



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

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Pursuant to Article 69 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of Republic of Macedonia" no. 3/2002, 51/2003, 85/2003, 40/2004, 61/2005 and 129/2006), Article 68 paragraph 1 of the Banking Law ("Official Gazette of the Republic of Macedonia" no. 67/2007 and 90/2009) and item 26 paragraph 3 of the Decision on managing the interest rate risk in the banking book ("Official Gazette of the Republic of Macedonia" no. 163/2008 and 144/2009), the Governor of the National Bank of the Republic of Macedonia adopted the following

### **INSTRUCTIONS**

#### **for enforcing the Decision on managing the interest rate risk in the banking book ("Official Gazette of Republic of Macedonia" no. 39/2010)**

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

1. These Instructions set forth the method of enforcing the Decision on managing the interest rate risk in the banking book (hereinafter: Decision).

2. The bank shall fill-in and submit to the National Bank of the Republic of Macedonia (hereinafter: National Bank) reports on interest rate risk exposure in the banking book.

3. The reports of these Instructions shall be submitted on the following forms:

- FKS Form - Change in the economic value of the banking book for positions with fixed interest rate;
- VKS Form - Change in the economic value of the banking book for positions with variable interest rate;
- PKS Form - Change in the economic value of the banking book for positions with adjustable interest rate;
- VPV Form - Total weighted value.

Forms under paragraph 1 of this item shall be an integral part of these Instructions.

For the purposes of these Instructions, the economic value of the banking book positions shall be presented through their accounting value, adjusted as required by the provisions of these Instructions.

#### **II. DETERMINING THE INTEREST RATE RISK EXPOSURE IN THE BANKING BOOK**

## II. 1. FKS, VKS and PKS Forms

4. FKS, VKS and PKS Form shall be filled-in for:
  - Each Denar position;
  - Each significant currency, as specified under item 2 indent 9 of the Decision;
  - Each significant currency for the currency indexed positions in Denars in the respective currency, and
  - Aggregately, for all other currencies not considered significant under this Decision, including currency-indexed positions in Denars in such currencies.
5. The bank shall observe the following rules when filling-in these forms:
  - Interest sensitive on-balance sheet and interest sensitive classical off-balance sheet position shall be presented on a net basis (less the amount of impairment, i.e. allocated special reserve) and corrected for the amount of the premium, discount and changes in fair value, without taking into account the amount of accrued depreciation;
  - Financial derivatives as a part of the banking book shall be recognized at their par value, presented and distributed within time bands as a combination of long and short position, as required by the rules defined under section VIII of the Decision on methodology for determining capital adequacy;
  - Positions without maturity date or where the maturity date, i.e. the time to the next change in the interest rate cannot be reliably determined shall be distributed as specified by items 22 and 23 of the Decision, where these positions shall be included in the FKS, VKS or PKS forms, depending on the type of their interest rate;
  - If the bank determines two or more maturity dates for change in the interest rate for a specific position, such position shall be distributed within the time band which, according to item 23 of the Decision, are considered to have higher probability for the change to occur;
  - Positions with fixed interest rate within a certain time band, rather than within the overall period to their maturity date shall be treated as positions with fixed interest rate. These positions are included in the FKS form, as specified by the rules set forth in these Instructions, and the distribution is made under the assumption that the interest rate will remain fixed to the maturity date. If the bank changes the type of interest rate upon the expiration of the time band in which the interest rate is fixed, it shall redistribute these positions in the correct form (VKS or PKS);
  - The amount of reserve requirement shall be distributed within the time band of up to one month;
  - Sight deposits and transaction account funds on which the bank calculates an interest shall be distributed within a time band of up to one month, regardless of the period of change in the interest rate;

- Repo-agreements / reverse repo agreements and agreements on borrowing/ lending securities and commodities from/to counterparty shall be distributed within positions of received / extended credits;
- Investments in investment funds shall be such distributed depending on the structure of fund's investments in interest sensitive instruments. If the bank cannot reliably determine the structure of fund's investments, these positions shall be filled-in by assessing the fund's structure, on the basis of the fund's prospectus;
- Nonperforming claims shall not be considered interest sensitive positions and shall not be taken into account when determining the interest rate risk exposure in the banking book;
- Due liabilities and claims shall be distributed within a time band of up to one month.

### **FKS Form**

6. FKS Form shall include all positions with fixed interest rate, distributed within the respective time band, in accordance with the residual maturity date, where positions with annuity repayment are being distributed according to the residual date of maturity of each annuity.

Positions with unchangeable interest rate over the entire period to the position's maturity date shall be considered positions with fixed interest rate.

FKS Form shall be filled-in by observing the rules defined in this item and in items 4, 5, 7, 8, 9, 10 and 11.

7. Columns 3 to 15 - "time band" shall present the amount of each interest sensitive asset and liability (on-balance sheet and off-balance sheet) position which is a part of the banking book.

#### **On-balance sheet positions**

8. On-balance sheet asset positions shall be filled-in as follows:

1) Assets on demand

This position shall state each transaction account and demand deposit (respective part of accounts 131, 31, except for account 3118, 53, 54 and 55).

2) Allocated reserve requirement and other similar assets recognized on the respective part of account 100 and accounts 14 and 3118;

3) Time deposits

This position shall include time deposits with early withdrawal possibility and other time deposits recorded on the respective part of accounts 132, 133, 134, 135, 33, 53, 54 and 55.

4) Credits

This position shall present each credit with early repayment possibility and all other credits recorded on the respective part of accounts 399, 439, 499, 50, 51 and 52. This position shall also include financial lease claims (respective part of accounts 58 and 59).

#### 5) Securities

This position shall state debt securities which are interest sensitive positions, divided into three groups:

- Debt instruments not traded actively, valued at fair value through the income statements, recorded in the bank's accounting on accounts 39 (except for account 399), 43 (except for account 439) and 49 (except for account 499),
- Debt instruments available for sale recorded on accounts 37, 41 and 47, and
- Debt instruments held to maturity, recorded on accounts 38, 42 and 48.

#### 6) Other assets

This position shall include all other interest sensitive active on-balance sheet positions not included in the previous active positions (e.g. positions recorded on accounts 19, 56, 57 etc., if being an interest rate risk exposure and a part of the banking book).

#### I) Total on-balance sheet assets

This represents the sum of all on-balance sheet asset positions for each time-band (sum of rows no.1 to no.6).

9. On-balance sheet liabilities positions shall be filled in as follows:

#### 7) Liabilities on demand

This position shall include transaction accounts and demand deposits recorded on the respective part of accounts 70, 71, 72, 792, 794, 80, 81, 86, 893 and 894.

#### 8) Time deposits

This position shall present each time deposit with early withdrawal possibility and other time deposits recorded, in the bank's accounting, on the respective part of accounts 71, 72, 792, 794, 82, 86, 893 and 894.

#### 9) Credit liabilities

This position shall present liabilities on credits with early repayment possibility and other credits recorded on the respective part of accounts 74, 78, 795, 84, 87, 88 and 895.

#### 10) Liabilities based on issued securities

This position shall include the liabilities based on issued debt securities recorded in the banks' record on the accounts 73, 790, 791, 83, 890 and 891.

11) Hybrid instruments, subordinated debt and other capital positions.

This position shall state the liabilities based on hybrid capital instruments and subordinated debts recorded on the accounts 796, 896, 910 and 911, as well as the capital positions the dividend amount of which depends on the amount of certain reference interest rate (interest sensitive capital positions).

12) Other liabilities

This position shall include all other interest sensitive on-balance sheet liabilities positions that are not included in the previous liabilities positions (for example, positions recorded on the accounts 23, 29 and 77 etc., if they represent an exposure to interest rate risk and they are part of the banking book).

II) Total on-balance sheet liabilities

This position shall state the sum of all on-balance sheet liabilities positions by time-bands (sum of the rows from no. 7 to no. 12).

III) Net on-balance sheet position

This position shall state the net on-balance sheet value obtained as a difference between the total on-balance sheet assets and the total on-balance sheet liabilities (difference of the rows I and II).

**Off-balance sheet positions**

10. The off-balance sheet asset positions shall be filled in as follows:

13) Derivates

This position shall encompass the nominal values of the derivates in financial assets which are part of the banking book, recorded on the adequate part of the account 95.

14) Other (classical) off-balance sheet positions

This position shall encompass all classical off-balance sheet asset positions which represent exposure to interest rate risk, such as unused credit limits and other alike positions for which the bank calculates interest (appropriate part of the accounts 9933, 9934, 9936 and other adequate accounts).

IV) Total off-balance sheet assets

This position shall state the sum of all off-balance sheet asset items by time-bands (sum of the rows no. 13 and no. 14).

11. The off-balance sheet liabilities positions shall be filled in as follows:

15) Derivates

This position shall encompass the nominal values of the derivates in financial liabilities which are part of the banking book, recorded on the adequate part of the account 95.

16) Other (classical) off-balance sheet positions

This position shall encompass all other classical off-balance sheet liabilities positions which represent exposure to interest rate risk presented on the adequate part of the accounts 9954, 9964 and other appropriate accounts.

V) Total off-balance sheet liabilities

This position shall state the sum of all off-balance sheet liabilities positions by time-bands (sum of the rows no. 15 and no. 16).

VI) Net off-balance sheet position

This position shall state the net off-balance sheet value obtained as a difference between the total off-balance sheet assets and the total off-balance sheet liabilities (difference of the rows IV and V).

VII) Total net position

This position shall state the total net position obtained as a sum of the net on-balance sheet and the net off-balance sheet position by time-bands (sum of the rows III and VI). The obtained sum shall be presented with the adequate sign, depending on its positive (long net position) or negative value (short net position).

VIII) Weights

This position shall state the weights by time-bands for determining the change in the economic value of the banking book defined in table no. 1 of the Decision.

IX) Weighted position

The weighted position by time-bands shall represent a product of the total net position for each time-band from row no. VII and the adequate weight from the row no. VIII.

X) Net weighted position for \_\_\_\_\_ currency

The obtained long and short weighted positions for each time-band from the row no. IX shall be summed, thus obtaining net weighted long or short position, for all positions in the adequate significant currency with fixed interest rates. The empty space shall be filled in with the type of the significant currency, while for all other currencies which are allowed to show the interest sensitive position cumulatively, the following word shall be inserted: "cumulatively". If the form refers to the positions in Denars with FX clause, after the type of currency, i.e. the word: "cumulatively", the abbreviation shall be added: "DK" (for example EUR-DK).

## **VKS Form**

12. The VKS Form shall include the positions with variable interest rate distributed in adequate time-bands, in conformity with the period until the next repricing date. For the periods prior to the next repricing date, the positions with annuity repayment shall be distributed according to the residual maturity of each annuity.

As positions with variable interest rate shall be considered those the interest rate of which depends on the amount of certain reference interest rate (for example, the NBRM

reference rate, SKIBOR, LIBOR, EURIBOR etc.) during the entire period until the position's maturity date.

The VKS Form shall be filled in by applying the adequate rules from this item, the items 4 and 5, as well as the rules valid for filling in the FKS Form, defined in items 7, 8, 9, 10 and 11 of these Instructions.

### **PKS Form**

13. The PKS Form shall include the positions with adjustable interest rate, i.e. the positions where the interest rate varies based on the decision of appropriate bank body, with the bank distributing these positions by time-bands in line with items 22 and 23 of the Decision. The positions with the annuity repayment shall be distributed as follows:

- all annuities maturing up to the period set forth in items 22 and 23 of the Decision, shall be distributed according to the residual maturity of each annuity;
- the cumulative amount of all other annuities (which are not distributed according to indent 1 of this item) shall be distributed within the period set forth in items 22 and 23 of this Decision.

As positions with adjustable interest rate shall be considered those with an interest rate that changes based on a decision of an appropriate bank body.

The PKS Form shall be filled in by applying the adequate rules from this item, the items 4 and 5, as well as the rules valid for filling in the FKS Form, defined in items 7, 8, 9, 10 and 11 of these Instructions.

## **II. 2. VPV Form - Total weighted value**

14. The VPV Form - Total weighted value, shall be filled in by applying the following rules:

14.1. In rows no. 1.1, 1.2... - "net weighted position for \_\_\_\_\_currency", the sum of the obtained net weighted long or short Denar positions, for each significant currency and cumulatively for all other currencies from the FKS, VKS and PKS Forms shall be inserted (sum of the row no. X of the FKS, VKS and PKS for the appropriate currency). The long net weighted positions by currency shall be shown with positive sign, while the short net weighted positions by currency shall be shown with negative sign.

14.2 No. 2 - "total weighted assets - change in the economic value of the banking book" shall show the total weighted value of the banking book as a sum of the net weighted positions in Denars, individual significant currencies and cumulatively for all other currencies from this Form. The total weighted value of the banking book shall be presented in absolute amount and it shall show the change in the economic value of the banking book, as a result of the estimation of the change in the interest rates by using the standardized interest rate shock.

14.3 No. 3 - "own funds", shall state the amount of own funds of the bank at the end of the last quarter, except if in the period from the date of the last quarter and the date of the preparation of the VPV Form the amount of the own funds significantly changed (for example: new issue of shares, issued hybrid or subordinated instrument, registered loss in the current operations, etc.), which was not encompassed in the calculation of the own funds from the last quarter.

14.4 No.4 - "total weighted value/own funds shall state the ratio between the amount of the total weighted value of the banking book (no. 2 of this Form) and the bank's own funds (no. 3 of this Form), shown in percentages.

### **III. DEADLINES FOR REPORTING TO THE NATIONAL BANK**

15. The bank shall be obliged to prepare the reports under item 3 of these Instructions on a monthly basis and to submit them to the National Bank in conformity with Chapter V of the Decision.

### **IV. CLOSING PROVISIONS**

16. The provisions of these Instructions referring to banks shall appropriately be applied also for the savings houses and the foreign banks' branch offices in the Republic of Macedonia.

17. These Instructions shall enter into force on the eighth day from the day of their publishing in the "Official Gazette of the Republic of Macedonia", and their implementation shall start from July 01, 2010.

**No. 3**  
**March 18, 2010**  
**Skopje**

**Governor**  
**Petar Goshev, M.Sc.**