of the compliance of the bank's operations with the regulations under paragraph 1 of this item.

### **Internal audit of the bank**

43. The Supervisory Board and the Board of Directors of the bank shall be obliged to provide efficiency of the internal audit in the bank, at least through:

- full access of the employees in the Internal Audit Department (hereinafter: the Department) to all documents, information, property and reports of all bodies of the bank, as well as possibility of direct communication with any employee of the bank;
- engaging human resources in the Department, that together have the knowledge and experience appropriate to the activities performed by the bank and the risks it is exposed to;
- full and timely information to the Department on the significant developments in the bank, the introduction of new products, activities and systems, and other changes;
- timely and appropriate training of the employees in the Department;
- timely acceptance of the findings and implementation of the recommendations of the internal audit;
- objectiveness and neutrality in the implementation of the internal audit, by excluding the possibility for engagement of the employees of the Department in other activities in the bank;
- application of the national and international professional standards for internal audit.

44. Besides the requirements under item 37 of this Decision, the Supervisory Board and the Board of Directors of the bank shall be obliged to ensure independence of the Department also through:

- submission of the reports of the Department to the Supervisory Board and/or the Auditing Committee without any corrections made by the Board

- of Directors or other employees of the bank that are not accepted by the Department;
- direct access of the employees in the Department to the Supervisory Board and/or the Auditing Committee;
  - appointment, monitoring of operations and dismissal of the Chief Internal Auditor from the bank's Supervisory Board.

## **VI. REMUNERATION POLICY**

45. The remuneration policy shall contain clear and transparent rules and criteria for determining the amount of the total compensation, and particularly for a clear determination and demarcation between the fixed and variable part of the total compensation.

The remuneration policy shall meet at least the following conditions:

- to be in compliance with the bank's business policy, the financial plan and the bank's long-term goals.
- not to encourage employees or members of the bank's bodies to undertake a higher level of risk than the determined acceptable level of risk;
- to contain mechanisms for avoiding conflict of interests.

The remuneration policy shall obligatory be approved by the bank's General Meeting of Shareholders if it envisages receiving compensation in form of shares or other rights enabling acquiring shares.

46. At least once a year, the Internal Audit Department shall make an assessment of the compliance of the manner of conducting the remuneration in the bank with the rules and criteria prescribed in the remuneration policy.

47. If a fixed and variable part of the compensation is envisaged:

- the fixed part shall depend on the description of the post, i.e. the competences of the bank's body.
- the variable part shall depend on the long-term success in the execution of the working tasks, taking into consideration the assumed level of risk;
- the payment of the variable part does not limit the bank's possibility of strengthening its solvency position;
- the fixed part of the total compensation shall be significantly higher, i.e. the variable part shall not exceed 100% of the fixed part of the total compensation paid to each employee or member of a body of the bank, on an annual level.

48. A fixed part of the total compensation may be paid to the members of the bank's Supervisory Board. A variable part of the compensation, which shall depend solely on the achievement of their competences related to the supervision of the bank's operations, may also be paid only in exceptional circumstances.

A variable compensation may be paid to the persons in charge of the control functions only on the basis of the success in their operations, regardless of the success of the activities subject to their control.

49. The Supervisory Board shall be obliged to approve the amount of the total compensation received by each member of the Board of Directors and each of the persons in charge of the control functions.

50. The Risk Management Committee shall assess if the remuneration system takes into consideration the bank's risk profile and its solvency, liquidity and profitable position.

## **VII. POLICY ON THE METHOD OF SELECTION, MONITORING OF OPERATIONS, AND DISMISSAL**

51. The policy on the method of selection, monitoring of operations and dismissal of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors shall at least include the following elements:

- the procedure for selection, monitoring and dismissal of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors;
- the criteria for individual and collective assessment of the adequacy of the members of the Supervisory Board and the Board of Directors;
- the procedure, the dynamics and the manner of carrying out the individual and collective assessment of the adequacy of the members of the Supervisory Board and the Board of Directors;
- the procedure and criteria for assessment of the efficiency of the legally prescribed committees;
- the manner and dynamics of training of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors;
- the manner and dynamics of replacement of a member of the Supervisory Board and the Board of Directors, in the event of termination of his/her term of office or in the event of his/her temporary business disability, resigning or other unexpected absence;
- the manner of documenting the assessment and selection procedure.

52. Taking into account the assessment of the members of the Supervisory Board, the legally prescribed committees and the Board of Directors under items 18, 20 and 27 of this Decision, the Supervisory Board shall be obliged to undertake activities for addressing the identified weaknesses: appropriate training of the member or members of the respective board, change in the manner of decision-making, activities for limiting the conflict of interests, proposals for appointment of new members of the respective board or replacement of the existing members.

## **VIII. POLICY ON AVOIDING CONFLICT OF INTERESTS**

53. The policy on avoiding conflict of interests in the bank shall identify the possible conflicts of interests and measures to be undertaken in the cases when the conflict of interests cannot be prevented.

The policy under paragraph 1 of this item shall contain:

- an obligation for all persons with special rights and responsibilities not to allow the existence of conflict of interests to affect the performance of their activities;

- cases where conflict of interests may arise and the manner in which one should handle those cases;
- a procedure to be followed by the persons with special rights and responsibilities before starting to carry out another function, in order to prevent the new function from leading to conflict of interests;
- a duty of the persons with special rights and responsibilities to immediately report any situation or relations that may lead to or have already led to conflict of interests;
- relevant procedures for carrying out transactions with connected entities, which will provide these transactions not to be carried out contrary to the interests and opportunities of the bank; and
- the manner in which it will act in the event of non-compliance with the policy on avoiding conflict of interests.

The cases listed under paragraph 2 indent 2 of this item shall refer at least to the relations of the bank with:

- the shareholders with qualified holding in the bank;
- the members of the Supervisory Board and the Board of Directors;
- the employees of the bank;
- the significant business partners and clients;
- the other persons related to the bank;
- the persons related to the persons of the previous indents of this paragraph.

54. The Supervisory Board and the Board of Directors shall monitor the implementation of the policy on avoiding conflict of interests.

## **IX. CORPORATE GOVERNANCE CODE**

55. The Corporate Governance Code in the bank shall encompass the supervision and management rules in the bank and shall enable the establishment of a clear organizational structure, with clearly defined and transparent lines of responsibility.

56. During the preparation of the Corporate Governance Code, the bank shall comply with the provisions of this Decision and other regulations pertaining to the corporate governance.

57. The Corporate Governance Code shall contain:

57.1. Procedure for convening the Meeting of Shareholders, the voting procedures, shareholder's rights, including the rights of the minority shareholders.

57.2. Structure of the group the bank belongs to, if applicable.

57.3. Structure and manner of work of the Supervisory Board with special emphasis on:

- the manner of work;
- the selection criteria;
- the number of members of the Supervisory Board and the length of their term of office;
- the number of independent members of the Supervisory Board.



57.4. Structure and manner of work of the Board of Directors with special emphasis on:

- the manner of work;
- the selection criteria;
- the number of members of the Board of Directors and the length of their term of office;
- the segregation of the competences between the individual members of the Board of Directors, if there is such a segregation.

57.5. The manner of cooperation between the Supervisory Board and the Board of Directors, the type, the deadlines in which the Board of Directors submits information to the Supervisory Board.

57.6. Management and organizational structure of the bank, by stating the structure and competences of the Risk Management Committee, the Auditing Committee and other committees/bodies of the bank (if established in accordance with the Statute of the bank).

57.7. Names or posts of other persons with special rights and responsibilities in the bank.

57.8. Rules for the internal control system, with a description of the organizational structure and the manner of work of each control function.

57.9. Brief description of the bank's business model.

57.10. Rules for using services provided by outsourcers.

57.11. Main elements of the Code of Conduct, the policy on avoiding conflict of interests, the remuneration policy and the internal regulations and processes for free protected whistleblowing by employees of the bank.

57.12. Criteria for selection and monitoring of operations of the audit company.

57.13. Other elements regulated by this Decision or other regulations in this area.

## **X. DATA DISCLOSURE AND CORPORATE GOVERNANCE TRANSPARENCY**

58. The bank shall disclose data and information on its corporate governance.

The information and the data under paragraph 1 of this item should be clear, accurate, timely and available to all interested entities that require them.

59. At least once a year, the bank shall be obliged to prepare a corporate governance report and disclose it as an integral part of the annual report on the bank operations.

The report on the corporate governance shall at least contain:

- information and data on the composition, the competences and the functioning of the Supervisory Board, the Risk Management Committee, the Auditing Committee, other committees of the Supervisory Board (if

established in accordance with the Statute of the bank) and the bank's Supervisory Board;

- information on the method of selection, appointment and dismissal of members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors;
- information on memberships in other supervisory and/or management bodies of the members of the Supervisory Board, the Risk Management Committee, the Auditing Committee and the Board of Directors;
- information and data on the organizational structure of the bank, including its subsidiaries;
- information and data on the bank's shareholders structure - the title of the shareholders with qualified holding and their share in the total number of shares and the total number of issued voting shares and their representatives in the bank's Supervisory Board;
- information and data related to the implementation of the bank's remuneration policy, pursuant to paragraph 3 of this item;
- information and data on the bank's policy on avoiding conflict of interests;
- information on the use of services provided by outsourcers that are significant for the bank's entire operations.

The information and data related to the implementation of the bank's remuneration policy shall refer at least to:

- the basic remuneration criteria;
- the ratio of the fixed and variable part of the total compensation;
- the criteria which determined the part of the compensation paid in the form of shares or other rights enabling acquiring shares;
- the amount of the total compensation paid during the year by group (e.g. the members of the Supervisory Board, the members of the Board of Directors, other persons with special rights and responsibilities, other employees of the bank and the like), whereby the fixed and variable part of the compensation paid and the number of the persons in the individual group shall be presented separately;
- structure of the total compensation according to the amount and number of persons to whom the corresponding amount of the total compensation has been paid during the year;
- other data pursuant to law.

60. The Supervisory Board shall submit annual report on its operating to the bank's General Meeting of Shareholders.

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

- the manner the competences are performed in;
- the cooperation with the Board of Directors;
- the structure of the Supervisory Board;
- the existence of conflict of interests and undertaken measures;
- the results of the individual and collective assessment of the adequacy of the members of the Supervisory Board;
- the regularity of each member at the meetings of the bank's Supervisory Board; and
- performing other operations, according to law.

## **XI. CORPORATE GOVERNANCE AT THE LEVEL OF A BANKING GROUP IN THE REPUBLIC OF MACEDONIA**

61. If the bank is a parent entity of a banking group in the Republic of Macedonia, the bank's Supervisory Board shall have full responsibility for the operations of the group and for providing a framework for good corporate governance appropriate to the structure, the activities and the risk profile of the group and the persons involved in it. The Supervisory Board and the Board of Directors of the bank should know the organizational structure of the group and the risks arising from it.

62. The bank's Supervisory Board shall be obliged to perform appropriate surveillance of the subsidiaries taking into consideration the legal and regulatory requirements that apply to the members of the management and supervisory bodies of the subsidiaries.

63. In order to carry out its competences, the bank's Supervisory Board shall be obliged:

- to establish corporate governance that will include clearly defined lines of responsibility at the level of the parent entity and at the level of the subsidiary;
- to establish relevant internal regulations and control mechanisms for identifying and dealing with possible conflict of interests within the group;
- to approve policies and strategies for establishing new structures and legal entities (e.g. a new subsidiary, a new subgroup and the like) that are consistent with the policies and interests of the group;
- to assess if an efficient system for exchange of information and data among different persons in the group has been established;
- to provide resources for monitoring the compliance of the operations of the subsidiaries with the regulations;
- to maintain regular relations with the domestic supervisory authority and the supervisory authority of the subsidiaries;
- to provide an internal control system and a risk management system at the level of the entire group, as well as at the level of a subsidiary.

64. The management and supervisory bodies of the subsidiaries shall be obliged to make an assessment of the adequacy of the internal regulations of the group with the local legal and regulatory requirements.

65. The bank shall be obliged to comply with the strategic objectives, the general framework for risk management and corporate values of all members of the group, whereby the management and supervisory bodies of the subsidiaries shall be obliged to make adjustments when the policy of the group is in conflict with the local legal and regulatory requirements.

66. In case the bank operates in other countries or acts through structures that reduce its transparency, the Supervisory Board and the Board of Directors shall be required to provide:

- avoidance of structures that have no economic or business justification;
- assessment of the internal regulations for establishing such structures, management of the risks in them, as well as the bank's ability to manage the risks before the establishment of new structures or beginning of new activities;

- definition of the procedure for approving the establishment of new legal entities or subsidiaries by prescribing appropriate criteria;
- establishment of internal regulations for identifying and managing all material risks arising from these structures;
- regular verification of these activities by both internal and external audit.

## **XII. REPORTING TO THE NATIONAL BANK**

67. The bank shall submit the following information and data to the National Bank:

- a semiannual review of transactions with the entities connected to the bank, which shall contain all data referred to in item 12 paragraph 2 of this Decision;
- the written statements on conflict of interests given by the persons with special rights and responsibilities in the bank, together with the basis from which the conflict between the personal interest and the bank's interest arises;
- the assessments under items 18, 20 and 27 of this Decision, giving a detailed review of the assessment of all criteria referred to in the policy under Chapter VII of this Decision, together with the activities undertaken or proposed to be undertaken for addressing the identified weaknesses;
- all significant changes related to the information and data under item 59 of this Decision, which occurred after the disclosure of the last report on the corporate governance;
- a detailed organizational chart presenting the bank's internal organization, whereby the other persons with special rights and responsibilities shall be indicated separately;
- the reasons due to which the Supervisory Board has replaced the member of the bank's Board of Directors responsible for monitoring the risk management, if the bank has appointed such a person;
- the reasons for dismissal of the person in charge of risk management function, the person in charge of compliance function or the person in charge of internal audit function;
- the assessment under item 32 of this Decision of the persons in charge of the control functions, giving a detailed review of the assessment of all criteria referred to in the policy under item 31 of this Decision, together with the activities undertaken or to be undertaken for addressing the identified weaknesses.

68. The bank shall be obliged to submit the information and data under item 67 of this Decision, within fifteen days after their adoption, completion, occurrence, changes or dismissal.

As an exception to paragraph 1 of this item:

- the bank shall submit the semiannual review under item 67 indent 1 of this Decision, within thirty days after the end of the half-year to which the review refers;
- the bank shall submit the detailed organizational chart and the relevant data under item 67 indent 5 of this Decision on an annual basis, by 10 February each year;
- the assessment of the adequacy of a member of the Supervisory Board or the Board of Directors of the bank in case of their appointment or reappointment shall be submitted together with the application for issuing

the relevant approval, which shall be submitted according to the National Bank's regulation on issuing approvals.

### **XIII. TRANSITIONAL AND CLOSING PROVISIONS**

69. 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 July 2018.

70. On the day this Decision starts being applied, it shall supersede the Decision on the basic principles of corporate governance in a bank (Official Gazette of the Republic of Macedonia No. 159/07).

**D. No. 02-15/II-1/2018**  
**1 February 2018**  
**Skopje**

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