



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

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Pursuant to Article 64 paragraph 1 item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" no. 3/2002, 51/2003, 85/2003, 40/2004, 61/2005 and 129/2006) and Article 14 paragraph 6 of the Macedonian Bank for Development Promotion ("Official Gazette of RM" no. 105/2009), the National Bank of the Republic of Macedonia Council adopted the following

### **DECISION**

**on the methodology for determining impairment and allocation of special reserve by the  
Macedonian Bank for Development Promotion  
("Official Gazette of the Republic of Macedonia" no. 144/2009)**

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

1. This Decision shall set forth the special methodology for determining impairment, i.e. allocation of special reserve by the Macedonian Bank for Development Promotion (hereinafter referred to as: MBDP).

2. For the purposes of this Decision, the MBDP shall be required to classify each on-balance sheet and off-balance sheet asset item according to the degree of its credit risk exposure as a result of that item (hereinafter referred to as: credit risk exposure), in the manner and according to the criteria envisaged in items 5, 6, 7, 8, 12, 13, 19, 20 and 27 of the Decision on credit risk management.

The MBDP shall make the classification under item 1 of this item for each credit risk exposure, on individual basis.

#### **II. DETERMINATION OF THE IMPAIRMENT AND THE SPECIAL RESERVE**

3. Once the credit risk exposure based on item 2 of this Decision is classified, the MBDP shall make impairment on the on-balance sheet asset claims, i.e. it shall allocate special reserve for the off-balance sheet asset claims, by evaluating the present value of the future cash flows that would occur on the basis of such claims.

By exception to paragraph 1 of this item, MBDP shall determine the impairment for investments in securities available for sale in conformity with part II.1 of this Decision.

4. The amount of the impairment for the on-balance sheet asset claims shall be determined as a difference between the accounting value of the on-balance sheet claims and their present value. The present value of the on-balance sheet asset claims shall be derived by discounting the expected future cash flows based on such claims by applying the effective interest rate specified by the contract.

The effective interest rate shall be the interest rate the application of which would make the present value of all future cash flows equal to the present value of all future cash outflows. When calculating the effective interest rate, the MBDP shall:

- a) take into account all future cash flows (inflows and outflows) expected to occur under the contractual terms;
- b) take into account all paid and/or collected fees and commissions which are an integral part of the effective interest rate on the claim;
- c) not take into account the fees and commissions for depositing cash as a claim collateral;
- d) not take into account the future losses arising from the credit risk of the claim.

For discounting the expected future cash flows, the effective interest rate, on annual basis, shall be used.

If, due to financial problems of the client, MBDP approves modification of the lending terms, with regard to the amount of the interest and the repayment periods for the client's liabilities, the expected future cash flows shall be discounted at the effective interest rate applicable prior to the modification of the lending terms.

The MBDP will apply the effective interest rate for discounting the expected future flows from the claims with variable interest rate, as specified by the contract, applicable on the day of determining the present value of the expected cash flows. In such cases, the effective interest rate shall be calculated over the entire validity period of the contract (not only the remaining period to maturity) by applying the interest rate, applicable on the day of determining the present value of the expected cash flows.

By exception to paragraph 5 of this item, if the interest rate on the day of determining the present value changes by less than 10% relative to the last interest rate used for discounting the future cash flows, the MBDP may apply the previous effective interest rate used in the determining of the present value of the expected future cash flows.

5. The amount of the special reserve for the off-balance sheet asset items shall be equal to the present value of the expected future cash flows from MBDP payments based on assumed contingent liabilities and from collections from the client, discounted by the current market price of risk-free securities issued in the same currency and same maturity date as the currency and the maturity date of the expected payment or collection.

If there is no present market value of the risk-free securities with same maturity date as the maturity date of the expected payment, the present value of the expected payment on the assumed contingent liability of the MBDP shall be determined at the current market value of the of the risk-free securities with the maturity date which is closest to the maturity date of the expected payment.

6. MBDP shall not discount the expected future cash flows of the credit risk exposure with residual maturity date shorter than one year from the date of determining the amount of credit risk loss. In this case, the amount of the loss shall be equal to the difference between the accounting value of the credit risk exposure and the amount of expected future payments and collections based on such exposure.

7. When determining the present value of the expected future cash flows, the MBDP shall also take into account the value of collateral on such claim, provided that:

- a) The collateral is a first-class collateral instrument, under item 19 of the Decision on credit risk management;
- b) The collateral is unconditional irrevocable guarantee from non-banking financial and non-financial institution with at least A- rating (according to the Standard &

Poor's rating), A3 (according to the Moody's rating), or respective rating given by other recognized international credit rating institution;

- c) The assets serving as collateral is adequate assets for claim collection; An asset serving as collateral shall be adequate collection asset if the following conditions are met:

- there is a functional market for such asset or similar assets,
- there is an information of purchase and sale transaction of same or similar assets over the last three months,
- the information on the negotiated purchase and sale prices of same or similar assets are publicly available,
- the collection of the potential sale of the asset used as collateral (in case of foreclosure of the asset for collection of overdue claims) is expected to be made within a period not longer than 12 months after the foreclosure;

In the case of pledging a movable, securities, claims and other rights (hereinafter: movable collateral), as claim collateral, the MBDP, beyond the requirements referred to in paragraph 1 of this sub-item shall have:

- a regular documentation on movable collateral, in consistence with the Law on Contractual Collateral;
- evaluation of the market value of the movable, less the expected sale costs made at the moment of establishing the collateral;
- to have evidence on registration in the collateral registry;
- a first priority in the foreclosure of the movable collateral before the other pledges;
- an insurance policy on the pledged movable, restrictively endorsed for the benefit of the MBDP;
- a right of regular control and physical examination of the movable collateral;
- reevaluation of the movable market value, less the expected sale costs payable by the MBDP, made at least once every twelve months. Evaluation of the movable market value shall be required also for the shorter period, in the case of considerable drop in the market prices of such or similar property, or if the collateral value exceeds 5% of the MBDP own funds;
- the market value of the movable referred to in indents 2 and 7 of this paragraph appraised by a certified appraiser.

8. In the calculation of the present value of the expected future cash flows arising from the claim, the value of the pledged property that meets the requirements referred to item 7 sub-item c), shall be discounted by the time period of the expected sale of the pledged property for the purpose of claim collection, if the property is expected to be sold for a period longer than one year.

9. In the calculation of the present value of the future cash flows, the collateral shall be included up to the amount of total credit risk exposure covered by the collateral.

10. Based on the present value of the on-balance sheet and off-balance asset claims defined by this section, the MBDP shall make impairment, allocate special reserve within the following limits:

- from 0% to 10% of the credit risk exposure classified in A risk category;
- over 10% to 25% of the credit risk exposure classified in B risk category;
- over 25% to 50% of the credit risk exposure classified in C risk category;
- over 50% to 75% of the credit risk exposure classified in D risk category;
- over 75% to 100% of the credit risk exposure classified in E risk category.

The amount of impairment, i.e. the amount of appropriated special reserve may not be below the lower limit specified under paragraph 1 of this item for each risk category.

If in the determining of the present value of each credit risk exposure, MBDP determines higher amount of impairment, i.e. special reserve than the amount specified under paragraph 1 of this item for the risk category which house the respective credit risk exposure, it shall reclassify the credit risk exposure into the risk category that corresponds to the determined amount of impairment, i.e. special reserve.

11. As an exception to item 3 of this Decision, if the MBDP fails to determine the present value of the on-balance sheet and off-balance sheet asset claims, the amount of impairment, i.e. special reserve for each credit risk exposure shall be calculated by applying the upper limit specified by item 10 of this Decision, depending on the risk category which house the credit risk exposure.

MBDP shall not apply the exception to paragraph 1 of this item to credit risk exposure subject to calculation of impairment, i.e. special reserve by determining the present value of the future cash flows.

12. MBDP shall record the determined amount of additional or released impairment for a specific claim, in the income statement on the respective account for impairment (losses due to impairment) of credits and placements and on the respective account for impairment (asset impairment) within the on-balance sheet asset claims accounts.

MBDP shall record the calculated amount of additional or released special reserve, in the income statement on the special reserve account for off-balance sheet credit exposure on individual basis and on the account on the liability side for special reserve for the off-balance sheet credit exposure on individual basis.

## II. Determining of impairment for investments in securities available for sale

13. In instances when MBDP estimates that in consistence with items 7 and 8 of the Decision on the credit risk management, the investment in securities available for sale is impaired, it shall be required to determine the impairment value equal to the negative difference between the fair value and the depreciated purchase value.

The fair value of the investments in securities available for sale shall be determined according to its current market value on active market.

If a debt security is not traded on an active market, the MBDP will determine the fair value through discounting the anticipated future cash flows from the debt security, by using the current market price of similar securities issued in same currency and with same or similar maturity as the currency and the maturity of the anticipated collection.

If the ownership security is not traded on active market, MBDP shall determine the fair value through discounting the expected future cash flows by using the current market rate of return for investments in similar financial instruments.

14. MBDP shall record the determined impairment amount for investments in securities available for sale as follows:

- re-entry the stock on the adequate account within the revaluation reserves and it shall record it in the income statement on adequate account for the impairment of the assets available for sale;

- re-entry the stock on the adequate account for changes in the fair value on the adequate impairment account within the accounts for investments in securities available for sale.

- record all additional amounts of the impairment in the income statement on the adequate account for impairment of the assets available for sale and on the adequate account for impairment within the accounts for investment in securities available for sale.

15. For the debt securities available for sale previously determined as impaired by the MBDP, in case of increase in the fair value, the MBDP shall record the amount of the released impairment in the income statement on the adequate impairment account for assets available for sale and on the adequate impairment account within the accounts for investment in securities available for sale.

When the amount of the new fair value exceeds the amount of the determined impairment, the MBDP shall record the difference as an increase in the fair value on the adequate revaluation reserves account and the adequate account for changes in the fair value within the accounts for investments in securities available for sale.

MBDP shall not release the impairment for the investments in ownership securities available for sale.

### **III. TRANSITIONAL AND CLOSING PROVISIONS**

16. Besides the provisions of the Decision on credit risk management stated under item 2 of this Decision, the MBDP shall be required to implement adequately also the sections V and VI and the item 51 of the Decision on the credit risk management.

17. This Decision shall enter into force on the eighth day of the day of its publishing in the "Official Gazette of the Republic of Macedonia", while its enforcement shall begin from December 31,2009.

**D.no. 02-15/XI-2/2009**  
**November 30, 2009**  
**Skopje**

**Governor and**  
**President**  
**of the National Bank of the**  
**Republic of Macedonia Council**  
**Petar Goshev, M.Sc.**