

By virtue of article 143 relative to article 113 of the Insurance Act ("The Official Herald of the RS" No. 55/2004), the governor of the National Bank of Serbia issues

D E C I S I O N
**ON THE METHOD FOR EVALUATION OF THE BALANCE SHEET AND
OFF BALANCE SHEET POSITIONS OF INSURANCE COMPANY**

1. This decision sets down the method for evaluation of the balance sheet and off balance sheet positions of insurance company.

2. Insurance company shall be obliged to evaluate its assets on the regular basis in accordance with the law governing accounting, International Accounting Standards and this decision.

3. Insurance company shall be obliged to send in electronically its reports for the National Bank of Serbia on the state and estimate of its assets in accordance with the National Bank of Serbia's instructions to be announced on the website of the latter.

The sending in of reports in paragraph 1 of this clause insurance company shall do on the quarterly basis, namely:

- for the first quarter – until April 20,
- for the second quarter – until July 20,
- for the third quarter – until October 20,
- for the fourth quarter – until March 20.

4. The associated persons, in the sense of this decision, are considered to be the persons defined by article 33 of the Insurance Act.

One debtor, in the sense of this decision, is understood to mean all associated persons whose degree and way of association are such that they constitute a single risk.

Legal deal made under non-market conditions, in the sense of this decision, is considered to be a deal which is less favourable for insurance company than that made under regular market conditions.

*Methods and criteria used for evaluation
of the insurance company assets*

5. Insurance company shall be obliged to enact rules of evaluation of its assets which should contain all methods and criteria defined by this decision.

The rules in paragraph 1 of this clause, as amended, shall be submitted to the National Bank of Serbia for approval.

The assets evaluation

6. Insurance company shall be obliged to evaluate securities traded in in an organized market with their maturity not being a material element – on the basis of fair value.

7. Insurance company shall be obliged to evaluate securities not traded in in an organized market with their maturity not being a material element either – on the basis of individual evaluation of the respective debtor's affordability.

Debtor's affordability shall be evaluated on the basis of the following criteria, with the latter stated in an order of diminishing materiality:

- debtor's solvency,
- liquidity,
- cash flows in the previous period and future cash flows expected,
- profitability,
- general business conditions and debtor's prospect, as well as his position in the market of the activity he is pursuing,
- properness of fulfillment of obligations,
- quality and expertise of management.

8. Decrease, that is, increase in assets as found through evaluation of assets using the criteria in clauses 6 and 7 of this decision shall be stated as expenses, that is, revenues of insurance company.

9. Insurance company shall be obliged to carry out individual value correction at the level of total amount of the following claims:

- claim from representative on collection carried out in the name and on behalf of insurance company and not transferred within ten days from arising of that claim;
- claims not collected within three months since their due dates;
- claims in connection with legal deal made under non-market conditions;
- claims of a doubtful or disputed legal base.

10. Insurance company shall make a direct write-off of a claim if collection impossibility of that claim is certain and documented.

11. Insurance company does collectibility evaluation of the claims for which due date is material element, except for claims in clause 9 of this decision, on the basis of individual evaluation of the debtor's affordability in accordance with the criteria in clause 7, paragraph 2 of this decision, and duration of delay as to settlement of liabilities to the insurance company.

The claims of insurance company according to the criteria in paragraph 1 of this clause are classified into the following categories:

1) first category:

- claims from debtor whose affordability is satisfactory on all criteria,
- claims from debtor settling his liabilities timely, and exceptionally with a delay of up to three months;

2) second category:

- claims from debtor whose affordability is dissatisfactory, yet without its worsening expected, save for claims from an insolvent and illiquid debtor,
- claims from debtor settling his liabilities with up to five months delay and exceptionally with up to six months delay;

3) third category:

- claims from debtor whose affordability is dissatisfactory and especially so if the criterion of solvency or liquidity is taken into account,
- claims from debtor settling his liabilities with up to seven months delay and exceptionally, with up to nine months delay;

4) fourth category:

- claims from debtor being under bankruptcy proceedings, or from debtor reasonably expected to be subjected to bankruptcy proceedings,
- claims from debtor settling his liabilities with over nine months delay,
- claims from debtor not settling his liabilities on non-life insurance premium after insurance term elapsed, and if that term longer than one year, not settling them after one year time elapsed from commencement of the insurance term for that year,
- claims from debtor not settling his liabilities on reinsurance premium after reinsurance term elapsed, and if that term longer than one year, not settling them after one year time elapsed from commencement of the reinsurance term for that year,
- claims from person being the person associated with insurance company which otherwise would be classified into the second or third category.

Indirect write-off, that is, long-term provision is performed for the first category in an amount of up to 10%, for the second category in an amount from 25 – 50%, for the third category in an amount from 50 – 75%, and for the fourth category in the amount of 100% claims of those categories.

The claims in this clause shall be stated in their nominal value reduced by an amount level that has been found likely to be irrecoverable under the evaluation performed in the sense of this decision.

Write-off under the balance sheet positions carried out in accordance with paragraph 3 of this clause shall be stated as expenditure and reduction of the balance sheet assets, and write-off under the off balance sheet positions carried out in accordance with that paragraph – as expenditure and long-term provision.

12. Claims from one debtor whereto the criteria in clauses 7 and 11 of this decision relate shall be classified using a more rigorous criterion.

Claims from one debtor whereto the criteria in clause 11 of this decision relate can be classified exclusively using a delay criterion for fulfillment of liabilities to the insurance company, provided the respective claims from that debtor amount to less than 1% of that company's guarantee reserve.

The provision of paragraph 2 of this clause does not relate to claims from persons being the persons associated with the insurance company.

13. All claims from the associated persons shall be classified into the same category, this being determined on the basis of the most adversely classified claim from one of those persons.

14. Due date, that is, delay as to the claim collection, in the sense of this decision, is ascertained according to the original due date.

Claims on a legal deal by which the debtor in question has either directly or indirectly secured assets to settle a previous claim from himself – shall be classified according to the original due date of the claim getting settled.

As exception to paragraph 1 of this clause, the claims once restructured in the process of the debtor's privatization or financial consolidation – shall be classified according to their due dates as set in the restructuring proceeding.

Should a claim be transferred to another debtor – it shall be classified according to its original due date.

15. Insurance company shall be obliged to keep records on each debtor that an aggregate claim from amounts to 1% or more of the insurance company's guarantee reserve, with documentation containing up to date, complete and accurate data being material to acceptance of the collection risk as to claim from that debtor, and to the liquidity risk management as to this company – for the purpose of settling liabilities to the insured and other creditors inside contractual, that is, prescribed terms.

Should it not keep records, that is, possess documentation in paragraph 1 of this clause, all claims from its debtors shall be classified into the fourth category.

Should the data in paragraph 1 of this clause be partially missing or be of less importance – the claims from debtors shall be classified into the next more unfavourable category than that they otherwise should fall into.

16. Insurance companies shall perform evaluation of the balance sheet and off balance sheet positions in their financial reports for 2004 in accordance with the provisions of this decision, referring to the state as of 31 December 2004.

17. This decision shall take effect as of the day following the day of its being published in "The Official Herald of the RS".

D. No. 5
13 January 2005
B e l g r a d e

G o v e r n o r
of the National Bank of Serbia

Radovan Jelasic, m.p.