

Pursuant to Article 28, paragraph 7, Article 30, paragraph 4 and Article 36 of the Law on Banks (RS Official Gazette, Nos 107/2005, 91/2010 and 14/2015) and Article 15, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 and 40/2015 – CC decision), the Executive Board of the National Bank of Serbia issues the following

## **DECISION ON LIQUIDITY RISK MANAGEMENT BY BANKS**

### **C h a p t e r I**

#### **INTRODUCTORY PROVISIONS**

1. This Decision sets out detailed conditions and manner of managing the liquidity risk by banks, the manner of calculating the liquidity ratio, narrow liquidity ratio and liquidity coverage ratio, as well as the limits pertaining to the banks' exposure to the liquidity risk.

2. For the purposes of this Decision, the following terms shall have the following meaning:

1) *liquidity risk* is the possibility of occurrence of adverse effects on the financial result and capital of the bank caused by the bank's inability to meet its due obligations as a result of:

– withdrawal of existing sources of funding and/or impossibility to secure new sources of funding (funding liquidity risk), or

– difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk);

2) *level 1 liquid assets* means assets of extremely high liquidity and credit quality;

3) *level 2 liquid assets* means assets of high liquidity and credit quality comprising level 2A liquid assets and level 2B liquid assets;

4) *liquid assets* are the sum of level 1 liquid assets and level 2 liquid assets;

5) *liquidity buffer* means the amount of liquid assets which the bank may include in the calculation of the liquidity coverage ratio pursuant to this Decision;

6) *asset coverage requirement* means the ratio of assets to liabilities as calculated for credit enhancement purposes in relation to covered bonds;

7) *net liquidity outflows* means the amount which results from deducting liquidity inflows from liquidity outflows, set in accordance with this Decision;

8) *retail deposit* means a bank's liability to a natural person (including farmers and entrepreneurs) and/or to a small- or medium-sized enterprise (SME) which is eligible for inclusion in the retail exposures class within the meaning of the decision governing capital adequacy of banks, where the aggregate deposits of the group to which such SME belongs do not exceed RSD 120,000,000;

9) *financial sector entity* means: a bank, an investment firm, a securitisation special purpose entity (SSPE), an open-ended investment fund, a closed-ended investment fund, an insurance undertaking, a reinsurance undertaking, a financial holding company, a mixed-financial holding company and other legal person mainly engaged in financial activity in the country or abroad;

10) *stress* means a sudden and severe deterioration in the liquidity and/or solvency position of a bank due to changes in market conditions and/or idiosyncratic factors as a result of which there may be a significant risk that the bank becomes unable to meet its commitments as they fall due within the next 30 days;

11) *margin loans* means collateralised loans extended to customers for the purpose of taking leveraged trading positions (buying new securities).

## **Chapter II**

### **MANAGING LIQUIDITY RISK**

3. A bank's liquidity level is indicated by:

- liquidity ratio,
- narrow liquidity ratio,
- liquidity coverage ratio.

4. A critically low liquidity level shall be the liquidity level where the liquidity ratio and/or the narrow liquidity ratio is lower than one of the limits laid down in Section 9 of this Decision, and/or where the liquidity coverage ratio is below the minimum laid down in Section 14, paragraph 1 of this Decision, including under stress conditions.

If the bank establishes that its liquidity level is critically low, it shall promptly notify the National Bank of Serbia thereof, not later than the following business day. Such notification shall specify the amount of the liquidity shortfall and causes of illiquidity and set out a plan for removing such causes and for the timely reaching of the minimum ratio levels referred to in paragraph 1 of this Section.

If the bank establishes that its liquidity coverage ratio has fallen below the prescribed minimum, in addition to meeting the obligations referred to in paragraph 2 of this Section, it shall report to the National Bank of Serbia each business day on the level of this ratio at the end of the preceding business day in the manner prescribed by the decision governing bank reporting, until the ratio reaches the level referred to in Section 14, paragraph 1 of this Decision.

By way of derogation from paragraph 3 of this Section, the National Bank of Serbia may approve a lower frequency of reporting on the liquidity coverage ratio, where this is justified by specific circumstances, taking into account the scale and complexity of the bank's operations.

The National Bank of Serbia shall monitor the implementation of the bank's plan referred to in paragraph 2 of this Section and may request that the bank comply with the minimum prescribed ratio levels set out in paragraph 1 of this Section within a deadline shorter than the one specified in the plan, where on the basis of available data it has assessed that this would be necessary for preserving the bank's liquidity and solvency.

5. A bank shall determine and maintain an adequate liquidity buffer in accordance with the analysis of the maturity mismatch of its balance sheet liabilities and receivables and off-balance sheet items (gap analysis) for predefined periods, including a one-day period.

A bank shall ensure liquidity risk management aggregately for all currencies and individually by significant currency, as well as ensure the stability and diversification of funding sources, addressing of temporary and lasting liquidity crises, and taking timely and adequate action in case of increased liquidity risk.

6. A bank shall use different liquidity risk mitigation techniques including, in addition to an adequate liquidity buffer that enables unhindered operation in extraordinary circumstances, diversified and stable sources of funding. The bank shall regularly review and harmonise these techniques.

A bank shall regularly conduct stress tests, and/or sensitivity analyses and scenario analyses based on different assumptions, including doing business in extraordinary circumstances, and shall regularly review the adequacy of the assumptions used.

The bank shall also include off-balance sheet items in stress tests.

### ***Contingency business plan***

7. In order to ensure timely and adequate action in cases of increased liquidity risk, a bank shall adopt a business plan for contingency situations (liquidity crisis), comprising in particular:

1) procedures for early detection of potential problems relating to bank's liquidity, including a list of early warning indicators;

2) names and functions of persons responsible for identifying the problems referred to in item 1) of this paragraph, as well as persons that shall be notified thereof;

3) clearly defined activities and/or obligations and responsibilities in managing a liquidity crisis;

4) obligation to prepare special reports, including data, indicators and other information relevant for taking measures in case of a liquidity crisis and for internal notification;

5) manner of access to available or potential sources of liquidity, as well as procedures for ensuring access to additional sources of funding and/or sources that are not used in regular operations;

6) manner of notifying the National Bank of Serbia on the causes of the liquidity crisis and on the activities planned in order to remove those causes.

A bank shall test the plan set out in paragraph 1 of this Section at least once a year and amend it in accordance with the results of scenario-analyses, and the organisational unit conducting these tests shall report to the bank's board in charge of adopting and amending this plan within the shortest possible deadline.

## **C h a p t e r I I I**

### **BANK LIQUIDITY RATIOS**

8. The liquidity ratio of a bank is the ratio of the sum of level 1 and level 2 liquid receivables of the bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

The narrow liquidity ratio is the ratio of level 1 liquid receivables of a bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

9. A bank shall maintain the level of liquidity so that:

- 1) the liquidity ratio equals:
  - at least 1.0 if calculated as the average liquidity ratio for all business days in a month,
  - not less than 0.9 for more than three business days in a row,
  - at least 0.8 if calculated for one business day only;
- 2) the narrow liquidity ratio equals:
  - at least 0.7 if calculated as the average liquidity ratio for all business days in a month,
  - not less than 0.6 for more than three business days in a row,
  - at least 0.5 if calculated for one business day only.

10. Level 1 liquid receivables of a bank shall mean cash and receivables falling due within a month from the date of liquidity ratio calculation, including the following:

- vault cash, current account balances, gold and other precious metals;
- balances on accounts with banks that have been assigned a credit assessment by a nominated credit assessment institution corresponding to at least credit quality step 3, determined in accordance with the decision governing capital adequacy of banks (investment grade);
- deposits with the National Bank of Serbia;
- cheques and other cash receivables under collection;
- irrevocable credit facilities approved to the bank.

In addition to the receivables referred to in paragraph 1 of this Section, level 1 liquid receivables of a bank shall also include shares and debt securities listed on exchanges, and 90% of the fair value of dinar-denominated securities, without a foreign currency clause, issued by the Republic of Serbia, with the minimum maturity of three months and/or 90 days, and classified by the bank as held for trading or available for sale.

The foreign currency clause referred to in paragraph 2 of this Section shall mean the currency clause within the meaning of the law governing foreign exchange operations, as well as any other clause hedging against the dinar exchange rate risk.

Level 2 liquid receivables of a bank shall be other bank receivables falling due within a month from the calculation of the liquidity ratio.

For the purpose of calculating the liquidity ratio, demand deposits and one-day notice deposits shall be considered as one-day term deposits.

When calculating the liquidity ratio, the bank shall not include any receivables classified in categories D and E in accordance with the decision governing the classification of balance sheet assets and off-balance sheet items.

11. A bank's liabilities payable on demand or with no agreed maturity shall constitute a part of the bank's liabilities. They shall be as follows:

- 40% of demand deposits of banks,
- 20% of demand deposits of other depositors,
- 10% of savings deposits,
- 5% of guarantees and other warranties,
- 20% of undisbursed irrevocable credit facilities.

For the purposes of this Decision, other liabilities of a bank falling due within a month from the calculation of the liquidity ratio shall be such bank's liabilities with agreed maturity.

12. A bank's liquid receivables shall be calculated at market value. Where this value cannot be determined, they shall be calculated at book value.

The dinar equivalent of foreign exchange denominated liquid receivables and liabilities of a bank shall be calculated by applying the official middle exchange rate of the National Bank of Serbia as at the calculation date.

Where a bank's receivables or liabilities referred to in Section 8 of this Decision are repaid in annuities, the calculation of the liquidity ratio shall include annuities under such receivables and/or liabilities falling due within a month from the date of the calculation.

## **C h a p t e r I V**

### **L I Q U I D I T Y C O V E R A G E R A T I O**

13. A bank shall calculate the liquidity coverage ratio as a ratio of liquidity buffer and net liquidity outflows over a 30 day stress period.

14. Aggregately in all currencies, a bank shall maintain a liquidity coverage ratio of at least 100%.

By derogation from paragraph 1 of this Section, banks may monetise their liquid assets which constitute their liquidity buffer to cover their net liquidity outflows during stress periods, even if such a use of liquid assets may result in their liquidity coverage ratio falling below 100%, in which case they shall act in accordance with Section 4 of this Decision.

15. Banks shall calculate their liquidity coverage ratio aggregately in dinars and in all other currencies in which their balance sheet positions and off-balance sheet items included in the calculation of the ratio are

denominated, as well as individually in each significant currency, by recalculating the amounts of all other currencies and significant currencies into dinars at the official middle exchange rate of the National Bank of Serbia as at the calculation date.

A currency shall be deemed significant if the total amount of a bank's on- and off-balance sheet liabilities denominated and payable in that currency make up 5% or more of the total amount of the bank's liabilities.

For the purpose of calculating liquidity coverage ratio, the positions in dinars indexed to a foreign currency clause shall be treated as positions in dinars without a foreign currency clause.

16. Circumstances in which a bank shall be considered as being subject to stress shall be in particular:

- the run-off of a significant portion of its retail deposits;
- a partial or total loss of unsecured wholesale funding capacity, including wholesale deposits and other sources of contingent funding such as received revocable or irrevocable liquidity or credit facilities;
- a partial or total loss of secured, short-term funding;
- additional liquidity outflows as a result of deterioration of a bank's creditworthiness and/or a credit rating downgrade of up to three notches;
- increased market volatility affecting the value of collateral or its quality or creating additional collateral needs;
- unscheduled draws on liquidity and credit facilities;
- potential obligation to buy-back debt or to honour non-contractual obligations (e.g. to avoid reputational risk).

## **Part 1**

### **Liquidity buffer**

#### ***1. Requirements for inclusion of liquid assets in the liquidity buffer***

17. A bank may include liquid assets irrespective of their remaining maturity in the liquidity buffer for the purpose of calculating the liquidity coverage ratio if the following requirements are met:

- 1) the general requirements laid down in Section 18 of this Decision;
- 2) the operational requirements laid down in Sections 19 to 24 of this Decision; and
- 3) the respective eligibility criteria for the classification of liquid assets as level 1 liquid assets, level 2A liquid assets or level 2B liquid assets

pursuant to Sections 26 to 41 of this Decision.

*a) General requirements for inclusion in the liquidity buffer*

18. For the purpose of calculating the liquidity coverage ratio, a bank may include a liquid asset item in the liquidity buffer, if it meets the following requirements:

1) liquid assets shall be a property right, other right of a bank or interest free from any encumbrance. An asset shall be deemed to be unencumbered where the bank is not subject to any regulatory, contractual, or other restriction preventing it from liquidating, transferring, selling, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement in a generally accepted market for such transactions within the following 30 days (e.g. assets included in a pool which are available for immediate use as collateral to obtain additional funding under committed but not yet funded credit lines available to the bank, assets that the bank has received as collateral for credit risk mitigation purposes in reverse repo or securities financing transactions and that the bank may freely dispose of, etc.);

2) the assets shall not have been issued by the bank itself, its parent undertaking (other than a public administrative body that is not a bank), its subsidiary, another subsidiary of its parent undertaking or by an SSPE with which the bank has close links;

3) the assets shall not have been issued by any of the following:

– another bank, unless the issuer is a public administrative body referred to in Section 26, item 3) and Section 28, paragraph 1, items 1) and 2) of this Decision, or a bank which meets the requirements under Section 26, item 5) of this Decision or the asset is a covered bond referred to in Section 26, item 6) and Section 28, paragraph 1, items 3) and 4) of this Decision,

–an investment firm;

–an insurance undertaking;

–a reinsurance undertaking;

–a financial holding company;

–a mixed financial holding company;

–other legal person referred to in Section 2, item 9), except for the SSPE;

4) the value of assets shall be capable of being determined on the basis of widely disseminated and easily available market prices or on the basis of an easy-to-calculate formula that uses publicly available inputs and realistic assumptions;

5) the assets shall be listed on a recognised exchange and/or tradable via outright sale or via simple repurchase transaction on generally accepted repurchase markets. An asset admitted to trading in an organised venue which is not a recognised exchange shall be deemed liquid only where



the trading venue provides for an active and sizeable market for outright sale of assets.

The bank shall take into account the following to assess whether a trading venue provides for an active and sizeable market: historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants, as well as the presence of a robust market infrastructure and other circumstances indicating the level of market development.

The requirements laid down in paragraph 1, items 4) and 5) of this Section do not have to be met in case of:

- the banknotes and coins referred to in Section 26, item 1) of this Decision;
- the exposures to the central bank referred to in Section 26, items 2) and 4) and Section 28, paragraph 1, item 2) of this Decision;

*b) Operational requirements for inclusion in the liquidity buffer*

19. Banks shall have procedures and limits in place to ensure that the holdings of liquid assets comprising their liquidity buffer remain appropriately diversified at all times. For these purposes, banks shall take into account the extent of diversification between the various categories of liquid assets referred to in Sections 26 to 39 of this Decision and within the same category of liquid assets and any other relevant diversification factors, such as types of issuers, counterparties or the geographical location of those issuers or counterparties.

The National Bank of Serbia may impose specific restrictions or other requirements on a bank to ensure compliance with the requirements set out in paragraph 1 of this Section. Any such restriction and requirement, however, shall not apply to:

- banknotes and coins referred to in Section 26, item 1) of this Decision;
- level 1 liquid assets representing exposures to the central bank as referred to in Section 26, items 2) and 4) of this Decision;
- level 1 liquid assets representing exposures to or guaranteed by the multilateral development banks or international organisations referred to in Section 26, item 7) of this Decision;
- level 1 liquid assets representing exposures to or guaranteed by central governments, territorial autonomies, local government units or public administrative bodies referred to in Section 26, items 3) and 4) of this Decision;

Decision, provided that such liquid assets were issued by the Republic of Serbia, territorial autonomies, local government units and public administrative bodies from the Republic of Serbia or that the bank holds such liquid assets to cover stressed net liquidity outflows incurred in the currency of the country which issued such liquid assets.

20. Liquid assets shall be readily accessible to a bank, which means that there shall be no legal and/or other impediments to the bank's ability to monetise such assets at any time during the 30 day stress period via outright sale in an active market or repurchase agreement on generally accepted repurchase markets.

Assets used to provide credit enhancement in securitisation transactions and/or to cover operational costs of a bank shall not be considered to represent the assets referred to in paragraph 1 of this Section.

Assets held in countries where there are restrictions to their free transferability shall be deemed readily accessible only insofar as the bank uses those assets to meet liquidity outflows in that country.

Assets held in a non-convertible currency shall be deemed readily accessible only insofar as the bank uses those assets to meet liquidity outflows in that currency.

21. A bank shall ensure that its liquid assets are under the management of an organisational unit in charge of bank liquidity management.

The bank may prove the compliance with the requirement referred to in paragraph 1 of this Section either by:

- placing the liquid assets in a separate pool under the direct management of the organisational unit in charge of liquidity management and with the sole intent of using them as a source of contingent funds, including during stress periods;

- putting in place internal systems and controls, and/or policies and procedures which give the organisational unit in charge of liquidity management operational control to monetise the holdings of liquid assets at any point in the 30 day stress period and to freely access the funds obtained through monetisation of those assets during the 30 day stress period without directly conflicting with any existing business or risk management strategies;

- a combination of options referred to in indents one and two of this paragraph.

22. Banks shall regularly, at least once a year, monetise a sample of their holdings of liquid assets (by means of outright sale or repurchase

agreement on a generally accepted repurchase market) in order to test the access to the market for those assets and check that the bank's internal process for such monetization of assets is effective.

Banks shall develop strategies for disposing of samples of liquid assets which are adequate to:

- test the access to the market and development of the market for that type of assets,
- check that the bank's procedures for the timely monetisation of liquid assets are effective,
- minimise the risk of sending a negative signal to the market as a result of the bank's monetizing its liquid assets during stress periods.

The provisions of this Section shall not apply to the level 1 liquid assets referred to in Section 26 of this Decision, other than the extremely high quality covered bonds referred to in item 6) of that Section.

23. Banks may hedge the market risk associated with their liquid assets provided that the following conditions are met:

- the bank puts in place appropriate internal arrangements in accordance with Sections 20 and 21 of this Decision to ensure that those assets continue to be readily available and under the control of the organisational unit in charge of liquidity management;
- the net liquidity outflows and inflows that would result in the event of an early close-out of the hedge are taken into account in the valuation of the relevant liquid asset position in accordance with Section 25 of this Decision.

24. Banks shall ensure that the currency denomination of their liquid assets is consistent with the distribution by currency of their net liquidity outflows.

However, if the National Bank of Serbia deems necessary, it may set for the bank a limit on the maximum proportion of net liquidity outflows in a currency that can be met during a stress period by holding liquid assets not denominated in that currency.

The restriction referred to in paragraph 2 of this Section may only be applied to net liquidity outflows denominated in dinars and other currencies that are deemed significant within the meaning of Section 15, paragraph 2 of this Decision.

In determining the restriction referred to in paragraph 2 of this

Section, the National Bank of Serbia shall have regard to:

- 1) whether the bank has the ability to:
  - use the liquid assets to generate liquidity in the currency and jurisdiction in which liquidity outflows arise;
  - swap currencies and raise funds in foreign currency markets during stressed conditions consistent with the 30 day stress period set out in Section 16 of this Decision;
  - transfer a liquidity surplus from one currency to another and across jurisdictions and legal persons within its group during stressed conditions consistent with the 30 day stress period set out in Section 16 of this Decision;
- 2) the impact of sudden, adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign exchange hedges in place.

25. For the purposes of calculating its liquidity coverage ratio, a bank shall use the market value of its liquid assets determined in accordance with Section 18, paragraph 1, item 4) of this Decision.

The market value of liquid assets shall be reduced in accordance with the haircuts set out in Sections 27, 29, 31, 34 and 36 and Section 23, indent two of this Decision.

## ***2. Requirements for inclusion in liquid assets***

### *a) Level 1 liquid assets*

26. Level 1 liquid assets shall include the following assets:

- 1) coins and banknotes in the vault;
- 2) the following exposures to central banks:
  - assets representing exposures to and/or guaranteed by the National Bank of Serbia, the European Central Bank or central banks of EU member states;
  - assets representing exposures to and/or guaranteed by central banks of non-EU countries, provided that exposures to this central bank and/or central government are assigned a credit assessment which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks;
  - excess liquidity deposited with the National Bank of Serbia;
  - amount of allocated dinar and foreign currency required reserves in excess of the calculated amount of the dinar and foreign currency required reserves of the bank;
- 3) assets representing exposures to and/or guaranteed by the

following central governments, territorial autonomies, local government units and public administrative bodies:

- the Republic of Serbia;

- other countries, provided that those exposures are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks;

- territorial autonomies and local government units in the Republic of Serbia and territorial autonomies and local government units in other countries referred to in indent two of this item, provided that the respective exposures are treated as exposures to the central government of the country in which they were incorporated, in accordance with the decision governing capital adequacy of banks;

- public administrative bodies in the Republic of Serbia or an EU member state referred to in indent two of this item, provided that the respective exposures are treated as exposures to the central government of the country in which they were incorporated or exposures toward a territorial autonomy or a local government unit referred to in indent three of this item, in accordance with the decision governing capital adequacy of banks;

4) assets representing exposures to and/or guaranteed by the central government or the central bank of a non-EU country which are not assigned a credit assessment which is at least credit quality step 1, in accordance with the decision governing capital adequacy of banks, provided that in this case the bank may only recognise the asset up to the amount needed to cover stressed net liquidity outflows incurred in the same currency in which the asset is denominated. Where the asset is not denominated in the domestic currency of the issuer country, the bank may only recognise the asset as level 1 liquid asset up to the amount of stressed net liquidity outflows in that country and in that other currency;

5) assets issued by:

- a bank established by an EU member state or the territorial autonomy or local government unit of an EU-member state, if any exposure to this territorial autonomy or local government, as applicable, is treated as an exposure to the central government of the state in which they were incorporated in accordance with the decision governing capital adequacy of banks, and the central government and/or territorial autonomy or local government unit is under the legal obligation to protect the economic basis of the bank and maintain its financial viability throughout its life-time;

- a bank whose purpose is to advance the public policy objectives of the EU, an EU member state, territorial autonomy or local government unit in an EU member state, predominantly through the provision of promotional loans on a non-competitive, not for profit basis, provided that at least 90% of the loans that it grants are guaranteed by the EU member state, territorial autonomy or local government unit of the EU member state and that any exposure to that territorial autonomy or local government unit, as applicable,

is treated as an exposure to the central government of the state in which they were incorporated in accordance with the decision governing capital adequacy of banks;

6) exposures in the form of extremely high quality covered bonds, which shall meet the following requirements:

- covered bonds are issued by a bank established in the Republic of Serbia or an EU member state and backed by a pool of assets which, in the event of default of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest to investors (hereinafter: the cover pool);

- covered bonds and their issuer are subject to supervision by a competent government authority designed to protect bondholders;

- requirements for preferential treatment in accordance with the decision governing capital adequacy of banks;

- the exposures to banks in the cover pool are only exposures to banks that qualify for credit quality step 1 in accordance with the decision governing capital adequacy of banks, or, by way of derogation, credit quality step 2 in accordance with that decision, where the remaining maturity of such exposures does not exceed 100 days and where the total exposure to banks in that asset pool does not exceed 15% of the nominal amount of outstanding covered bonds;

- the issuer of covered bonds submits to the bank, at least semi-annually, the following information regarding the portfolio of underlying assets: the value of the cover pool and outstanding covered bonds, the geographical distribution and type of cover assets, loan size, interest rate and currency risks, the maturity structure of cover assets and covered bonds; and the percentage of loans more than ninety days past due in the cover pool;

- the covered bonds issue size is at least RSD 60,000,000,000;

- the covered bonds are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks, the equivalent short-term credit assessment or, in the absence of a credit assessment by a nominated credit assessment institution, they are assigned a 10% risk weight in accordance with the decision referred to in this indent;

- the cover pool meets at all times an asset coverage requirement of at least 2% in excess of the amount required to meet the claims attaching to the covered bonds;

7) assets representing exposures to and/or guaranteed by the multilateral development banks and international organisations which are assigned a 0% risk weight in accordance with the decision governing capital adequacy of banks.

27. In determining a bank's liquidity buffer, the market value of extremely high quality covered bonds referred to in Section 26, item 6) of this decision shall be subject to a haircut of at least 7%.

Except for exposures in the form of units in open-ended investment funds referred to in Section 36, items 2) and 3) of this Decision, no haircut shall be required on the value of the remaining level 1 liquid assets.

*b) Level 2A liquid assets*

28. Level 2A liquid assets shall include the following assets:

1) assets representing exposures to and/or guaranteed by territorial autonomies, local government units and public administrative bodies in the Republic of Serbia assigned a credit risk weight of 20% in accordance with the decision governing capital adequacy of banks;

2) assets representing exposures to and/or guaranteed by central governments, territorial autonomies, local government units, public administrative bodies in other countries or central banks of non-EU countries assigned a credit risk weight of 20% in accordance with the decision governing capital adequacy of banks;

3) exposures in the form of high quality covered bonds, which shall comply with the following requirements:

– the covered bonds are issued by a bank established in the Republic of Serbia or an EU member state and backed by a pool of underlying assets;

– the covered bonds and their issuer are subject to supervision by a competent government authority designed to protect bondholders;

– requirements for preferential treatment in accordance with the decision governing capital adequacy of banks;

– the exposures to banks in the cover pool are only exposures to banks that qualify for the credit quality step 1 in accordance with the decision governing capital adequacy of banks, or, by way of derogation, credit quality step 2 in accordance with that decision, where the remaining maturity of such exposures does not exceed 100 days and where the total exposure to banks in the cover pool does not exceed 15% of the nominal amount of outstanding covered bonds;

– the issuer of covered bonds submits to the bank, at least semi-annually, the following information regarding the portfolio of underlying assets: the value of the cover pool and outstanding covered bonds, the geographical distribution and type of cover assets, loan size, interest rate and currency risks, the maturity structure of cover assets and covered bonds; and the percentage of loans more than ninety days past due in the cover pool;

– the covered bonds issue size is at least RSD 30,000,000,000;

– the covered bonds are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 2 in accordance with the decision governing capital adequacy of banks, the equivalent short-term credit assessment or, in the absence of a credit assessment by a nominated credit assessment institution, they are assigned a 20% credit risk weight in accordance with the decision referred to in this

indent;

– the cover pool meets at all times an asset coverage requirement of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, and/or of at least 2% in excess of that amount, where the covered bonds have been assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 and do not meet the minimum issue size referred to in Section 26, item 6), indent six of this Decision, but meet the requirements from indents one to six of this item;

4) exposures in the form of covered bonds issued by banks established in non-EU countries, which shall comply with the following requirements:

– the covered bonds are backed by a pool of assets and are issued by a bank established in a non-EU country or by a wholly owned subsidiary of that bank which guarantees the issue;

– the issuer and the covered bonds are subject to supervision of a competent government authority of a non-EU country designed to protect bondholders, and the supervisory and regulatory requirements applied in that country must be at least equivalent to those applied in the Republic of Serbia or in an EU member state;

– the covered bonds are backed by a pool of assets of one or more of the types described in paragraph 2 of this Section;

– where the cover pool comprises loans secured by mortgage on immovable property, the requirements for accepting mortgage on immovable property as an eligible credit risk hedge are met in accordance with the decision governing capital adequacy of banks;

– the exposures to banks in the cover pool are: exposures to banks that qualify for credit quality step 1 in accordance with the decision governing capital adequacy of banks, or, by way of derogation, at least credit quality step 2 in accordance with that decision, where the remaining maturity of such exposures does not exceed 100 days and where the total exposure to banks in the cover pool does not exceed 15% of the nominal amount of outstanding covered bonds;

– the issuer of covered bonds submits to the bank, at least semi-annually, the following information regarding the portfolio of underlying assets: the value of the cover pool and outstanding covered bonds, the geographical distribution and type of cover assets, loan size, interest rate and currency risks, the maturity structure of cover assets and covered bonds; and the percentage of loans more than ninety days past due in the cover pool;

– the covered bonds are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks, the equivalent short-term credit assessment or, in the absence of a credit assessment by a nominated credit assessment institution, they are assigned a 10% risk weight in accordance with the decision referred to in this indent;

– the cover pool meets at all times an asset coverage requirement



of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, and/or of at least 2% in excess of that amount, where their issue size is at least RSD 60,000,000,000;

- 5) corporate debt securities which meet the following requirements:
- they are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks or the equivalent short-term credit assessment;
  - the debt securities issue size is at least RSD 30,000,000,000;
  - the maximum time to maturity of the securities at the time of issuance is 10 years.

A bank may include exposures in the form of covered bonds issued by banks referred to in paragraph 1, item 4) of this Section in level 2A liquid assets, in accordance with indent three of that item, provided that such bonds are secured by a pool or underlying assets including one or several of the following types of assets:

- exposures to and/or guaranteed by non-EU countries, central banks of those countries, multilateral development banks and international organisations assigned a credit quality step 1 credit assessment in accordance with the decision governing capital adequacy of banks;
- exposures to and/or guaranteed by territorial autonomies, local government units or public administrative bodies of non-EU countries whose credit risk weight, in accordance with the decision governing capital adequacy of banks, is determined in the manner prescribed for exposures to banks or to central governments and central banks which are assigned a credit quality step 1 credit assessment;
- exposures to persons referred to in indents one and two of this paragraph that have been assigned credit quality step 2 credit assessment in accordance with the decision governing capital adequacy of banks, provided that the total exposure of this kind does not exceed 20% of the nominal amount of outstanding covered bonds of the bank;
- exposures secured by mortgage on residential property in the lesser of the principal amount of the receivable secured by mortgage (reduced by any prior liens) or 80% of the value of the mortgaged properties;
- exposures secured by mortgage on commercial immovable property in the lesser of the principal amount of the receivable secured by mortgage (reduced by any prior liens) or 60% of the value of the mortgaged properties;
- exposures secured by maritime liens on ships, if the principal amount of the receivable secured by maritime liens (reduced by any prior liens) does not exceed 60% of the value of the pledged ship.

29. In determining a bank's liquidity buffer, the market value of level 2A

liquid assets referred to in Section 28 of this Decision shall be subject to a haircut of at least 15%.

*c) Level 2B liquid assets*

30. Level 2B liquid assets shall include:

- 1) exposures in the form of securities backed by assets which meet the requirements laid down in Sections 32 to 34 of this Decision;
- 2) corporate debt securities which meet the following requirements:
  - they are assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 3, in accordance with the decision governing capital adequacy of banks or the equivalent short-term credit assessment;
  - the debt securities issue size is at least RSD 30,000,000,000;
  - the maximum time to maturity of the securities at the time of issuance is 10 years;
- 3) shares, provided that they meet the following requirements:
  - they form part of the Belex 15 index in the Republic of Serbia and/or part of a major stock index in a state where such shares are registered. In the absence of any decision from the competent authority or public authority in relation to a major stock index, a stock index composed of largest and leading companies in the relevant jurisdiction shall be regarded as the major stock index;
  - they are denominated in dinars or, where denominated in a foreign currency, they count as level 2B only up to the amount to cover stressed net liquidity outflows in that currency or in the jurisdiction where the liquidity risk is taken;
  - they have a proven track record as a reliable source of liquidity even during stress periods. This requirement shall be deemed met where the level of decline in the share's price or increase in its haircut during a 30 day market stress period did not exceed 40% or 40 percentage points, respectively;
- 4) exposures in the form of high quality covered bonds which meet the following requirements:
  - the covered bonds are issued by a bank established in the Republic of Serbia or an EU member state and are collateralised by a pool of cover assets;
  - the covered bonds and their issuer are subject to supervision by a competent government authority designed to protect bondholders;
  - requirements to for preferential treatment in accordance with the decision governing capital adequacy of banks;
  - the issuer of covered bonds submits to the bank, at least quarterly, the following information regarding the portfolio of underlying assets: the value of the cover pool and outstanding covered bonds, the geographical distribution and type of cover assets, loan size, interest rate and

currency risks, the maturity structure of cover assets and covered bonds, and the percentage of loans more than 90 days past due in the cover pool;

- the covered bonds issue size is at least RSD 30,000,000,000;
- they are collateralised by a pool of assets consisting exclusively of exposures to and/or guaranteed by the Republic of Serbia, National Bank of Serbia, EU member states, their central banks, and/or territorial autonomies, local government units or public administrative bodies in the Republic of Serbia or an EU member state and exposures secured by mortgage on residential property in the lesser of the principal amount of the receivable secured by mortgage (reduced by the amount of any prior liens) or 80% of the value of the mortgaged properties;

- the pool of underlying assets consists exclusively of exposures which qualify for a 35% or lower risk weight in accordance with the decision governing capital adequacy of banks;

- the cover pool meets at all times an asset coverage requirement of at least 10% in excess of the amount required to meet the claims attaching to the covered bonds;

- the issuing bank needs to publicly disclose on a monthly basis that the cover pool meets the 10% asset coverage requirement.

31. At the time of determining the liquidity buffer, the bank shall ensure that the market value of each of the level 2B liquid assets referred to in Section 30 of this Decision is subject to the following haircuts:

- 1) applicable haircuts for securitisation positions in accordance with Section 34 of this Decision;

- 2) a 50% haircut for corporate debt securities referred to in Section 30, item 2) of this Decision;

- 3) a 50% haircut for shares referred to in Section 30, item 3) of this Decision;

- 4) a 30% haircut for covered bonds referred to in Section 30, item 4) of this Decision.

32. Securitisation positions and securitisation exposures underlying the positions (hereinafter: securitisation exposures) shall meet the following requirements:

- 1) the securitisation position has been assigned a credit assessment by a nominated credit assessment institution which is at least credit quality step 1 in accordance with the decision governing capital adequacy of banks or the equivalent short-term credit assessment;

- 2) the securitisation position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the securitisation transaction. A tranche shall be deemed to be the most senior where after the delivery of an enforcement notice or where applicable an acceleration notice, the tranche is

not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal or interest payments, without taking into account amounts due under interest rate or currency financial derivatives, fees and other similar payments, in accordance with the decision governing capital adequacy of banks;

3) securitisation exposures have been acquired by the SSPE in a manner that is enforceable against any third party and are beyond the reach of the seller (originator, sponsor or original lender) and its creditors including in the event of the seller's insolvency;

4) the transfer of securitisation exposures to the SSPE is not subject to any clawback provisions (i.e. annulment or invalidation) with regard to the sale of assets in the jurisdiction where the seller (originator, sponsor or original lender) is incorporated. This includes but is not limited to provisions under which the sale of the securitisation exposures to an SSPE can be invalidated by the liquidator of the seller solely on the basis that it was concluded within a certain period before the declaration of the seller's insolvency or provisions where the SSPE can prevent such invalidation only if it can prove that it was not aware of the insolvency of the seller at the time of sale;

5) the securitisation exposures have their administration governed by a servicing agreement which includes servicing continuity provisions that ensure, at a minimum, that a default or insolvency of the servicer does not result in a termination of servicing;

6) the documentation governing the securitisation includes continuity provisions that ensure, at a minimum, the replacement of derivative counterparties and of liquidity providers upon their default or insolvency, where applicable;

7) the securitisation position is backed by a pool of homogeneous securitisation exposures, which all belong to only one of the following subcategories:

– residential loans secured with a first-ranking mortgage granted to natural persons for the acquisition of residential property which shall be the place of their permanent residence, provided that the loans in the pool of securitisation exposures meet on average the requirement that the loan amount must not exceed 80% of the market value of the mortgaged residential property or that the national law of the state where the loans were originated provides for a loan-to-income limit on the amount that an obligor may borrow in a residential loan (this limit is calculated on the gross annual income of the obligor, taking into account the tax obligations and other commitments of the obligor and the risk of changes in the interest rates over the term of the loan. For each residential loan in the pool of securitisation exposures, the percentage of the obligor's gross income that may be spent to service the loan, including interest, principal and fee payments, does not exceed 45%);

– commercial loans, lease agreements and credit facilities to

companies established in the Republic of Serbia or an EU member state to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80% of the borrowers in the pool of securitisation exposures in terms of portfolio balance are small and medium-sized enterprises at the time of issuance of the securitisation, and none of the borrowers is a bank or an investment firm;

– loans for the purchase of cars or other motor vehicles (including agricultural and forestry tractors, trailers, motorcycles, motor tricycles and tracked vehicles) and agreements on leasing of such vehicles to borrowers resident in the Republic of Serbia or an EU member state, secured with a first-ranking charge over the vehicle, vehicle insurance policy or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;

– loans and credit facilities to natural persons resident in the Republic of Serbia or an EU member state for personal, family or household consumption purposes;

8) the securitisation position is not in a resecuritisation or a synthetic securitisation within the meaning of the decision governing capital adequacy of banks;

9) the securitisation exposures do not include transferable financial instruments or derivatives, except financial instruments issued by the SSPE itself or other parties within the securitisation structure and derivatives used to hedge currency risk and interest rate risk;

10) at the time of issuance of the securitisation or when incorporated in the pool of securitisation exposures at any time after issuance, the securitisation exposures do not include exposures to credit-impaired obligors (or exposures to credit-impaired guarantors), where a credit-impaired obligor (or credit-impaired guarantor) is a borrower (or guarantor):

– in respect of whom bankruptcy has been initiated, or who has agreed with his creditors to a debt dismissal or reschedule or had a court grant his creditors a right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination of securitisation;

– who is registered in the Credit Bureau or another official registry of borrowers as a borrower with adverse credit history;

– who has a credit assessment by a nominated credit assessment institution or has a credit score indicating a significant risk that contractually agreed payments will not be made compared to the average obligor for this type of loans in the relevant jurisdiction;

11) at the time of issuance of the securitisation or when incorporated in the pool of securitisation exposures at any time after issuance, the securitisation exposures do not include exposures in default within the meaning of the decision governing capital adequacy of banks;

12) securitisation payments shall meet the following requirements:

– repayments of the securitisation positions shall not have been

structured to depend, predominantly, on the sale of assets securing the underlying exposures, but this does not prevent such exposures from being subsequently rolled-over or refinanced,

– where the securitisation has been set up without a revolving period or the revolving period has terminated and where an enforcement or an acceleration notice has been delivered, principal receipts from the securitisation exposures are passed directly to the holders of securitisation positions via sequential amortisation of the securitisation positions and no substantial amount of cash is trapped in the SSPE on each payment date,

– where the securitisation has been set up with a revolving period, the transaction documentation provides for appropriate early amortisation events, which shall include at minimum a deterioration in the credit quality of the securitisation exposures, a failure to generate sufficient new underlying exposures of at least similar credit quality and the occurrence of an insolvency-related event with regard to the originator or the servicer,

13) by the time of issuance of the securitisation, the borrowers (or, where applicable, the guarantors) shall have made at least one payment in respect of the securitisation exposure, except where the securitisation exposure is backed by credit facilities referred to in item 7), indent four of this Section;

14) with respect to such securitisation position, the originator, sponsor or original lender of the securitisation shall comply with the securitisation requirements set out in the decision governing capital adequacy of banks and disclose information on the credit quality and performance of the securitisation exposures, the structure of the transaction, the cash flows and collateral supporting the exposures, as well as any information that is necessary for investors to conduct comprehensive stress tests;

15) the securitisation exposures shall not have been originated by the bank holding the securitisation position in its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other entity linked with that bank;

16) the issue size of the tranche which includes securitisation exposures shall be at least RSD 12,000,000,000;

17) the remaining weighted average life of the tranche shall be five years or less, which shall be calculated using the lower of either the transaction's pricing prepayment assumption or a 20% constant prepayment rate, for which the bank shall assume that the call is exercised on the first permitted call date;

18) the originator of securitisation exposures underlying the securitisation shall be a bank or other legal person mainly engaged in financial activity in the country or abroad whose principal activity does not include deposit taking, services related to lending and custody services.

33. In the case of securitisations where the securitisation exposures are residential loans referred to in Section 32, item 7), indent one of this

Decision, the pool of underlying exposures shall not include any loan that was marketed or underwritten on the premise that the loan applicants (or, where applicable intermediaries) were made aware that the information provided might not be verified and confirmed by the lender.

In the case of securitisations referred to in paragraph 1 of this Section, the assessment of the borrower's creditworthiness shall meet the following requirements:

1) before concluding a credit agreement, the creditor makes a thorough assessment of the borrower's creditworthiness, taking appropriate account of factors relevant to evaluating the prospect of the borrower to meet his obligations under the credit agreement;

2) the procedures and information on which the assessment of borrower's creditworthiness is based are established, documented and regularly revised;

3) the assessment of borrower's creditworthiness does not rely predominantly on the appraised value of residential property securing the credit and exceeding the amount of the credit or the assumption that the residential property will increase in value unless the purpose of the credit agreement is to construct or renovate the residential property;

4) where a creditor concludes a credit agreement with a borrower, the creditor shall not subsequently cancel or alter the credit agreement to the detriment of the borrower on the grounds that the assessment of creditworthiness was incorrectly conducted, unless it is demonstrated that the borrower knowingly withheld or falsified the information needed for this assessment;

5) the creditor only makes the credit available to the borrower where the result of the creditworthiness assessment indicates that the obligations resulting from the credit agreement are likely to be met by the borrower;

6) the creditor shall make a re-assessment of the borrower's creditworthiness on the basis of updated information before any significant increase in the total amount of credit is granted, unless such additional credit was envisaged and included in the original creditworthiness assessment of the borrower.

In the case of securitisation where the underlying exposures are loans for the purchase of cars and other motor vehicles, agreements on the leasing of such vehicles, and consumer loans and credit facilities referred to in Section 32, item 7), indents three and four of this Decision, the assessment of the borrower's creditworthiness shall meet the following requirements:

1) before the conclusion of the credit/lease agreement, the creditor assesses the borrower's creditworthiness on the basis of sufficient reliable information, obtained from the borrower in accordance with the provisions of

the law on the protection of financial service consumers which regulate mandatory assessment of borrower's creditworthiness or other regulations in the relevant law that regulate the assessment of the borrower's creditworthiness in another appropriate way;

2) if the creditor decides to grant an additional amount of credit to the borrower after the conclusion of the credit agreement, the creditor shall update the information necessary for the assessment of the borrower's creditworthiness and re-assess the borrower's creditworthiness before granting a new amount of credit.

34. At the time of determining the liquidity buffer, the bank shall subject the market value of level 2B securitisation positions to the following minimum haircuts:

1) 25% for securitisation positions backed by the assets referred to in Section 32, item 7), indents one and three of this Decision;

2) 35% for securitisation positions backed by the assets referred to in Section 32, item 7), indents two and four of this Decision.

*d) Exposures in the form of units in open-ended investment funds*

35. Exposures in the form of units in open-ended investment funds shall qualify as liquid assets of the same level as the liquid assets underlying the relevant investment fund, up to the amount of RSD 60,000,000,000, provided that:

1) the investment fund meets the following requirements:

– the fund is managed by a company that is subject to supervision by a competent authority in the Republic of Serbia and/or an EU member state or subject to supervision by a competent authority of a non-EU country if such supervision is carried out in compliance with European Union regulations and there is adequate cooperation between the National Bank of Serbia and such competent authority;

– the fund's investment policy and prospectus and/or equivalent document include information on the categories of assets in which the fund is authorised to invest and, if investment limits apply, the individual limits and the methodologies to calculate them;

– the fund publishes a report on its operations on at least an annual basis to enable an assessment to be made of its assets and liabilities, income and operations over the reporting period;

2) the investment fund invests only in liquid assets or derivatives, in the latter case only to the extent necessary to mitigate interest rate, currency or credit risk in the portfolio.

36. Banks shall apply the following haircuts to the value of their



exposures in the form of units in open-ended investment funds, depending on the category of underlying liquid assets of the investment fund:

- 1) 0% for banknotes and coins and the exposures to central banks referred to in Section 26, item 2) of this Decision;
- 2) 5% for level 1 liquid assets other than extremely high quality covered bonds;
- 3) 12% for the extremely high quality covered bonds referred to in Section 26, item 6) of this Decision;
- 4) 20% for level 2A liquid assets;
- 5) 30% for securitisation positions that qualify as level 2B liquid assets backed by the assets referred to in Section 32, item 7), indents one and three of this Decision;
- 6) 35% for covered bonds that qualify as level 2B liquid assets referred to in Section 30, item 4) of this Decision;
- 7) 40% for securitisation positions that qualify as level 2B liquid assets backed by the assets referred to in Section 32, item 7), indents two and four of this Decision;
- 8) 55% for corporate debt securities that qualify as the level 2B liquid assets referred to in Section 30, item 2) of this Decision and the shares referred to in Section 30, item 3) of this Decision.

37. When determining the liquid assets underlying the investment fund and the applicable haircuts, the bank shall apply the following approach:

- 1) where the bank is aware of the structure of the exposures in the form of units in the investment fund, the bank shall look-through to those underlying exposures and assign them the appropriate haircut referred to in Section 36 of this Decision;
- 2) where the bank is not aware of the structure of exposures in the form of units in the investment fund, it must assume that the investment fund invests, up to the maximum amount allowed under its investment policy, in ascending order in liquid assets as these are classified for the purposes of Section 36 of this Decision, starting with liquid assets referred to in item 7) of that Section and until the maximum total investment limit is reached.

38. Banks shall develop adequate methodologies and processes to report and calculate the market value and appropriate haircuts for exposures in the form of units in open-ended investment funds.

Where the exposure of the bank in the form of units in investment funds is not sufficiently material for the bank to develop its own methodologies referred to in paragraph 1 of this Section, the bank may apply the assessed haircuts provided by the following third parties to calculation and reporting on exposures in the form of units in open-ended investment funds:

– the depository which is a bank or another financial sector entity, provided that the fund invests exclusively in securities and deposits all such securities at this depository;

– for other investment funds which do not meet the requirement set out in indent one of this paragraph, the investment fund management company, provided that the management company is subject to supervision by a competent regulatory authority in the Republic of Serbia and/or an EU member state, or to supervision by a competent regulatory authority of a non-EU country if such supervision is carried out in compliance with European Union regulations and there is adequate cooperation between the National Bank of Serbia and such competent authority.

The bank shall prove the circumstances from paragraph 2 of this Section to the National Bank of Serbia.

39. Where a bank ceases to comply with the requirements laid down in Section 38 of this Decision in relation to exposures in the form of units in open-ended investment funds, it shall exclude such exposures from the liquidity buffer for the purpose of calculating the liquidity coverage ratio in accordance with Section 41 of this Decision.

## ***2. Composition of the liquidity buffer***

40. The bank shall at all times comply with the following limits in relation to the composition of the liquidity buffer:

1) a minimum of 60% of the liquidity buffer is to be composed of level 1 liquid assets;

2) a minimum of 30% of the liquidity buffer is to be composed of level 1 liquid assets excluding the extremely high quality covered bonds referred to in Section 26, item 6) of this Decision;

3) a maximum of 15% of the liquidity buffer is to be composed of level 2B liquid assets.

The limits set out in paragraph 1 of this Section shall be calculated after adjusting the liquidity buffer for the impact of repo and reverse repo transactions, securities or commodities lending or borrowing transactions, margin lending transactions and collateral swap transactions using liquid assets, where these transactions mature within 30 days from the day of calculating the ratio, after deducting any applicable haircuts.

Banks shall determine the composition of their liquidity buffer in accordance with Part 3 of this Chapter.

41. Where a liquid asset ceases to comply with any applicable general requirements laid down in Section 18 of this Decision, the operational requirements laid down in Sections 19 to 24 of this Decision or any applicable

criteria for inclusion in liquid assets laid down in Sections 26 to 39 of this Decision, the bank shall exclude such assets from the calculation of the liquidity buffer by the next reporting date in accordance with the decision governing reporting of banks, but no later than 30 days from the date when the breach of requirements occurred.

## **Part 2**

### **Net liquidity outflows**

42. The net liquidity outflows shall be the sum of liquidity outflows in Subpart 1 of this Part reduced by the sum of liquidity inflows in Subpart 2 of this Part, but shall not be less than zero.

The sum of liquidity inflows referred to in paragraph 1 of this Section shall be calculated as the sum of:

- 1) inflows exempted from the cap of 75% of liquidity outflows in accordance with Section 83 of this Decision;
- 2) the lower of the following two amounts (neither of which may be negative): inflows subject to the cap of 75% of liquidity outflows in accordance with Section 82 of this Decision and 75% of liquidity outflows reduced by the inflows exempt from the cap referred to in item 1) of this paragraph.

Liquidity inflows and liquidity outflows shall be assessed over a 30 day stress period, in accordance with Section 16 of this Decision.

The calculation of net liquidity outflows from paragraph 1 of this Section shall be performed in accordance with the formula set out in Part 4 of this Chapter.

Banks shall calculate liquidity outflows and inflows expected over a 30 day period arising from derivatives on a net basis by each counterparty subject to the existence of a bilateral netting agreement with such counterparty eligible for recognition for the purpose of limiting the counterparty risk as prescribed by the decision governing capital adequacy of banks, where net basis shall be considered to be net of collateral to be received under these transactions provided that it qualifies as an asset to be included in the bank's liquidity buffer.

Cash outflows and inflows arising from foreign currency derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) shall be calculated on a net basis, even where those transactions are not covered by a bilateral netting agreement with the counterparty.

## **1. Liquidity outflows**

43. Liquidity outflows shall be calculated by multiplying the outstanding balances of various categories of the bank's balance sheet liabilities and off-balance sheet commitments under which payments may be made by the rates at which they are expected to run off or be drawn down.

Liquidity outflows referred to in paragraph 1 of this Section shall include the following liabilities, in each case multiplied by the applicable outflow rates:

- the current outstanding amount for stable retail deposits referred to in Section 49 of this Decision as at calculation date and other retail deposits in accordance with Sections 45 to 50 of this Decision;
- the current outstanding amounts of other liabilities that become due, can be called for pay-out by the creditor or by the issuer or entail an expectation by the creditor that the bank would repay the liability during the next 30 days determined in accordance with Sections 51 to 58 of this Decision;
- the additional outflows pertaining to collateral, determined in accordance with Sections 59 to 69 of this Decision;
- the maximum amount that can be drawn down by the bank's customers during the next 30 days from undrawn irrevocable and conditionally revocable credit and liquidity facilities extended by the bank in accordance with Sections 70 to 76 of this Decision;
- the assessed additional liquidity outflows for other products and services in accordance with Sections 77 and 78 of this Decision.

44. Subject to prior approval of the National Bank of Serbia, banks may calculate the liquidity outflow net of the interdependent liquidity inflow which meets the following conditions:

- 1) the inflow is directly linked to the outflow and is not considered in the calculation of liquidity inflows in accordance with Subpart 2 of this Part;
- 2) the interdependent inflow is required pursuant to a legal, regulatory or contractual commitment;
- 3) the inflow arises compulsorily before the outflow to which it is linked or it is received within 10 days from the occurrence of the outflow and is guaranteed by the Republic of Serbia or an EU member state.

### *Retail deposits*

45. An outflow rate of 100% shall be applied to the cancelled retail

deposits with a residual maturity of less than 30 days and/or retail deposits due for payment within the next 30 days.

46. Banks may exclude from the calculation of liquidity outflows all or a portion of retail deposits which meet one of the following two requirements:

- 1) within 30 days, the depositor is not allowed to withdraw the deposit;
- 2) for early withdrawals within 30 days, the depositor has to pay a penalty equal to the loss of interest between the date of withdrawal and the contractual maturity date plus a material penalty that does not have to exceed the interest to which the customer is entitled for the time that elapsed between the date of deposit and the date of withdrawal.

If only a portion of the deposit can be withdrawn without incurring the penalty referred to in paragraph 1, item 2) of this Section, only that portion of the deposit shall be included in liquidity outflows.

47. Where the retail deposits fulfil the criterion referred to in Section 48, item 1) of this Decision or two of the criteria in items 2) to 5) of that Section, the bank shall apply an outflow rate of between 10% and 15%.

Where the retail deposits fulfil the criterion referred to in Section 48, item 1) of this Decision and at least another criterion referred to in that Section, or three or more criteria referred to in that Section, an outflow rate of between 15% and 20% shall be applied.

On a case by case basis, the National Bank of Serbia may request the application of a higher outflow rate than the one determined in accordance with paragraphs 1 and 2 of this Section where this is justified by the specific circumstances of the bank.

Where a bank has not carried out or completed the assessment of fulfilment of the criteria referred to in Section 48 of this Decision, the bank shall apply the outflow rates referred to in paragraph 2 of this Section to retail deposits for which such assessment has not been carried out or completed.

48. Outflow rates in accordance with Section 47 of this Decision shall be applied to retail deposits which meet the following conditions:

- 1) the total deposit balance, including all the client's deposit accounts at that bank or group exceeds RSD 60,000,000;
- 2) the deposit is an internet only account;
- 3) the deposit offers an interest rate that fulfils any of the following conditions:
  - the rate significantly exceeds the average rate for similar retail deposit products offered by other banks;

– its return is derived from the return on a market index or set of indices;

– its return is derived from any market variable other than a floating interest rate;

4) the deposit was originally placed as fixed-term with an expiry date maturing within the 30 day period or the deposit presents a fixed notice period shorter than 30 days, other than those deposits that meet the requirements referred to in Section 46 of this Decision;

5) the depositor is a non-resident or the deposit is not denominated in dinars, euros or the currency of an EU member state.

49. Where a retail deposit or a portion thereof does not fulfil the criteria for applying the outflow rate under Sections 47 and 48 of this Decision and its amount is insured with the Deposit Insurance Agency, such retail deposit or a portion thereof shall be considered as stable and subject to a 5% outflow rate if the depositor has an established relationship with the bank making withdrawal less likely, or if the deposit is held in a current account.

The depositor shall be considered to have an established relationship with the bank making withdrawal less likely if he meets at least one of the following criteria:

1) has a contractual relationship with the bank of at least 1 year duration;

2) has a borrowing relationship with the bank for residential loans or other long-term loans;

3) has at least one other active product, other than a loan, with the bank.

A retail deposit shall be considered as being held in a current account where salaries, other regular income or transactions are regularly credited and debited respectively against that account.

50. The amount of other retail deposits not included in Sections 45 to 49 of this Decision shall be subject to the outflow rate of 10%.

#### *Operational deposits*

51. Banks shall apply the outflow rate of 25% to the following types of deposits needed for the purpose of the client's operational activities:

1) deposits maintained in order to obtain clearing, custody, cash management or other comparable services that enable access to payment and settlement systems, if such services are needed for the performance of the client's operations;

2) deposits of customers which are not financial sector entities maintained for other purposes in the context of an established business

relationship with the bank, if such deposits meet the criteria referred to in Section 53 of this Decision.

By way of derogation from paragraph 1 of this Section, banks shall apply the 5% outflow rate to the portion of the deposit referred to in item 1) of this Section which is insured with the Deposit Insurance Agency.

The deposits referred to in paragraph 1 of this Section shall only include deposits which have legal or operational limitations that make their withdrawals within 30 days unlikely.

Only that part of the balance in the deposit accounts with the bank which is needed for the performance of the client's operational activities shall be considered operational, while the excess shall be considered as non-operational, and the portion that the client may withdraw while still having sufficient money in the account to make ready use of clearing, custody, cash management or similar services shall not be considered an operational deposit.

For the purposes of this Section, clearing services shall mean services that enable clients to transfer funds or securities via direct participants in the domestic payment system or the securities settlement system to final recipients, where these services are limited to transferring, reconciling and confirming of payment orders, daylight overdrafts, overnight funding and maintaining assets after the settlement transaction, and establishing of intraday positions and final positions for settlement. Clearing services and related services are provided on the basis of a contract with institutional investors.

For the purposes of this Section, custody services shall mean the holding and safekeeping of the client's assets, client notification, asset management and/or the provision of operational or administrative services at the client's request in relation to transactions with financial assets. Custody services are provided on the basis of a contract with institutional investors and are limited to: securities settlement transactions, transfer of contractually agreed payments, processing of collaterals, execution of transactions in a foreign currency, holding of monies and fees for surplus cash management services, and may also include the collection of dividends and other income, payment and collection of client's claims, agreed distribution of client's assets and payment of fees, taxes and other costs.

For the purposes of this Section, cash management services shall mean cash management services and related services provided to clients, on the basis of a contract with institutional investors. Cash management services shall relate to those products and services that are provided to clients for the purpose of managing their cash flows, assets and liabilities and executing

financial transactions needed for the purpose of their current operational activities, as well as: provision of information on managing the client's financial transactions, payment of remittances, collection or consolidation of documentation relating to payrolls, control of asset distribution, automatic payments and other transactions that facilitate the performance of financial operations or the establishing of information systems for these purposes.

52. Deposits arising out of a correspondent banking relationship or from the provision of prime brokerage services shall not be treated as an operational deposit and shall receive a 100% outflow rate.

53. In order for a deposit to be considered the deposit referred to in Section 51, paragraph 1, item 2) of this Decision, it shall meet the following criteria:

1) the deposit was placed by a customer which is not a financial sector entity;

2) the deposit is not a term deposit, savings deposit or brokered deposit;

3) the remuneration of the account is priced at least five basis points below the prevailing rate for wholesale deposits with comparable characteristics, but need not be negative;

4) the deposit is held in specifically designated accounts under such terms that do not create economic incentives for the depositor to maintain funds in the deposit in excess of what is needed for the business relationship;

5) material transactions are credited and debited on a frequent basis on the account considered;

6) one of the following criteria is met:

– the relationship with the depositor has existed for at least two years;

– the deposit is used for a minimum of two active services (access to national or international payment services, security trading or depository services, etc.).

Only that part of the deposit which is necessary to make use of the service of which the deposit is a by-product shall be treated as the deposit referred to in paragraph 1 of this Section. The excess shall be treated as non-operational.

#### *Outflows from other liabilities*

54. Banks shall apply the outflow rate of 40% to the amount of deposits by clients that are not financial sector entities or natural persons, where these deposits shall also include deposits made by central governments, territorial autonomies, local government units, central banks, multilateral development



banks or public administrative bodies, to the extent they are not considered operational deposits under Section 51 of this Decision.

By way of derogation from paragraph 1 of this Section, banks shall apply the outflow rate of 20% to the portion of the deposit referred to in that paragraph which is insured with the Deposit Insurance Agency.

55. Banks shall apply the 0% outflow rate to liabilities resulting from the bank's own operating expenses.

56. Banks shall apply the following outflow rates to liabilities resulting from repo agreements, securities or commodities lending transactions, and margin lending transactions maturing within 30 days:

1) 0% if they are collateralised by assets that would qualify as level 1 liquid assets in accordance with Section 26 of this Decision, with the exception of the extremely high quality covered bonds referred to in item 6) of that Section, and/or if the counterparty is a central bank;

2) 7% if they are collateralised by the extremely high quality covered bonds referred to in Section 26, item 6) of this Decision;

3) 15% if they are collateralised by assets that would qualify as level 2A liquid assets in accordance with Section 28 of this Decision;

4) 25% if they are collateralised by:  
– the assets referred to in Section 32, item 7), indents one and three of this Decision;

– the assets that would not qualify as level 1 liquid assets and level 2A liquid assets in accordance with Sections 26 and 28 of this Decision, and the counterparty is the central government, multilateral development bank or a public administrative body in the Republic of Serbia or in another country in which the bank has established a branch which qualifies for a risk weight of 20% or lower, in accordance with the decision governing capital adequacy of banks;

5) 35% if they are collateralised by the types of assets referred to in Section 32, item 7), indents two and four of this Decision;

6) 50% if they are collateralised by:  
– corporate debt securities that would qualify as level 2B liquid assets in accordance with Section 30, item 2) of this Decision;

– shares that would qualify as level 2B liquid assets in accordance with Section 30, item 3) of this Decision;

7) 30% if they are collateralised by high quality covered bonds that would qualify as level 2B liquid assets in accordance with Section 30, item 4) of this Decision;

8) 100% if they are collateralised by assets that would not qualify to be included in the liquidity buffer in accordance with Part 1 of this Chapter, other than the assets referred to in item 4), indent two of this Section or if the counterparty is a central bank.

57. Collateral swaps that mature within the next 30 days shall lead to an outflow for the excess liquidity value of the assets borrowed compared to the liquidity value of the assets lent unless the counterparty is a central bank in which case a 0% outflow shall apply.

The liquidity value of assets that qualify for inclusion in the liquidity buffer in accordance with Part 1 of this Chapter shall mean the value of such assets determined in accordance with Section 25 of this Decision. The liquidity value of assets that do not qualify for inclusion in the liquidity buffer shall be considered to be zero.

58. Banks shall apply a 100% outflow rate to all notes, bonds and other debt securities issued by the bank, unless the bond is sold exclusively in the retail market and held in a retail account, in which case those instruments can be treated as the appropriate retail deposit category, on the sole condition that those instruments cannot be bought and held by parties other than retail customers.

#### *Additional liquidity outflows*

59. Collaterals posted by the bank for contracts on financial and credit derivatives, other than the assets referred to in Section 26, items 1) to 5) and item 7) of this Decision, shall be subject to an outflow rate of 20%.

Collaterals in the form of the extremely high quality covered bonds referred to in Section 26, item 6) of this Decision, posted by the bank for contracts on financial and credit derivatives, shall be subject to an outflow rate of 10%.

60. Where a bank has entered into contracts the contractual conditions of which may lead within 30 days and in the event of a deterioration of the credit quality of the bank and/or a downgrade in its credit assessment by three notches to additional liquidity outflows or collateral needs, the bank shall apply a 100% outflow rate to such outflows and/or additional collateral.

61. The bank shall determine and add to total liquidity outflows an additional outflow corresponding to additional collateral needs that would result from the impact of an adverse market scenario on derivatives transactions, securities financing transactions or other contracts, if material.

The transactions referred to in paragraph 1 of this Section shall be deemed material if their notional amounts exceeded 10% of liquidity outflows of the bank at any time in the preceding two years.

In order to calculate the additional liquidity outflows referred in paragraph 1 of this Section, banks shall collect the fair value amount of collateral posted for all derivatives contracts for each day in the preceding two

years, and shall use as additional outflow the largest difference in collateral posted within two consecutive periods of 30 days during the preceding two years.

62. Banks shall take inflows and outflows expected over 30 days from the derivatives contracts into account on a net basis in accordance with Section 42, paragraphs 5 and 6 of this Decision. When calculating net amounts, banks shall not take into account the additional liquidity requirements referred to in Sections 59 to 61 of this Decision.

If the bank establishes a net liquidity outflow resulting from a derivative contract during the netting referred to in paragraph 1 of this Section, it shall apply a 100% outflow rate to the result.

63. The bank shall determine and add to total liquidity outflows an additional liquidity outflow obtained by applying a 100% outflow rate to the market value of securities or other assets sold short and to be delivered by the bank within 30 days.

The additional outflow referred to in paragraph 1 of this Section shall not be calculated if the bank owns the securities to be delivered or has borrowed them at terms requiring their return only after 30 days and the securities are not included in the calculation of the liquidity buffer.

If the short sale is covered by an existing collateralised securities financing transaction, in accordance with the decision governing capital adequacy of banks, it shall be assumed that the obligation to return the securities sold short shall not be due within 30 days and a 0% outflow rate shall be applied.

64. The bank shall determine and add to total liquidity outflows an additional liquidity outflow corresponding to 100% of:

- 1) the excess collateral the bank holds that can be contractually called at any time by the counterparty within 30 days;
- 2) collateral that is due to be posted to a counterparty within 30 days;
- 3) collateral that would qualify as liquid assets for the purposes of Part 1 of this Chapter that can be substituted for collaterals that would not qualify as liquid assets of the bank without the consent of the bank.

65. Deposits received as collateral shall not be considered as liabilities for the purposes of Sections 45 to 58 of this Decision, but additional outflows in this respect shall be subject to Section 64 of this Decision where applicable.

66. Banks shall assume a 100% outflow rate for loss of funding on asset-

backed securities, covered bonds and other similar instruments maturing within 30 days, when these instruments are issued by the bank itself and/or by SSPEs sponsored by the bank.

67. Banks shall assume a 100% outflow rate for loss of funding on asset-backed commercial papers, asset-backed commercial papers programmes, securities investment vehicles and other such financing facilities. This outflow rate shall apply to the maturing amount of liabilities or to the amount of assets that could potentially be returned.

68. Assets borrowed on an unsecured basis and maturing within 30 days shall be assumed to run-off in full, leading to a 100% outflow of liquid assets, unless the bank owns the securities and they do not form part of the bank's liquidity buffer.

69. In relation to the provision of brokerage services, where a bank has financed the assets of one client by internally netting them against the short sales of another client, such transactions shall be subject to a 50% outflow rate.

#### *Credit and liquidity facilities*

70. For the purposes of this Subpart, a liquidity facility shall be understood to mean any irrevocable and conditionally revocable committed, undrawn facility that would be used to refinance the debt obligations of a customer in situations where such a customer is unable to obtain regular funding requirements in financial markets.

The amount of the liquidity facility referred to in paragraph 1 of this Section shall be calculated as the amount of debt issued by the customer currently outstanding and maturing within 30 days that is backstopped by the facility. The portion of the liquidity facility that is backing a debt that does not mature within this period shall be excluded from the calculation of the amount of the liquidity facility.

All facilities and/or portions of liquidity facilities which have a purpose different from the purpose referred to in paragraph 1 of this Section shall be considered credit facilities.

General working capital facilities for companies shall be considered credit facilities.

Banks shall calculate liquidity outflows for irrevocable and conditionally revocable credit and liquidity facilities by multiplying the amount of the credit and liquidity facilities by the corresponding outflow rates set out in Sections 71 to 75 of this Decision.

The amount of facilities referred to in paragraph 5 of this Section shall be determined as the maximum undrawn amount that can be drawn down within 30 days, net of any liquidity outflows for the trade finance off-balance sheet items referred to in Section 77, item 8) of this Decision, if the customer agreed on such product with the bank, and net of any collateral made available to the bank by the customer under such facility and valued in accordance with Section 25 of this Decision, provided that the collateral fulfils the following conditions:

- it may be reused or hypothecated by the bank;
- it qualifies as liquid assets, but is not recognised as part of the liquidity buffer for the purpose of calculating the liquidity coverage ratio;
- it does not consist in assets issued by the counterparty of the credit or liquidity facility or one of its related persons.

Where the necessary information is available to the bank, the maximum undrawn amount that can be drawn down for irrevocable or conditionally revocable credit or liquidity facilities shall be determined taking into account the borrower's own obligations and/or given the pre-defined drawdown schedule coming due over 30 days.

71. The amount of irrevocable or conditionally revocable credit or liquidity facilities referred to in Section 70, paragraph 6 of this Decision shall be multiplied by the outflow rate of 5% if these are facilities approved to the natural person or the small- or medium-size enterprise referred to in Section 2, item 8) of this Decision.

72. The amount of irrevocable or conditionally revocable credit facilities referred to in Section 70, paragraph 6 of this Decision shall be multiplied by the outflow rate of 10% where they meet the following conditions:

- the counterparty is not the natural person and/or the small- or medium-sized enterprise referred to in Section 2, item 8), of this Decision;
- they have been provided to clients that are not financial sector entities, including credit facilities approved to companies, central government, territorial autonomy, local government unit, central bank, multilateral development bank or public administrative body;
- they have not been provided for the purpose of replacing funding of the client in situations where the client is unable to obtain funding requirements in the financial market.

73. The amount of irrevocable or conditionally revocable liquidity facilities referred to in Section 70, paragraph 6 of this Decision shall be multiplied by the outflow rate of 30% where they meet the conditions referred to in Section 72, indents one and two of this Decision.

74. The undrawn amount of an irrevocable or conditionally revocable

liquidity facility that has been provided to an SSPE for the purpose of enabling such an SSPE to purchase assets, other than securities from clients that are not financial sector entities, shall be multiplied by 10% to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn down is contractually limited to the amount of assets currently purchased.

75. The bank shall multiply the amount of irrevocable or conditionally revocable credit or liquidity facilities referred to in Section 70, paragraph 6 of this Decision by the corresponding outflow rates as follows:

1) 40% for credit and liquidity facilities extended to banks and for credit facilities extended to other financial sector entities regulated by appropriate regulations governing the operation and supervision of those entities;

2) 100% for liquidity facilities that the bank has granted to SSPEs other than those referred to in Section 74 of this Decision and for transactions under which the bank is required to buy or swap assets from an SSPE;

3) 100% for credit and liquidity facilities to customers which are financial sector entities, other than the ones referred to in items 1) and 2) of this paragraph and Sections 70 to 74 of this Decision.

76. By way of derogation from Sections 71 to 75 of this Decision, the National Bank of Serbia may authorise the bank to apply a lower outflow rate for undrawn credit or liquidity facilities when all of the following conditions are fulfilled:

1) there are reasons to expect a lower outflow from these facilities even under a combined market and idiosyncratic stress of the provider of the credit or liquidity facility;

2) the counterparty is the parent or subsidiary of the bank or another subsidiary of the parent of the bank;

3) the lower outflow rate does not fall below the inflow rate applied by the counterparty;

4) the counterparty is an entity established in the Republic of Serbia.

When applying for the authorisation referred to in paragraph 1 of this Section, the bank shall submit documents proving the fulfilment of the conditions referred to in that paragraph.

#### *Additional liquidity outflows for other products and services*

77. The following outflow rates shall apply to bank's liabilities from other products and services not referred to in Sections 51 to 76 of this Decision:

1) 10% for the amount of guarantees and other types of warranty;

2) 10% for the undrawn amount of credit lines granted which may

be cancelled unconditionally at any time without notice;

3) 5% for the undrawn amount of credit card limits, where they may be considered unconditionally cancellable;

4) 7% for the undrawn amount of current account overdrafts, where they may be considered unconditionally cancellable;

5) 100% for the amount of loans secured by mortgage on immovable property that have been agreed but not yet drawn down;

6) 100% for the amount of planned outflows related to extension of new or renewal of existing retail and wholesale loans, where the planned outflows shall be assessed assuming a 30 day stress period, in accordance with Section 16 of this Decision;

7) 100% for the amount of planned derivative payables, where the planned outflows shall be assessed assuming a 30 day stress period, in accordance with Section 16 of this Decision;

8) 5% for trade finance off-balance sheet related products.

78. The bank shall apply a 100% outflow rate to all liquidity outflows from obligations maturing within 30 days which are not referred to in Sections 45 to 77 of this Decision.

## **2. Liquidity inflows**

79. Liquidity inflows shall be assessed over a period of 30 days and comprise contractual inflows from claims that are not past due for more than five days and for which the bank has no reason to expect non-performance within 30 days.

Banks shall not include inflows from the bank's assets included in the liquidity buffer in liquidity inflows for the purpose of calculating the liquidity coverage ratio, other than payments due on the assets that are not reflected in the market value of the asset in the bank's liquidity buffer.

Inflows from any new obligations entered into by the bank shall not be included in liquidity inflows for the purpose of calculating the liquidity coverage ratio.

Banks shall take liquidity inflows from claims which are to be received in countries where there are transfer restrictions or which are denominated and to be settled in nonconvertible currencies into account when calculating the liquidity coverage ratio only to the extent that they correspond to outflows respectively in the country or currency in question.

80. Bank's receivables referred to in Section 79, paragraph 1 of this Decision shall receive a 100% inflow rate, including in particular the following inflows:

1) receivables from central banks;

2) receivables from financial sector customers (in respect of securities maturing within 30 days, self-liquidating short-term trade financing transactions connected to the exchange of goods and services maturing within 30 days, etc.);

3) receivables from positions in indexes of equity instruments which are due within 30 days (e.g. dividends and cash due from such equity instruments sold but not yet settled), provided that they are not recognised as both liquidity inflows and liquidity buffer.

81. By way of derogation from Section 80 of this Decision:

1) bank's receivables from customers that are not financial sector entities, including natural persons, companies, central governments, territorial autonomies, local government units, public administrative bodies and multilateral development banks shall be reduced for the purposes of principal payment by 50% of their value or by the contractual commitments to these customers to extend funding, whichever is higher;

2) receivables from reverse repo agreements, securities or commodities borrowing and margin lending transactions collateralised by liquid assets that qualify for inclusion in the liquidity buffer shall not be included in liquidity inflows for the purpose of calculating the liquidity coverage ratio up to the value of liquid assets included in the liquidity buffer that collateralise such receivables, calculated in accordance with Section 25 of this Decision. Receivables from the remaining value and/or receivables collateralised by assets that do not so qualify shall be included in liquidity inflows in full. Liquidity inflows under such transaction shall not be recognised if the collateral is used to cover short position in accordance with Section 63 of this Decision;

3) receivables from margin loans extended to customers for the purpose of buying new securities, collateralised by assets which do not qualify for inclusion in the bank's liquidity buffer, shall receive a 50% inflow rate. Such inflows may only be recognised if the bank did not use the collateral it originally received against the loans to cover any short positions;

4) receivables that the counterparty treats as an operational deposit in accordance with Section 51 of this Decision shall be subject to the inflow rate corresponding to the outflow rate applied by the counterparty to the amount of liabilities in this respect; where the corresponding rate cannot be established by the bank, a 5% inflow rate shall be applied;

5) collateral swaps that mature within 30 days shall lead to an inflow for the excess liquidity value of the assets lent compared to the liquidity value of the assets borrowed, where the liquidity value shall be calculated in accordance with Section 57, paragraph 2 of this Decision;

6) if the collateral obtained by the bank through reverse repo transaction, securities borrowing contract or collateral swaps is rehypothecated or used to cover short positions that can be extended beyond



30 days, the bank shall assume that such transactions and/or contracts will be rolled-over and will not give rise to any liquidity inflows reflecting its need to continue to cover the short position and/or to re-purchase the relevant securities. Short positions include both instances where in a matched book the bank sold short a security outright as part of a trading or hedging strategy and instances where the bank is short a security in the matched repo book and has borrowed a security for a given period and lent the security out for a longer period;

7) any undrawn credit or liquidity facilities extended to the bank, other than facilities extended by central banks and those referred to in Section 85 of this Decision, shall not be included in liquidity inflows for the purpose of calculating the liquidity coverage ratio;

8) receivables from securities issued by the bank itself or by its related person shall be disclosed on a net basis, where the inflow rate to be applied shall be determined depending on the type of counterparty in accordance with items 1) to 7) of this Section;

9) assets with an undefined contractual end date, where the bank may withdraw funds and/or request payment within 30 days, shall be subject to a 20% inflow rate;

10) liquidity inflows and outflows expected from derivatives contracts over 30 days shall be calculated on a net basis in accordance with Section 42, paragraphs 5 and 6 of this Decision. If the bank establishes net liquidity inflow from a derivatives contract during such netting, it shall apply a 100% inflow rate to such inflow.

#### *Cap on liquidity inflows*

82. Banks shall limit the amount of liquidity inflows taken into account for the calculation of the liquidity coverage ratio to 75% of total liquidity outflows calculated as defined in Subpart 1 of this Part, except for liquidity inflows in accordance with Section 83 of this Decision.

83. Subject to the prior approval of the National Bank of Serbia, the bank may fully or partially exempt from the cap referred to in Section 82 of this Decision the following inflows:

1) inflows where the provider of sources of funding is a parent or a subsidiary of the bank or another subsidiary of the parent of the bank;

2) inflows from bank deposits placed with another bank belonging to the same banking group, if the following conditions are fulfilled:

– the bank and the counterparty are included in the same consolidation on a full basis;

– the bank and the counterparty are subject to the same risk evaluation, measurement and control procedures;

– the bank and the counterparty are established in the Republic of

Serbia; and

– there are no impediments to the withdrawal of deposited bank funds.

When applying for the approval referred to in paragraph 1 of this Section, the bank shall submit documentation on the type of inflows for which exemption from the cap referred to in Section 82 of this Decision is requested to the counterparty and/or provider of funding, as well as documentation proving the fulfilment of the conditions referred to in paragraph 1, item 2) of this Section.

84. The bank shall calculate the amount of the net liquidity outflows under the application of the cap referred to in Section 82 of this Decision in accordance with the formula laid down in Part 4 of this Chapter.

85. By way of derogation from Section 81, item 7) of this Decision, the National Bank of Serbia may authorise the bank to apply a higher inflow rate for undrawn credit or liquidity facilities extended to the bank when all of the following conditions are fulfilled:

- 1) there are reasons to expect a higher inflow from such facilities even under a combined market and idiosyncratic stress of the provider of the credit or liquidity facility;
- 2) the counterparty is the parent or a subsidiary of the bank or another subsidiary of the parent of the bank;
- 3) the inflow rate, for whose application the bank seeks the authorisation of the National Bank of Serbia, exceeds 40%, and a corresponding symmetric outflow rate is applied by the counterparty;
- 4) the counterparty is established in the Republic of Serbia.

When applying for the authorisation referred to in paragraph 1 of this Section, the bank shall submit documents proving the fulfilment of the conditions laid down in that paragraph.

### **Part 3**

#### **Formula for the determination of the liquidity buffer composition**

86. The liquidity buffer of the bank shall be equal to the sum of the amounts from items 1) to 3) of this Section reduced by the lesser of the amounts from items 4) and 5) of this Section:

- 1) the level 1 asset amount;
- 2) the level 2A asset amount;
- 3) the level 2B asset amount;
- 4) the sum of amounts from items 1) to 3) of this Section;
- 5) the excess liquid assets amount as calculated in accordance

with Sections 87 and 88 of this Decision.

87. The excess liquid assets amount shall be comprised of the following components:

1) an adjusted level 1 liquid assets amount, without extremely high quality covered bonds, which shall be equal to the value of all level 1 liquid assets, excluding extremely high quality covered bonds, that would be held by the bank upon the unwind of securities financing transactions, in accordance with the decision governing capital adequacy of banks, and collateral swaps that mature within 30 days from the calculation date and where the bank and the counterparty exchange liquid assets on a least one leg of the transaction;

2) an adjusted amount of level 1 liquid assets in the form of extremely high quality covered bonds, which shall be equal to the value post-haircuts of all level 1 liquid assets in the form of extremely high quality covered bonds that would be held by the bank upon the unwind of securities financing transactions, in accordance with the decision governing capital adequacy of banks, and collateral swaps that mature within 30 days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction;

3) adjusted level 2A liquid assets amount, which shall be equal to the value post-haircuts of all level 2A liquid assets that would be held by the bank upon the unwind of securities financing transactions, in accordance with the decision governing capital adequacy of banks and collateral swaps that mature within 30 days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction; and

4) adjusted level 2B liquid assets amount, which shall be equal to the value post-haircuts of all level 2B liquid assets that would be held by the bank upon the unwind of any securities financing transaction, in accordance with the decision governing capital adequacy of banks and collateral swaps that mature within 30 days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction.

88. The excess liquid assets amount shall be equal to the sum of the amounts from items 1) to 4) of this Section reduced by the lowest of the amounts from items 5) to 8) of this Section:

1) the adjusted amount of level 1 liquid assets, excluding extremely high quality covered bonds;

2) the adjusted amount of level 1 liquid assets in the form of extremely high quality covered bonds;

3) the adjusted level 2A liquid assets amount;

4) the adjusted level 2B liquid assets amount;

- 5) the sum of the amounts from items 1) to 4) of this paragraph;
- 6) 100/30 times the amount from item 1) of this paragraph;
- 7) 100/60 times the sum of the amounts from items 1) and 2) of this paragraph;
- 8) 100/85 times the sum of the amounts from items 1), 2) and 3) of this paragraph.

89. The composition of the liquidity buffer after taking into account the effects of the unwind of securities financing transactions, in accordance with the decision governing capital adequacy of banks, and collateral swaps that mature within the next 30 days and the application of caps in accordance with Section 40 of this Decision shall be determined as follows:

a" (the adjusted amount of level 1 liquid assets, without extremely high quality covered bonds, after cap application)

= a (the adjusted amount of level 1 liquid assets, without extremely high quality covered bonds, before cap application)

b" (the adjusted amount of level 1 liquid assets in the form of extremely high quality covered bonds after cap application)

= min (b,  $a \cdot 70/30$ ),

where b (the adjusted amount of level 1 liquid assets in the form of extremely high quality covered bonds before cap application)

c" (the adjusted level 2A liquid assets amount after cap application)

= min (c,  $(a+b) \cdot 40/60$ ,  $\max(a \cdot 70/30 - b, 0)$ )

where c (the adjusted level 2A liquid assets amount before cap application)

d" (the adjusted level 2B liquid assets amount after cap application)

= min (d,  $(a+b+c) \cdot 15/85$ ,  $\max((a+b) \cdot 40/60 - c, 0)$ ,  $\max(a \cdot 70/30 - b - c, 0)$ )

where d (the adjusted level 2B liquid assets amount before cap application).

#### **Part 4**

##### **Formula for the calculation of the net liquidity outflow**

90. Net liquidity outflow shall equal total liquidity outflows reduced by the amount of liquidity inflows exempted from the cap referred to in Section 82 of this Decision, in accordance with Section 83 of the Decision, and liquidity inflows subject to the cap referred to in Section 82 of the Decision.

The net liquidity outflows referred to in paragraph 1 of this Section shall be determined by applying the following formula:

$$\text{NLO} = \text{TO} - \min(\text{IEC}, \text{TO}) - \min(\text{IC}, 0,75 * \max(\text{TO} - \text{IEC}, 0))$$

Where:

NLO – net liquidity outflow;

TO – total liquidity outflows;

IEC – inflows exempted from the cap referred to in Section 82 of this Decision in accordance with Section 83 of the Decision;

IC – inflows subject to the cap referred to in Section 82 of this Decision.

### TRANSITIONAL AND FINAL PROVISIONS

91. By way of derogation from Section 14 of this Decision, the bank shall maintain the liquidity coverage ratio at a level of at least 80%, aggregately in all currencies, until 31 December 2017, after which it shall maintain the ratio at a level of at least 100%.

92. Pending adoption of a separate law on securitisation, banks may not engage in the activity of originator, sponsor or original lender in securitisation.

93. The bank shall test the application of the provisions of this Decision in order to be ready to fully adjust its operations to these provisions. The bank shall notify the National Bank of Serbia of the results of the testing by submitting the reports prescribed by the decision governing the reporting by banks, with data as at 31 December 2016, by no later than 20 April 2017.

94. This Decision shall enter into force on the eight day from the day of publication in the RS Official Gazette and shall be applied as of 30 June 2017.

NBS Executive Board No 104

15 December 2016

B e l g r a d e

Chairperson  
of the NBS Executive Board  
G o v e r n o r  
of the National Bank of Serbia

Dr Jorgovanka Tabaković