

Pursuant to Article 18, paragraph 1, item 3 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004 and 44/2010) and Section 26 of the Decision on Terms and Conditions of Granting Short-Term Liquidity Loans Against the Collateral of Securities (RS Official Gazette, No 95/2010), Governor of the National Bank of Serbia issues the following

**GUIDELINES
IMPLEMENTING THE DECISION ON TERMS AND CONDITIONS OF
GRANTING SHORT-TERM LIQUIDITY LOANS AGAINST THE
COLLATERAL OF SECURITIES**

General provisions

1. These Guidelines set forth in more detail the terms and conditions of performing the activities in relation to granting to banks dinar liquidity loans with maximum one-year maturity against the collateral of securities (hereinafter: short-term loan).

2. The activities referred to in Section 1 hereof relate to:

- 1) pledging the securities underlying a short-term loan and/or registration and termination of a lien of the National Bank of Serbia (NBS);
- 2) granting, disbursement and repayment of a short-term loan;
- 3) collection of receivables due (principal and interest) under a short-term loan.

Business processes between the NBS and banks in relation to the implementation of these Guidelines shall be conducted via electronic mail or telefax using email addresses and telefax numbers specified by banks in the authorisation form referred to in Section 11 hereof (Annex 1).

3. The NBS may grant to a bank a short-term loan against the collateral of securities determined by Section 2 of the Decision on Terms and Conditions of Granting Short-Term Liquidity Loans Against the Collateral of Securities (hereinafter: Decision).

The NBS may grant to a bank a short-term loan if the term over which securities determined by Section 2 of the Decision (hereinafter: securities) are pledged is at least one business day longer than the due date of the short-term loan.

Exceptionally, if the due date of a short-term loan is longer 90 days, a bank may initially pledge securities that mature before the due date of the short-term loan – provided that at least 90 days remain from the date of

granting a short-term loan until the maturity date of such securities and that these securities are pledged until their maturity date.

4. For the purposes of disbursement of a short-term loan, a bank shall conclude with the NBS a master agreement on a short-term loan (hereinafter: master agreement), as envisaged under Section 7 of the Decision, and shall submit to the NBS an appropriate number of signed and certified blank promissory notes and an authorisation for their completion.

Pledging of securities (registration of NBS' lien)

5. A bank shall pledge securities by registering the NBS' lien over securities which are recorded in a special sub-account of the bank's securities holding account – the escrow account in the Central Securities Depository and Clearing House (hereinafter: Central Securities Depository), in line with regulations of the Central Securities Depository.

The certificate of the Central Securities Depository on pledged securities over which the NBS's lien is registered shall serve as evidence that the securities are pledged.

6. A bank shall pledge securities before the auction – by no later than the time envisaged by the decision on organisation of an auction.

7. A bank may not substitute the pledged securities during the period of disbursement of a short-term loan, unless in cases stipulated by Section 4, paragraph 1 of the Decision.

In case of substitution of pledged securities in line with Section 4, paragraph 1 of the Decision, the maturity date of securities being pledged must be longer than the due date of a short-term loan at the moment of registration of NBS's lien, and the term over which securities are pledged must be longer than the due date of a short-term loan by at least one business day.

In case of substitution of pledged securities in line with Section 4, paragraph 1 of the Decision, a downward haircut shall apply to the nominal value of pledged securities determined in line with the Decision referred to in Section 5, paragraph 5 of the Decision (hereinafter: downward haircut).

If a bank fails to substitute the pledged securities within the timeframe referred to in Section 4, paragraph 2 of the Decision, it shall within that

timeframe return to the NBS the amount of the short-term loan collateralised by pledged securities being subject to substitution.

8. If it assesses that the pledge will not suffice to ensure regular repayment of the short-term loan it has granted, the NBS may, in line with Section 4, paragraph 3 of the Decision, request from a bank to pledge additional securities.

The NBS shall forward the request referred to in paragraph 1 hereof to the bank in writing, specifying the amount of additional securities that the bank is required to pledge.

When establishing the amount of securities that a bank shall additionally pledge, the downward haircut to the nominal value of pledged securities shall apply, determined in accordance with the Decision referred to in Section 5, paragraph 5 of the Decision.

If a bank fails to pledge additional securities within the timeframe referred to in Section 4, paragraph 4 of the Decision, in full compliance with the NBS's request referred to in this Section, it shall within the same timeframe repay to the NBS part of the short-term loan for which additional collateral was required.

9. The NBS shall determine the downward haircut value in line with Section 5 of the Decision.

Granting of loans at auctions

Auction notification

10. Based on the decision on organisation of an auction, the NBS shall electronically submit to banks the auction notification, which shall contain all relevant data from that decision.

Submission of loan bids

11. A bank that intends to participate in an auction shall within the timeframe determined by the decision on organisation of an auction send to the NBS by electronic mail or telefax the *bid for the disbursement of a short-term loan against the collateral of securities* (hereinafter: bid), containing the key elements stipulated in Annex 2. The bid may be submitted only by persons from the bank who are authorised to submit bids on behalf and for the account of the bank and whose authorisations the bank is required to submit to the NBS in the prescribed form (Annex 1).

12. If within the timeframe for the submission of bids, determined by the decision on organisation of an auction, a bank wishes to change its bid, it shall, within that timeframe, submit a new bid. The previous bid shall become null and void after the receipt of the new bid.

If within the timeframe for the submission of bids, determined by the decision on organisation of an auction, a bank wishes to cancel its bid, it shall complete within that timeframe the bid form (Annex 2) specifying the reference number of the bid requested to be cancelled, but not the amount of the loan or the interest rate.

If permitted to submit multiple bids, in line with the decision on organisation of an auction, the bank shall enter all offers in the same bid form (Annex 2).

A bank shall be responsible for the validity and accuracy of its bid.

Acknowledgement of receipt of the bid document

13. Following the receipt of the bank's bid, the NBS shall notify the bank electronically or by telefax that its bid will be processed or that it has been rejected. The NBS shall specify the reason for rejection in the notification on bid rejection.

Implementation of auction and notification of bid acceptance

14. The NBS shall implement an auction in line with Sections 16–18 of the Decision.

If the NBS accepts a bank's bid in part or a bank pledged a higher amount of securities than required, the securities pledged shall be accepted as security according to residual term – starting from those with the shortest time to maturity.

15. Following the processing of bids in line with Section 14 hereof, the NBS shall notify a bank electronically or by telefax of the acceptance/rejection of its bid.

If the NBS accepted a bank's bid in full or in part, it shall send to the bank a bid acceptance notification, which represents an individual loan agreement concluded under the terms of the Decision. The main elements of the bid acceptance notification (individual agreement) are set out in Annex 3.

16. If the amount of securities pledged by a bank is greater than required in line with the bid acceptance notification referred to in Section 15, paragraph 2 hereof or the NBS rejects the bank's bid at the auction, the NBS shall, by no later than the next business day from the auction day, send to the Central Securities Depository the notification that conditions have been met for the termination of the NBS' lien over excess pledged securities or all pledged securities. The notification shall contain all elements of the securities transfer order.

Disbursement and repayment of a short-term loan

17. The NBS shall extend a short-term loan provided a bank has pledged securities in full compliance with the bid acceptance notification referred to in Section 15, paragraph 2 hereof, which is determined based on the Central Securities Depository's certificate referred to in Section 5, paragraph 2 hereof.

The NBS shall extend a short-term loan by debiting the NBS's account – *Primary issue under open market operations*, No 908-88107-79, to the credit of the bank's gyro account.

18. A bank shall repay a short-term loan to the NBS on the due date, by no later than the cut-off time for interbank payment orders, in line with regulations on operation of the NBS RTGS and clearing system.

19. A bank shall repay a short-term loan to the credit of the NBS's account – *Primary issue under open market operations*, No 908-88107-79, credit ref. No 6-157023-xxxxxxx, where the designation 'xxxxxxx' refers to the bank's code from the codebook used by banks to complete payment orders and posted on the NBS's website (hereinafter: codebook).

20. If on the maturity date of the securities pledged a bank has no outstanding obligations under a short-term loan, the NBS shall send on the same day a notification to the Central Securities Depository confirming the fulfilment of conditions for the termination of NBS's lien. The notification shall contain all elements of the securities transfer order.

21. In line with Section 9 of the Decision, a bank may repay in full or in part one or several short-term loans in advance of the due date. In such case, the NBS shall send a notification to the Central Securities Depository confirming the fulfilment of conditions for the termination of NBS's lien over all pledged securities or part of these securities. The notification shall contain all elements of the securities transfer order.

If repaying a short-term loan before the due date, a bank shall pay interest to the NBS in line with Section 6 of the Decision and accrued over the loan disbursement period.

Collection of NBS's receivables

22. If a bank fails to repay the short-term loan within the timeframe specified in Section 18 hereof, i.e. if it fails to repay it in line with Section 4, paragraphs 2 and 4 of the Decision, the NBS shall send to the bank, on the first coming business day, a written notification that the bank's obligations under the short-term loan are due and that the NBS will begin to collect outstanding receivables plus interest accrued. The NBS shall submit a copy of the notification to the Central Securities Depository.

23. The NBS shall issue an order to the bank to sell the pledged securities on its behalf and for the account of the NBS's. The NBS's order shall contain in particular: data on NBS's receivables and data on securities recorded in the bank's escrow account (ISIN, quantity, face value) and the NBS's approval of the lowest price at which the bank may sell the securities pledged.

Upon receipt of the order referred to in paragraph 1 of this Section, a bank is required to act in full compliance with the order.

24. When selling securities, a bank shall act with due diligence of a bonus pater familias and shall sell securities at the most favourable price.

25. For the purposes of clearing and settlement of securities and the amounts received from the sale of pledged securities, the NBS shall send to the Central Securities Depository a notification that conditions for activation of the lien have been met. The notification shall contain in particular: data on the amount (price) of pledged securities for which an approval is granted, and/or data on the lowest sale price (per unit) of these securities.

26. The Central Securities Depository shall transfer the amounts obtained from the sale of pledged securities to the money account of the creditor – the NBS, and shall simultaneously transfer these securities from the escrow account of the debtor bank to the proprietary account of the securities buyer.

The amounts that the issuer of pledged securities pays out based on such securities before their sale is effected for the purpose of collecting the NBS's claims (payment within the due date, payment of part of nominal value, early repurchase, interest payment etc) shall belong to the NBS and shall be

transferred to the NBS's money account in line with the contract referred to in Section 7 of the Decision.

If the amount obtained through sale of the securities pledged, i.e. the amount referred to in paragraph 2 of this Section exceeds the value of NBS's receivables, the NBS shall without delay transfer the excess amount to the bank's gyro account.

27. The amount of interest calculated and charged by the NBS in line with Sections 6 and 24 of the Decision shall be credited by the bank, based on the calculation it receives from the NBS, to the NBS's account – *NBS revenue/expenditure*, No 980-1-33, credit ref. No 6-020006-xxxxxxxx, where the designation 'xxxxxxxx' refers to the bank's code from the codebook – until 8th day in the month for the previous month.

If the interest rate referred to in Section 6 of the Decision changes during the disbursement of a short-term loan due to revisions in the NBS key policy rate, the NBS shall calculate interest by applying that interest rate for the loan disbursement period, as of the day the revised key policy rate enters into force.

28. The NBS shall collect the receivables arising from the outstanding interest that a bank is required to pay in line with the Decision and these Guidelines against promissory notes delivered to it by the bank. Pursuant to Section 25 of the Decision, the NBS may also use the promissory notes to collect the outstanding amount of a short-term loan plus the accrued interest – once it determines that these receivables cannot be collected via the sale of the securities pledged, and after the expiry of 15 days from the bank's receipt of the order to sell securities pledged referred to in Section 23, paragraph 1 hereof.

29. Sections 22–28 hereof relating to the collection of NBS's receivables shall apply accordingly to the collection of NBS's receivables in the event of cancellation of the loan agreement in line with Section 22 of the Decision.

Special provisions

30. If the settlement of obligations under the terms hereof falls due on a non-business day, the obligations shall be settled on the first coming business day.

31. The registration and termination of NBS's lien, the activation of NBS's lien, the transfer of securities from one account to the account of another securities holder, clearing and settlement of obligations and receivables in

securities and money, under the securities operations referred to herein – shall be performed in line with regulations of the Central Securities Depository.

32. The main business processes determined hereby shall be performed by the Monetary Operations Department – Open Market Operations Division.

33. The Annexes from these Guidelines are printed herewith and form an integral part thereof.

34. These Guidelines shall be published in the RS Official Gazette and shall enter into force on 1 January 2011.

D. No 58
27 December 2010
Belgrade

Governor
National Bank of Serbia
dr Dejan Šoškić, signature

BANK'S NAME

Date:

AUTORISATION

In regard to the submission of bids for the disbursement of short-term loans extended by the NBS pursuant to the Decision on Terms and Conditions of Granting Short-Term Liquidity Loans Against the Collateral of Securities and the Guidelines implementing this Decision, on behalf and for the account of:

(bank's business name and head office)

the NBS Executive Board authorises the following person(s):

1. _____
(name and surname, ID number)

(signature)

(No of telephone, telefax, email)

Executive Board President
(name and surname)

(signature and stamp)

Executive Board member
(name and surname)

(signature and stamp)

BANK'S NAME

Date:

BID
FOR THE DISBURSEMENT OF A SHORT-TERM LOAN AGAINST THE
COLLATERAL OF SECURITIES, No _____

Auction No: _____

Auction date: _____

No	Amount of loan in dinars	Increase plus NBS key policy rate, in percentage points
SUM:		*

 (authorised person's signature and bank's stamp)

* Not to be completed.

Date:

CONFIRMATION No _____
ON ACCEPTANCE OF BANK'S BID FOR THE DISBURSEMENT OF A SHORT-TERM LOAN AGAINST THE COLLATERAL OF SECURITIES

Bank's business name and head office: _____

No of bank's bid: _____

Auction No: _____

Auction date: _____

Loan maturity in dinars: _____

Loan due date: _____

No	Accepted amount of loan in dinars	Increase plus NBS key policy rate, in percentage points
SUM:		*

No	ISIN	Face value of pledged securities	Haircut	Value of loan pledge
SUM:	*	*	*	

* Not to be completed.

The confirmation is an individual agreement on a short-term loan concluded under the terms of the Decision on Terms and Conditions of Granting Short-Term Liquidity Loans Against the Collateral of Securities.