

BANKING LAW

August, 2000

BANKING LAW

I. GENERAL PROVISIONS

Article 1

This Law regulates the founding, operations, supervision and termination of the operations of banks.

Article 2

In the text of the Law the following definitions shall have the following meaning:

1. "Bank" means a legal entity engaged in the business of accepting deposits and using such funds either in whole or in part to make extensions of credit or investments for the account of the bank;
2. "Postal Bank" means a unique legal entity in the Republic of Macedonia established by the provisions of this Law, when the "Macedonian Post" public enterprise or its legal successor is obligatory one of the founders and shareholders;
3. "Banking activities" are the following financial activities:
 - accepting deposits,
 - placement of accepted deposits in credit or other investments for the account of the bank and
 - other activities which are by Law exclusively delegated to the banks.
4. "Deposit" means a claim of other entities on bank in cash, with or without interest or premium of any kind that is to be repaid either on demand or at a certain period, depending on the agreed conditions at the time the deposit was placed;
5. "Related entities" are two or more legal or natural persons which are management, capital or otherwise related, due to which they together determine the business policy and work in coordination with each other in order to obtain usual commercial advantages. They are considered related if one legal or natural person has a significant interest in another legal person.

Two natural persons are considered related if one of them is a spouse, parent or child to the other natural person.

The basis of the definition of the management and capital relation shall be determined by the National Bank of the Republic of Macedonia.

6. "Subsidiary" means any legal person in which another person or group of persons acting in concert holds:
 - (i) the equivalent of fifty percent or more of voting shares;
 - (ii) a significant interest
7. "Significant interest" means:
 - a) direct or indirect holding of a legal person from another legal or natural person, or acquisition of twenty percent or more of the voting shares;
 - b) possibility to exercise a significant influence of one or more natural or legal persons over the management and on passing the policies and financial and business decisions in another legal person, or

c) the results of doing businesses of one legal person can have a significant influence on the businesses or the results of the businesses of the other legal person.

8. "Capital" means the net worth (or own funds) of a bank that is the difference between its assets and liabilities in accordance with the Official Bank of the Republic of Macedonia Methodology;

9. "Credit" means any commitment to disburse a sum of money in exchange for a right to repayment of the amount disbursed and outstanding and to payment of interest or commission for that amount;

10. "Short-term security" means any security with maturity of up to one year;

11. "Long-term security" means any security with maturity of more than one year;

12. "Equity interest" means any ownership right in the capital invested in the bank or another legal entity, which carries a voting right and payment of dividend, or only right to payment of a dividend;

13. "Recommendation" means giving oral or written advice to banks by the National Bank of the Republic of Macedonia aimed at more efficient realization of tasks or providing information to banks;

14. "Order" means an obligatory directive in implementation of this Law or of regulations issued by the National Bank of the Republic of Macedonia regarding the application of this Law;

15. "Person with special rights and responsibilities" is a person who is a member of the Managing Board, executive body, department manager, or a person with special rights and responsibilities, according to the Statute of the bank including the member of the Auditing Committee and any other person who alone or together with one or more persons is authorized to conclude agreement for the account of the bank.

16. "Guarantee capital" means capital defined by the National Bank of the Republic of Macedonia for regulatory purposes which might differ from the definition of "Capital" stipulated under item 8 of this Article;

17. "Measures" means undertaking actions to correct the infractions, eliminate noncompliance and irregularities in the bank's operations;

18. "Voting shares" means common shares of the capital of the issuer that carry the right to vote and the right to payment of a dividend;

19. "Branch" means a place of business that is a legally dependent part of a bank and that directly conducts all or some of the financial activities;

20. "Representative office" is a part of a foreign bank or another foreign financial institution without a status of a legal entity. The representative office may make a research in the financial and banking operations market, to represent the founder, but is not allowed to deal with banking activities.

21. "Financial institution" means a legal entity that is not a bank, but is engaged in one or more of the following activities: extending credits, foreign ex

23. "Merger of banks" implies a merger of two or more banks, whereby all sides are renounced of their legal identity and a new bank is established, or acquisition of one bank by another whereby the joining bank is renounced of its legal identity while the other bank continues to operate under the same legal status.

24. "Open foreign exchange position" is the amount of assets between the active and passive on-balance and off-balance sheet items denominated in foreign currency.

25. "Savings deposit" means a sum of money by a natural person deposited with a bank, evidenced by a written document as Denar or foreign

Article 8

The decision pertaining to the founding of a bank, a foreign bank subsidiary and Postal Bank, defines the total amount of the capital of bank required for founding bank and conducting the activities stipulated under Article 45 of this Law which amount can not be lower than the Denar equivalent of EURO 3,500,000, according to the middle exchange rate of the National Bank on the date when the application is submitted to the trade register.

For conducting the operations from Article 46 of this law, the capital of the bank shall not be lower than the Denar equivalent of EURO 9.000.000 according to the middle exchange rate of the National Bank on the date when the application for authorization is submitted.

When establishing a bank, the share of the non-money form of the capital may be up to 10% of the money form of the capital.

All additional capital investments are investments of shareholders in money form and are considered as capital of the bank.

A bank shall be obligated to maintain the capital from paragraphs 1 and 2 of this Article.

Article 9

The participation of an individual shareholder can be a maximum of one third of the amount of bank's voting shares.

Based on the evaluation of the National Bank when a bank establishes a bank, the share in the capital may be unlimited.

The term "individual shareholder" from paragraph 1 of this Article addresses all legal and natural persons that according to this Law and the decision of the National Bank are considered affiliated.

Article 10

The amount of preferential shares, without voting right, shall not exceed one third of the shares with voting right.

Article 11

For gradual or one-time acquisition of shares, regardless of whether they are acquired by one or more affiliated persons, whose total cumulative nominal values 10%, 20%, 33%, 50% and 75% of the total voting shares of a bank, approval must be granted by the National Bank

Voting shares acquired contrary to paragraph 1 of this Article, shall not bear voting right.

Article 12

A bank acquires the status of a legal entity after it has been entered in the trade registry.

The application for entry in the trade registry is submitted within 15 days from the date when the decision on founding and operation of the bank was passed.

The following documents are enclosed with the application for entry in the trade registry:

1. Decision on founding the bank;
2. Statute of the bank;
3. License issued by the National Bank;

4. Evidence for the funds being paid in as capital into a temporary account with the payment operations institution. evidence that the foreign legal entity or natural person has paid up the amount in foreign currency into a special account with the National Bank;

5. Evidence that the bank shareholders have transferred the non-money assets entitled as capital of the bank to the ownership of the bank;

6. Other documents in compliance with the regulations on registration in the trade registry.

Parts of the bank are also entered in the trade registry, in compliance with the regulations for entry in the trade registry.

Article 13

Within 15 days after entry in the trade registry the bank is obliged to submit to the National Bank a copy of the verified registry application supported with the documentation submitted for entry in the trade registry.

1. Founding and operating license

Article 14

A license from the National Bank is obligatory for founding and operation of a bank.

Article 15

The application for issuing a founding and

If the determined documentation is not completed in the application stipulated under paragraph 1 of this Article, the Governor of the National Bank shall reject the application by a decision.

An appeal against the decision from paragraph 1 of Article 15 may be filed within eight days upon its receipt. The National Bank of the Republic of Macedonia Council shall resolve appeals without participation of the Governor and the Deputy Governor.

Article 16

The temporary license lists the conditions which the bank should meet in order to obtain founding and operating license, as follows:

1. Payment of shareholding capital;
2. Passing of a draft statute;
3. Plan of employment with qualification structure and training of bank's staff;
4. Renting or purchasing business premises and equipment, and establishing an operative system including internal control and audit;
5. Development of written policies and procedures for bank's operations; and
6. Engagements of an authorized external auditor.

Article 17

The bank is obliged to meet the conditions from the temporary license within a period of six months following the issuance of temporary license, and submit written proofs to the National Bank.

On the basis of the evaluation of the bank's compliance with the terms set in the temporary license, the Governor of the National Bank, takes a decision for issuing a full license for founding and operation of a bank.

The Decision from paragraph 2 of this Article includes the activities that the bank is to perform.

If the bank does not meet the conditions from the temporary license within six months, the Governor of the National Bank shall take a decision for termination of the temporary license.

An appeal against the decisions from paragraph 2 and 4 of this Article may be filed within eight days upon their receipt. The National Bank of the Republic of Macedonia Council shall resolve appeals without participation of the Governor and the Deputy Governor.

Article 18

The shareholders adopt a decision on founding a bank within 30 days from the date they received the decision from Article 17 paragraph 2 of this Law.

The bank is obliged to commence operations within 90 days after the decision of Article 17 paragraph 2 is taken.

Article 19

Founding and operating license for foreign bank subsidiaries issued on the basis of the same procedure as for issuing founding and operating license for a bank.

5. the bank does not perform the activities in compliance with the issued license and the provisions of this Law;
6. the bank does not fulfil the technical, organizational, personnel and other conditions for conducting banking activities, in compliance with the standards determined by the National Bank;
7. an approval for appointment of an executive body of the bank has not been granted for more than six months;
8. the bank has not conducted banking activities for more than one year;
9. the bank violates the obligation for timely and correct reporting and informing the National Bank according to Article 26 of this Law and the deadlines for submitting the reports, determined by the National Bank, which impairs the off-site monitoring of the bank;
10. the parent bank of the subsidiary ceased its operations on any grounds.

An appeal against the decisions from paragraph 1 of this Article can be filed within eight days upon its receipt. The National Bank Council shall solve appeals without participation of the Governor and the Deputy Governor.

After passing the decision from paragraph 1 of this Article until the decision for determining the conditions for introduction of a liquidation procedure, or a decision for determining the conditions for introduction of a bankruptcy proceedings is passed, the bank ceases the conduct of banking activities, except for collection of claims through its giro account.

4. Notification on issuing and revoking a bank operation license

Article 23

The National Bank shall notify the Ministry of Finance in writing on any issuing and revoking of bank operating license and statutory changes license within seven days from the date when the decision on issuing or revoking of bank operating license becomes final.

The notification under paragraph 1 of this Article shall contain the following information:

1. name and headquarters of the bank;
2. name of the Executive body;
3. name and head office of the shareholders in possession of voting shares of more than 10% of the total number of the voting shares;
4. list of activities of the bank;
5. date of issuance or revocation of the license; and
6. reasons for revocation of the license.

Article 24

The National Bank is obliged to announce the issuance or revocation of a bank founding and operating license through the mass media within seven

4.

2. Determination, evaluation and management of risk and allocation of reserves

Article 31

The National Bank shall prescribe the manner of determining, evaluating and managing risks by:

1. determining the criteria for classification of active balance sheet and off-balance sheet items in order to evaluate the level of credit risk that the bank faces,
2. prescribing the limits of exposure to the exchange rate risk and the manner of managing this type of risk,
3. prescribing a methodology for determining, evaluating and managing liquidity risk;
4. prescribing a methodology for determining, evaluating and managing country risk, and
5. prescribing a methodology for determining, evaluating and managing other types of risk the bank faces.

Article 32

Reserves of the bank are own funds of the bank, which serve to cover the losses deriving from the risks, with which the bank faces with during its operations.

Reserves of the bank are formed from the profit and reevaluation reserves on the basis of a decision of the bank's Assembly.

Article 33

In order to cover potential losses deriving from certain risk active balance sheet and off-balance sheet items, the bank shall allocate special reserves.

The amount of the special reserve is determined in a manner and amount prescribed by special methodology developed by the National Bank.

6. Credit exposure and investment of the bank

Article 34

The credit exposure of the bank covers the balance sheet claims and off-balance sheet items.

The term "balance sheet claims" covers accrued and non accrued interest, purchased securities, capital investments of the bank, and other claims.

The term "off-balance sheet items" covers letters of credit, guarantees and other potential claims of the bank.

Article 35

Credit exposure to a single borrower shall not exceed 25 percent of the guarantee capital of the bank.

Credit exposure to a single shareholder of the bank or the owner of voting shares participating with over 5 percent of the total number of voting shares and to a single company in which the bank has capital investments shall not exceed the limit of 10 percent of the bank's guarantee capital.

Credit exposure to an executive body of the bank, members of the Managing Board, and other bank bodies and persons with special rights and responsibilities, shall not exceed the limit of 3 percent of the bank's guarantee capital.

The total amount of credit exposure under paragraphs 2 and 3 of this Article shall not exceed the bank's guarantee capital.

Credits and other forms of credit exposure under paragraphs 2 and 3 of this Article are approved on the basis of a decision adopted by a bank body responsible for credit approvals.

The terms and conditions for approving loans and other forms of credit exposure, collecting deposits and providing other financial services to the entities under paragraph 2 and 3 of this Article shall not be more favorable than the terms and conditions for other clients.

Article 36

Large credit exposure to a single borrower is an exposure equal or higher than 10 percent of the bank's guarantee capital.

The total amount of a large credit exposure may not exceed an amount eight times higher than the bank's guarantee capital.

The conditions for implementation of the provisions of this article are prescribed by the National Bank.

The term "single borrower" from Article 35 of this Law and paragraph 1 of this Article pertains to all legal and natural persons that according to the law are considered affiliated.

Article 37

A bank is obliged to adjust its credit procedures and regulation of overdue claims to the supervision standards determined by the National Bank, in compliance with the existing regulations.

Article 38

A bank can not extend a credit or engage in other type of credit exposure, which shall be directly or indirectly used for purchasing shares in that bank.

The bank shall not extend credit or engage in other

A single capital investment of a bank in a non-financial institution may not exceed the equivalent of 15 percent of the bank's guarantee capital.

The limits stipulated under paragraphs 1, 2 and 3 of this Article exclude the property in land, buildings, equipment which the bank does not use for performance of its functions, and equity shares obtained on the basis of uncollected claims.

The bank is obliged to sell the property and equity shares from paragraph 4 of this Article within a period of three years upon their acquisition, otherwise they are subject to the limit from paragraph 1, 2 and 3 of this Article.

4. Bank liquidity

Article 40

The bank is obliged to manage its assets and liabilities in a manner that provides settlement of due liabilities at all times.

Article 41

The illiquid bank is not allowed to make payments of orders of the bank from its giro-account, i.e., orders of its clients.

Article 42

The National Bank specifies the obligations related to the maintenance of the liquidity of banks and undertakes measures against illiquid banks.

5. Open foreign exchange position

Article 43

A bank is obliged to maintain an open foreign exchange position within the level prescribed by the National Bank.

The National Bank determines the calculation procedure for the open foreign exchange position and the relation between the open foreign exchange position and the guarantee capital.

IV. FINANCIAL ACTIVITIES

Article 44

A bank may operate on its behalf for its own account, on its behalf and for the account of others, and on behalf and for the account of others.

Article 45

The bank founded with capital in the amount of the equivalent of EURO 3.500.000 may perform the following activities:

1. accept all kinds of money deposits from legal entities and natural persons;
2. grant and take loans in the country;
3. foreign exchange and foreign currency operations;

1. Computes and controls payments through postal and telegraphic money orders in the inland payments system;
2. Renders services related to international money orders, postal checks, postal savings, and redeems;
3. Collects security payments in other countries, in compliance with the World Postal Association for Collection of Securities Act;
4. Executes payments operations abroad in compliance with the law;
5. Issues payment cards to effectuate the functions of the founder;

Article 48

Republic of Macedonia is in possession of a golden share in the Postal Bank.

In case of privatization of at least 51 percent of the capital of the "Macedonian Post Offices" Public enterprise, Republic of Macedonia retains right from the golden share for a period of 12 months after the privatization.

The golden share provides a dominant voting right for the Government of the Republic of Macedonia on the following issues:

1. change of ownership in the Postal Bank;
2. merger, division and cessation of the operations of the Postal Bank;
3. quotation of the shares of the Postal Bank on the Stock Exchange;
- 4.

4. Adopts the annual statement of the bank;
5. Verifies or refuses the proposed decision of the Managing Board on the use and allocation of the realized profit, i.e. the coverage of losses;
6. Decides on new issuance of shares;
7. Decides on status changes and termination of bank operation;
8. Appoints members of the Managing Board of the bank;
9. Gives its consent for the appointment of an authorized auditor by proposal of the Managing Board;
10. Verifies the list of net debtors of the bank identified by the Managing Board;
11. Decides on other issues of relevance to the operation of the bank specified in the bank Statute and the Law on Trade Companies.

Article 57

The bank Assembly meets at least once a year.

2. Managing Board

Article 58

The Managing Board of the bank consists of a minimum of 5 and a maximum of 9 members.

The term of office of the members of the Managing Board is four years.

Majority of the members of the Managing Board shall not be employees of the bank.

A member of the Managing Board of a bank cannot be a person:

1. who is a member of the Council of the National Bank;
2. who is employed in the National Bank;
3. convicted for criminal act against property and for criminal act in the area of financial operations;
4. who is a net debtor of the bank determined in accordance with the Methodology stipulated by the National Bank.

The members of the Managing Board shall appoint a President of the Managing Board among the membership.

The Managing Board shall meet not less than once per month.

Article 59

The Managing Board establishes policies for conducting financial activities and supervises their implementation.

The Managing Board is responsible for the ~~its~~ sound efficiency of the bank and for the protection of the bank depositors.

The Managing Board and bank employees have ~~a~~ a fiduciary duty to the bank that they serve and to the bank's customers to place the bank's interest

17. Organizes the internal audit in the bank, determines the scope of its activities and the budget; and

18. Performs other activities stipulated in the bank Statute and activities that are not under the jurisdiction of the Bank Assembly.

3. Risk Management Committee

Article 60

The Risk Management Committee consists of the members of the Managing Board.

The Risk Management Committee shall:

1. establish and monitor the implementation of policies and procedures for evaluation of credits and their management;
2. establish and monitor the implementation of credit policies and procedures prescribed by the National Bank;
3. establish and monitor the implementation of procedures and policies for assets and liabilities management prescribed by the National Bank;
4. monitor the classification of risk assets and adequate allocation of loan loss reserves prepared by the bank's departments;
5. propose measures and activities for collection of claims which have received a status of problem claims;
6. approve credit exposure towards a single borrower exceeding 10 percent of the guarantee capital;
7. establish and monitor implementation of policies and procedures for management of the interest rate risk and other markets risks;
8. gives opinion on any issues within their responsibility raised by the Managing Board.

The Risk Management Committee shall meet at least once per month or more frequently upon request of the Managing Board, or at least two of its members.

The decisions of this Committee shall be adopted with the majority of the members of the Committee.

The Risk Management Committee shall submit a report on its operations to the Managing Board at least once a month.

4. Auditing Committee

Article 61

The auditing committee consists of 3 members with a mandate of two years. A member of the Managing Board shall not be a member of this Committee, and one of the members of this Committee

The members of the Auditing Committee shall be appointed by the Bank Assembly.

The Auditing Committee shall establish appropriate accounting procedures and shall control the compliance of these procedures with this Law and the regulations. The Auditing Committee reports to the Managing Board on any issues related to its companies and gives opinions on issues raised by the Managing Board.

The Auditing Committee may employ experts, at the expense of the bank, to assist in the full and efficient completion of the duties of this Committee.

The Auditing Committee shall meet at least once quarterly, or more frequently upon request of the Managing Board, or at least two of its members.

The decisions of this Committee shall be adopted with the majority of the members of the Committee.

The Auditing Committee shall inform the Bank Assembly about its activities, at least once a year.

5. Executive Body

Article 62

The Executive Body of a bank shall include at least two persons who are equally responsible for the banking businesses and the liabilities of the bank. The Statute of the bank determines which of the members of the Executive Body will represent the bank.

The candidate for an Executive Body of the bank shall have the following qualifications:

1. university degree,
2. successful work experience of a minimum of 5 years in appropriate finance positions or 3 years of work experience for persons with special rights and responsibilities in a bank,
3. knowledge of banking law and regulations.

An Executive Body shall not be a person who:

1. is a manager or president of any trade company or legal entity,
2. is a member of the National Bank Council,
3. convicted of a criminal offence against property and a criminal offence in the area of financial operations.

Members of the Executive Body shall be full-time employees of the bank, and at least one of the members of the Executive Body shall be fluent in Macedonian language and its Cyrillic alphabet.

The Managing Board of a bank may not appoint the Executive Body of the bank without prior approval from the National Bank.

Article 63

The Executive Body of the bank:

1. Manages the operation of the bank;

2. Represents and acts on behalf of the bank;
3. Carries out the decisions of the Assembly and the Managing Board of the bank, and monitors their enforcement;
4. Initiates and proposes improvements in the operations of the bank;
and
5. Appoints and dismisses the bank employees with special rights and responsibilities in accordance with the bank Statute.

Article 64

The Executive Body of the bank is responsible for the lawful operation of the bank.

The Executive Body of the bank is accountable for its work to the Managing Board.

Article 65

Should the persons with special rights and responsibilities determine that the decision of the bank bodies is in collision with the law, or with the regulations based on the law, or that the decision may jeopardize the liquidity of the bank, they are obliged to notify the bank bodies in writing.

6. Internal Bank Audit

Article 66

The Managing Board of a bank is obliged to set up a department for internal audit, as an independent operational unit.

The department stipulated under paragraph 1 of this Article is engaged in permanent and complete control of the legitimacy, accuracy and promptness of the bank's operation through:

1. monitoring of the implementation of the internal procedures and polices;
2. assessment of the overall efficiency of the banking operations; and
3. monitoring of the compliance with the legal provisions.

The department stipulated under paragraph 1 of this Article notifies the Managing Board of the bank on the performed control and possible risks to financial position of the bank.

The employees of the department stipulated under paragraph 1 of this Article shall perform only the activities of the office and majority of them shall be authorized auditors.

Article 67

The Statute of the Bank shall more closely define the number, structure, authorizations, rights, duties and responsibilities of the Bank bodies, as well the number, authorizations, rights, duties, responsibilities and conditions for appointing the persons with special rights and appo

Persons having special rights and responsibilities, shall at least once at the beginning of the year make a statement on conflict of interest, if any.

The persons under paragraph 1 of this Article shall not take part in the decision making process if their objectiveness is put in question due to mutual interests or conflict of interest with persons involved in the contract or the legal matter. The existence of mutual interest or conflict of interest is disclosed prior to considering the concerned matter.

The written statement from paragraph 1 of this Article, is submitted to the Managing Board containing the names and addresses of persons with whom they have a mutual interest or conflict of interest, as well as material benefit, i.e. the nature of business or family interest existing among them.

Person from paragraph 1 who has a material interest or a material relation as stipulated under

Article 71

The authorized auditor controls and assesses:

1. balance sheet
2. income statement
3. cash flow statement
4. changes in the amount of capital
5. level and changes of the allocated special reserves
6. conducted write-offs
7. amount of assumed potential liabilities
8. consolidation effects report
9. functioning of the internal audit
10. book keeping
11. information system
12. accuracy and completeness of reports submitted by the bank to the National Bank
13. adequacy of the accounting procedures of the bank and enforcement of the regulations.

The National Bank may require from an auditor an additional explanation with respect to the auditing report.

Article 72

A bank is obliged to appoint an authorized auditor for which the National Bank is informed.

The same authorized auditor may not conduct more than three successive audits in the same bank.

The same authorized auditor may not conduct more than five audits of banks in one business year.

The audit of the consolidated financial statements and financial statements of legal entities included in the consolidated financial statements should be performed by the same auditor.

Article 73

A bank is obliged to submit to the National Bank a copy of the annual statement after its adoption, together with an auditing report by an authorized auditor.

The subsidiary of a foreign bank is obliged to submit to the National Bank a business statement and an audit report of the parent bank in four weeks of its issuance.

The National Bank refuses the financial statements from paragraph 1 of this Article if it determines that they are not based on objective facts on the financial condition of the bank.

Data on the savings deposits and all deposits of natural and legal persons, as well as data on the operations of natural persons through their giro current accounts and the operations of legal persons through their giro accounts are considered as a business secret of the bank.

Data from the paragraph 1 of this Article, may be disclosed only upon written request by the court and the National Bank.

X. MEASURES TO IMPROVE THE CONDITION OF A BANK

Article 85

The National Bank may undertake the following measures against a bank if determined that the bank has violated the provisions of this Law and the other regulations passed by the National Bank, or if determined that the risky operations of the bank have endangered the timely implementation of commitments towards the creditors of the bank:

1. Submit a written warning to the bank;
2. Submit a request for convening a meeting of the Managing Board or shareholders Assembly to review the conditions and to reach an agreement on the measures needed to improve the conditions in the bank;
3. Issue a written order to the bank to adhere to the provisions of this Law and to the regulations of the National Bank, to cease conducting business transactions in a manner that may threaten the stability of the bank, or to cease the settlement of liabilities towards creditors, i.e. to undertake measures to improve the

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12. Order one or more shareholders that own or control more than 10 percent of the voting shares of a bank to reduce their ownership interest to below 10 percent of the voting shares of a bank.
13. Assign measures to improve the ~~bank's~~ collecting procedures of due claims.
14. Propose to the Managing Board of the bank to merge with another bank or to be acquired by another bank;
15. Propose the transfer or sale of the bank's assets to another bank;
16. Limit the salaries and allowances of the management bodies and employees of the bank;
17. Order a reduction of the operating expenses.
18. Appoint a conservator;
19. Appoint a receiver; and
20. Revoke the founding and operating license of the bank.

An appeal against the decision from paragraph 1 of this Article by which measures are undertaken and terms for removal of irregularities determined, may be lodged to the National Bank Council within eight days upon its receipt. An appeal against the Decision for undertaking the measures from paragraph 1, items 5, 6, 7, 8, 9, 18 and 19 of this Article shall not defer the implementation of the decision.

The Governor of the National Bank is obliged to call a meeting of the National Bank Council of the Republic of Macedonia Council within 15 days upon the receipt of the appeal.

The National Bank Council shall resolve appeals without participation of the Governor and the Deputy Governor.

The National Bank shall submit a written notification to the Ministry of Finance on the undertaken measures from paragraph 1, items 7, 18, 19 and 20 of this Article.

1. Prompt Corrective Action based on the decrease in the capital adequacy ratio

Article 86

For banks whose capital adequacy ratios is less than three-quarters of the required minimum stipulated under Article 30 of this Law, the National Bank shall require that the bank adopts a recapitalization plan approved by its shareholders and the National Bank and shall take one or more of the following actions:

1. Require that the average total assets of the bank during a certain period does not exceed its average total assets during the preceding period including off-balance sheet items;
2. Require that the bank does not acquire any interest in any legal entity, establish or acquire new parts of the bank, or engage in any new line of business;
3. Require that the bank does not grant any credit or other types of credit exposure to related entities unless they are collateralized by market securities issued or guaranteed by the

Government of the Republic of Macedonia or the European Union, held in custody by an independent third party – depository institution, market value of which exceeds 125 percent of the amount of the credit or other form of credit exposure at all times; and

The National Bank is obliged to decide on the plan of the conservator stipulated under paragraph 1 of this Article within a period of 15 days.

When the National Bank approves the plan measures and activities proposed by the conservator, it shall order the bank to implement the plan.

If the Managing Board fails to adopt the plan measures and activities or adopts the plan but fails to implement it in accordance with the predetermined schedule, the National Bank shall propose that the Bank Assembly dismisses the members of the Managing Board within a period of 15 days.

If the Bank Assembly fails to act in accordance w

1. the value of the liabilities of the bank exceeds the value of the assets of the bank determined in accordance with the Methodology of the National Bank;
2. the capital adequacy ratio is less than one-quarter of the one required under Article 30 of this Law; and
3. the bank is not paying its liabilities as they become due.

Article 92

The Council of the National Bank, shall by decision appoint a receiver upon proposal of the Governor of the National Bank.

The receiver shall be appointed for a period of no longer than 6 months which may be extended for an additional 6 months at the most.

The receiver shall receive remuneration for his work.

The remuneration specified in paragraph 3 of Article 92 is determined by the National Bank Council, and shall be paid by the bank.

Article 93

The decision from Article 92, paragraph 1 of this Law shall be published in the "Official Gazette of the Republic of Macedonia" and at least in one of the daily newspapers.

The decision from Article 92 paragraph 1 of this Law shall be submitted to the authorized court for entry in the registry.

All rights of the managing bodies of a bank shall cease when the decision on the appointment of a receiver according to Article 92, paragraph 1 of this Law, is delivered.

A receiver may not delegate his rights and responsibilities to another person.

Article 94

The receiver shall have all the rights of the shareholders and persons with special rights and responsibilities in the bank and parts thereof, except the restrictions stated in the decision stipulated under Article 92, paragraph 1 of this Law.

A receiver shall have access and control over the property, business premises, business records and other documentation of the bank.

A receiver is obliged to protect the property and documentation of the bank and undertake all necessary measures accordingly, determined in detail by the National Bank.

Provided that the receiver is hindered in any way to enter the premises of the bank, the access of the receiver in the bank will be provided with assistance of the bodies of the Ministry of Internal Affairs of the Republic of Macedonia.

operations, with evaluation of future prospects for stable and profitable operations and implementation plan, which would include;

1. possibilities for survival of a new bank with the assets of an insolvent bank through recapitalization by identified investors who will, fully or partially, purchase the bank or the claims and liabilities of the bank within a period not longer than a year;
2. possibility for selling the bank to one or more existing banks within a period not longer than a year;
3. the assets amount, which may be realized during the liquidation proceedings of the bank in a period of 18 months at the most; and
4. evaluation of the proposals to rehabilitate the bank, presented within 15 days from the day the decision from Article 92, paragraph 1 of this Law is passed.

When preparing the plan under paragraph 1 of this Article, the receiver is committed to protect the interests of the bank's depositors and creditors.

Together with the plan from paragraph 1 of this Article the receiver shall develop a draft balance sheet of the bank and submit it to the National Bank.

Article 96

The National Bank shall be obliged to approve the plan of the receiver, within 15 days upon receipt of the documentation under Article 95 of this Law, or to pass a decision on fulfillment of the conditions for introduction of a bankruptcy procedure in the bank.

The National Bank shall evaluate the implementation of the plan of the receiver on quarterly basis, and if it determines that the bank became insolvent, it may decide to revoke the appointment of the receiver and to establish management by the shareholders of the bank.

If in the course of the implementation of the plan specified under paragraph 1 of this Article, the National Bank determines that the expected results to improve the financial conditions of the bank have not been achieved, it may cease the implementation of the plan and pass a decision on fulfillment of the conditions for introduction of a bankruptcy procedure in the bank.

Article 97

If the proposal for rehabilitation of a bank is accepted, the Governor of the National Bank passes a decision for initiation of rehabilitation procedure in the bank.

With passing of the decision from paragraph 1 of this Article, the functions of all management bodies, persons with special rights and responsibilities, as well as the rights of the shareholders based on shares in the bank shall terminate.

The Bank in which a rehabilitation procedure is introduced is obliged to write off the losses and potential losses from the capital of the bank.

An appeal against the decisions from paragraph 1 of this Article may be filed with the National Bank Council within eight days upon its receipt. The appeal does not defer the implementation of the decision.

The Governor of the National Bank is obliged

The National Bank Council shall resolve appointments without participation of the Governor and the Deputy Governor.

The decision stipulated under paragraph 1 of this Article is also submitted to the Deposit Insurance Fund and to the Ministry of Finance.

Article 98

Forthwith upon his appointment, the receiver shall establish a new balance sheet for the bank, based on the determination of the NBM of values of the bank's assets in accordance with valuation standards and procedures prescribed by regulation of the NBM.

A receiver may:

1. discontinue any operations of the bank;
2. continue banking activities other than:
 - collecting deposits of legal and natural persons; and
 - extending credit to new clients of the bank;
3. borrow funds; and
4. execute any instrument for debt collection or initiate on its behalf activities or legal proceedings for collection of bank's claims.

The receiver shall report by the tenth day of each month to the National Bank on the progress of the receivership, including the financial statements of the bank of the previous month, reports on the changes in the amount of the capital, information concerning the prospects for the sale of the bank or its assets, and projections of payment of the bank's liabilities. The bank's balance sheet shall be published in the mass media simultaneously with its submission to the National Bank.

Article 99

The authorities of a receiver shall terminate:

1. with the expiration of the term of his appointment;
2. with the revocation of the decision on his appointment;
3. with passing the decision on bank rehabilitation, decision on fulfillment of the conditions for introduction of a bankruptcy procedure in the bank, or a decision on determining the conditions for introduction of a liquidation procedure in the bank.

The authorities of a receiver shall cease at request, when a newly appointed receiver assumes the authorities.

2. The claims on the bank which are in a form of occasional payments are consolidated into a one-time claim with the exception of claims by foreign creditors guaranteed by the National Bank;

3. The claims of creditors are considered to be matured, with the exception of claims by foreign creditors guaranteed by the National Bank;

4. The bank deposit guarantees are reduced by the funds in vault cash; and

5. The operating costs of the bank are covered by the advance the bankruptcy board requires from the proposer of the bankruptcy.

Article 107

In the bankruptcy proceedings, the Credit Committee has an advisory role.

Article 108

Prior to refunding the creditors, the costs incurred during the proceeding including the costs of the bank, which is taking over the deposit operations of the bank in bankruptcy and any credit extended to the bank after the appointment of a receiver, are deducted from the bankruptcy estate.

Article 109

The claims of the creditors shall be settled from the bankruptcy estate in the following order:

1. Claims by the Republic of Macedonia and the National Bank;
2. Claims by the Deposit Insurance Fund, based on insured deposits;
3. Claims by creditors other than stockholders of the bank;
4. Claims by creditors who have an agreement with the bank on precedent right of payment in a bankruptcy proceeding prior to the stockholders of the bank; and
5. Claims by creditors who have an agreement with the bank on settlement with equal treatment to the shareholders in a bankruptcy proceeding.

Article 110

If there are remaining assets in the bankruptcy estate after the completion of the bankruptcy procedure and settlement of all claims to creditors, those assets shall be divided among the shareholders in compliance with the Statute and other regulations of the bank.

Article 111

In the bankruptcy procedure of the bank the provisions of the Law on Bankruptcy shall be applied, except for the provisions vvv6 51.6,c81 0 TD .02u 0 TD e[(shareholders in co6redassu

The National Bank shall submit the decision specified under paragraph 1 of this Article to the Deposit Insurance Fund and the Ministry of Finance within seven days after it becomes final.

XII. LIQUIDATION PROCEDURE

Article 113

The liquidation proceeding is initiated in a bank when:

1. the shareholders pass a decision on termination of the activity of the bank; and
2. the National Bank revokes the founding and operating license of a bank.

Article 114

The Governor of the National Bank passes a decision on determining the conditions for initiation liquidation proceeding in a bank in accordance stipulated under Article 113 of this Law.

An appeal against the decision from paragraph 1 of this Article may be filed within 8 days upon its submission. The Council of the National Bank shall resolve appeals without participation of the Governor and Deputy Governor.

The National Bank shall be obliged to publish the final decision on determining of the conditions for initiation of a bankruptcy proceeding in a bank through the mass media and to publicly display the decision in the bank.

The final decision on determining the conditions for initiation of a liquidation proceeding in a bank is submitted to the bank that has taken over the operations of the bank in liquidation, to the institution for payment operations, to the Deposit Insurance Fund and to the Ministry of Finance.

Article 115

The bank in liquidation, and the bank that takes over its operations, are obliged within 10 days upon receipt of the final decision on determining the conditions for initiation of a liquidation procedure, to record the position of all assets and liabilities, and to submit the minutes to the National Bank.

The National Bank is obliged to examine the minutes stipulated under paragraph 1 of this Article, and to submit them to the Deposit Insurance Fund within 10 days upon receipt.

Article 116

Following the liquidation proceeding, the remaining funds shall be allocated among the shareholders of the bank, in compliance with the founding decision.

XIII. PENALTY CLAUSES

1. Criminal offences

Article 117

The Executive Body, persons with special rights and responsibilities, who through their work violated the provisions of this Law or regulations contributed to the initiation of a bankruptcy

proceeding in a bank and consequently inflicted damage to the creditors of that bank, shall be sentenced from 3 to 10 years of imprisonment.

When defining the sentence special considerations shall be given to the extent of the damage, number of impaired entities and the consequences of the bankruptcy proceeding upon the economic system in the country.

Material benefit obtained by the criminal offense under paragraph 1 of this Article shall be confiscated with court decision.

Article 118

13. failing to maintain solvency and liquidity in the operations (Articles 40 and 42);
14. effecting payments contrary to Article 41 of this Law;
15. failing to comply with the provisions of this Law pertaining to the open foreign exchange position (Article 43);
16. failing to display the terms for operations with savings deposits publicly on the teller's premises (Article 52);
17. failing to comply with Article 53 of this Law;
18. appointing an individual as a member of the Managing Board who can not become a member of the Managing Board (Article 58);
19. failing to convene a meeting of the Managing Board (Article 58, paragraph 5)
20. failing to convene the Assembly of the Bank contrary to Article 57 of this Law;
21. failing to prepare a financial report and consolidated financial report (Article 69) or failing to submit it to the National Bank (Article 73) ;
22. failing to appoint an authorized auditor and acting contrary to Article 72 of this Law;
23. failing to publish a summary of its audited financial statement (Article 76);
24. if the Managing Board fails to set up the internal control and audit and Risk Management Committee (Article 59, paragraph 4, item 16, 17 and 66);
25. failing to comply with Article 68;
26. disclosing business secrets contrary to Article 83 and 84 of this Law; and
27. carrying out domestic payment operations in defiance with the provisions.

The Executive Body of a bank and other persons with special rights and responsibilities in a bank, who commit an infraction under paragraph 1 of this Article, shall be charged with a fine from 10,000 to 50,000 Denar.

The Executive Body of a bank and other persons with special rights and responsibilities who have been charged for infraction under paragraph 1 of this Article, shall be prohibited from performing executive duties in a bank one year after the sentence becomes effective.

Article 120

A legal entity shall be fined for infraction from Denar 100,000 to 300,000 in the following instances:

1. for withdrawing the founding capital;
2. for performing operations contrary to the provisions under Article 5 of this Law;
3. for acting contrary to the provisions under Article 3, paragraph 2 of this Law.

The responsible individual of the legal entity shall be charged with a fine from Denar 10,000 to 50,000.

Article 121

An individual shall be charged with a fine from Denar 10,000 to 50,000 for an infraction in the following instances:

1. for withdrawing the founding capital;
2. for performing bank operations contrary to the provisions under Article 5 of this Law;
3. for acting contrary to Article 3, paragraph 2 of this Law.

XIV. TRANSITIONAL AND CLOSING PROVISIONS

Article 122

On the date this Law enters into force the Law on Banks and Savings Houses ("Official Gazette of the Republic of Macedonia" No. 31/93, 78/93, 17/96, 37/98 and 25/00), with the exception of provisions from part II Savings Houses, part a) Savings Deposits Insurance Fund and the provisions from Article 93a to 93l, part 2, Bank Rehabilitation Agency, Articles 131b and 131g shall no longer be in effect.

The savings houses and Postal Savings House, founded in compliance with the provisions of the Banks and Savings Houses Act ("Official Gazette of the Republic of Macedonia" No. 31/93, 78/93, 17/96, 37/98 and 25/2000) continue to operate according to the provisions of this Law, within the framework of the authorizations described in the founding and operating license.

The Postal Savings House may be reorganized into a Postal Bank within period of 10 years from the date when this Law enters into force.

Article 123

The implementation of the provisions from Article 9 ceases on January 01, 2003.

Article 124

Banks established in the Republic of Macedonia in this Law enters into force are obliged to comply with the provisions of this Law in a period