



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 64 paragraph 1 item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of the Republic of Macedonia" No 3/02, 51/03, 85/03, 40/04, 61/05 and 129/06) and Article 68 paragraph 1 item 2 the Banking Law ("Official Gazette of the Republic of Macedonia" No. 67/07), the National Bank of the Republic of Macedonia Council adopted the following

DECISION on managing the currency risk ("Official Gazette of the Republic of Macedonia" no. 17/2008)

I. GENERAL PROVISIONS

1. This Decision lays down the methodology for managing the currency risk, which includes:

- the method for determining banks' foreign exchange positions by different currencies;
- the method for determining the aggregate foreign exchange position;
- the indicators on the exposure to currency risk;
- the currency risk management, and
- the method and the terms on reporting to the National Bank of the Republic of Macedonia (hereinafter refer to as: National Bank).

2. The currency risk, in light of this Decision, shall mean a risk of loss due to a change in the cross-currency exchange rates and/or change of the value of the Denar relative to the value of other foreign currencies.

3. The bank shall establish a system for identification, measuring, monitoring and controlling the currency risk it is exposed to in its operating.

When establishing the system laid down in paragraph 1 of this item, the bank shall encompass all the activities and transactions which, in the balance and off-balance records are registered in foreign currencies and in denars indexed with FX clause, and which in accordance with the accounting rules are FX valued on regular basis.

II. METHOD OF DETERMINING OPEN FOREIGN EXCHANGE POSITIONS AND CURRENCY RISK EXPOSURE INDICATORS

4. Indicators on banks' exposure to currency risk shall be the following:

- the relation between the open foreign exchange position in different currency and the banks' own funds and
- the relation between the aggregate foreign exchange position and the banks' own funds.

5. The open foreign exchange position in one currency shall represent a sum of:

- the net spot-position, which is equal to the difference between the foreign currency assets and foreign currency liabilities in that currency;

- the net forward-position, which equals the difference between all amounts which shall be received and all amounts which shall be paid based on currency forward agreements, including the currency futures agreements and the principal on currency swap agreements which is not included in the spot-position;
- off-balance positions (irrevocable guarantees, uncovered letters of credit and other instruments), which are classified in the risk categories D and E and/or for which the bank is certain that will perform the payment and that there is a possibility that they could not be collected;
- off-balance items (letters of credit, guarantees, etc.) on behalf of the bank that the bank expects to collect (realize inflow) for certain.

The balance positions laid down in paragraph 1 line 1 of this item, which are being classified in the risk categories C, D and E shall be presented in amount that the bank expects to collect, i.e. they are decreased in accordance with the Decision on Credit Risk Management and with the accounting regulations which are in use.

The positions of paragraph 1 of this item shall be denominated in denars by the middle exchange rate of the National Bank on the day of calculation.

6. The open foreign exchange position shall be calculated for every foreign currency shown in the balance of banks.

7. The open foreign exchange position shall not include the banks' positions in foreign currency which resulted of its operating on behalf of and for the account of others.

8. The open foreign exchange position may be long foreign exchange position or short foreign exchange position.

The open foreign exchange position is long when the foreign currency assets (on and off-balance sheet) are higher than the foreign currency liabilities (on and off-balance sheet), i.e. the difference between the foreign currency assets (on and off-balance sheet) and the foreign currency liabilities (on and off-balance sheet) is with positive sign (+).

The open foreign exchange position is short when the foreign currency assets (on and off-balance sheet) are lower than the foreign currency liabilities (on and off-balance sheet), i.e. the difference between the foreign currency assets (on and off-balance sheet) and the foreign currency liabilities (on and off-balance sheet) is with negative sign (-).

9. The sum of all open long foreign exchange positions in different currencies, denominated in denars, shall represent the aggregate long foreign exchange position of the bank.

The sum of all open short foreign exchange positions in different currencies, denominated in denars, shall represent the aggregate short foreign exchange position of the bank.

10. The higher amount between the aggregate short foreign exchange position and the aggregate long foreign exchange position (in absolute amount) under item 9 of this Decision shall represent the aggregate foreign exchange position of the bank, i.e. the overall banks' exposure to currency risk.

III. LIMITATION OF THE CURRENCY RISK EXPOSURE

11. The aggregate foreign exchange position shall amount no more than 30% of the banks' own funds.

12. The bank shall maintain the aggregate foreign exchange position within the limitation specified in item 11 of this Decision.

13. If the bank violated the prescribed limitations within two successive days, it shall submit to the National Bank, in the following day, a written explanation on the reasons for the violation, including the methods for reduction within the prescribed limitation.

The National Bank may require the bank a reduction within the prescribed limitation in the determined time limit, determining measures for achieving that goal.

IV. CURRENCY RISK MANAGEMENT PROCESS

14. The bank shall establish system for managing the currency risk and shall adopt a policy and adequate procedures for identifying, measuring, monitoring and controlling the currency risk.

15. The bank shall measure and monitor the currency risk daily.

The bank shall measure the effect on the profit and loss from its operation in foreign currency and in denar with FX clause, daily by different currency, i.e. the bank shall perform daily FX evaluation using the adequate exchange rates.

16. The banks' Supervisory Board shall approve the policy under item 14 of this Decision.

Supervisory Board shall review the adequacy of the approved policy at least on annual basis.

Supervisory Board, on the proposal of the Risk Management Board shall determine the form, content and dynamics of reporting to the Supervisory Board on the banks' activities in foreign currency and in denars with FX clause.

The Supervisory Board and the Board of Directors shall ensure internal control system, and they shall ensure regular monitoring and controlling of the activities in foreign currencies and in denars with FX clause, the implementation of the regulations and the internal banks' policies and procedures.

17. Risk Management Board shall at least:

- Establish policy on managing the currency risk and monitor its implementation;
- Give suggestions on policy improvement;
- Assess the banks' system for currency risk management;
- Analyze the effects of the currency risk management to the results of banks' operations;
- Determine internal limits on the relation between the open foreign exchange position (long and short) by different currencies and own funds, and regularly revise this limits;
- Determine internal limit on the relation between the aggregate foreign exchange position and the own funds and regularly revise this limit;
- Define the possible exceptions from the determined limits and assign responsibilities on making decisions for appliance of those exceptions;
- Perform analysis of the reports on banks exposure to currency risk and monitor the activities undertaken for management of this risk;

- Monitor the economic and other terms in which the bank operates, aiming to envisage possible changes in the activities in foreign currencies and denars with FX clause, exchange rates and the currency risk;
- Other activities in accordance with the Banking Law and the internal acts of the bank.

18. Board of Directors shall at least do the following:

- Establish and implement procedures for identifying, measuring, monitoring and controlling the banks' currency risk, in accordance with the policy;
- Establish and implement adequate systems for measuring the bank's exposure to currency risk;
- Establish and implement adequate systems for monitoring and measuring of the gains and the losses from the foreign currency denominated activities;
- Ensure regular monitoring and assessing of the policy and its implementation;
- Establish procedures for assessment of the influence of new products on the currency risk exposure;
- Monitor the economic and other terms in which the bank operates, aiming to envisage the eventual changes in the activities in foreign currency and in denars with FX clause, exchange rates and currency risk;
- Prepare and suggest form, content and method of reporting to the Supervisory Board and the Risk Management Board on the activities in foreign currencies and in Denars with FX clause, for efficient management of the currency risk the bank is exposed to;
- Other activities in accordance with the Banking Law and the internal acts of the bank.

19. The policy on currency risk management should be in conformity with the nature, scope, type and the complexity of the activities in foreign currencies and in denars with FX clause, which the bank performs and plans to perform.

20. The policy on managing the currency risk should include at least the following:

- Banks' goals and principles in performing the activities in foreign currencies and in denars with FX clause and in the taking and managing the currency risk;
- Clear and precise limitations of the banks' exposure to the currency risk, at least within the limitations under Section III of this Decision;
- Clear defined competencies and responsibilities related with the activities in foreign currencies and in denars with FX clause and managing the currency risk, by organizational units and by persons (positions).

In case when, according to the Banking Law, the bank is subject to consolidated supervision, the policy on currency risk management includes the currency risk management at the level of a banking group.

21. The procedures for implementation of the policy for currency risk management shall include at least the following:

- a. system for keeping the business books;
- b. system for reporting to the Board of Directors and the Supervisory Board at least for:
 - open foreign exchange position by currency;
 - aggregate foreign exchange position;
 - realized gains and losses from operating in foreign currency (including in denars with FX clause).

- c. control systems at least on:
 - established competencies and responsibilities;
 - compliance with the currency risk exposure limits;
 - transaction records;
- d. method of performing stress testing on the banks' exposure to currency risk, in accordance with the bylaws acts prescribed by the National Bank.

V. REPORTING THE NATIONAL BANK

22. The bank shall submit to the National Bank reports on the aggregate foreign exchange position daily, in a manner, form and deadlines prescribed by the Governor of the National Bank.

VI. TRANSITIONAL AND CLOSING PROVISIONS

23. The Governor of the National Bank shall prepare instructions with reporting forms for implementation of this Decision.

24. The provisions of this Decision shall refer to the foreign banks branches.

25. This Decision shall enter into force the eight day from the day of its publishing in the "Official Gazette of RM", and its implementation shall start on January 01, 2009.

26. Once this Decision enters into force, the Decision on determining and calculating the banks' open foreign exchange positions ("Official Gazette of the Republic of Macedonia" No. 103/2001 - revised text) shall become void.

D. no. 02-15/I-5/2008
January 31, 2008
Skopje

Petar Goshev, MSc.
Governor

President
of the National Bank of the Republic of
Macedonia Council