

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, 40/2015 – CC decision and 44/2018), the Executive Board of the National Bank of Serbia adopts the following

D E C I S I O N 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, liquidity coverage ratio and net stable funding 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 and level 2B liquid assets;

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

5) *liquidity buffer* means the amount of liquid assets that a 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) *small and medium-sized enterprises* (SMEs) means companies classified as micro, small or medium-sized legal persons under the law governing accounting;

10) *financial sector entity* (*financial customer*) 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 or another legal person mainly engaged in financial activity in the country or abroad;

11) *personal investment company* means a foreign law entity or a trust whose owner or beneficial owner, respectively, is a natural person or a group of related natural persons not carrying out any commercial, industrial or professional activity, set up with the sole purpose of managing the wealth of one or more owners, including other ancillary activities, such as segregating the owner's assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided these are connected to the main purpose of managing the owner's wealth;

12) *deposit broker* means a natural or a legal person that facilitates the placement of third persons' deposits with a bank at a fee, including the deposits of natural persons and corporate deposits, except for deposits of financial sector entities;

13) *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 is a significant risk that the bank becomes unable to meet its commitments as they fall due within the next 30 days;

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

C h a p t e r I I

MANAGING LIQUIDITY RISK

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

- 1) liquidity ratio,
- 2) narrow liquidity ratio,
- 3) liquidity coverage ratio,
- 4) net stable funding ratio.

4. A critically low liquidity level shall be the liquidity level where:

- 1) the liquidity ratio and/or the narrow liquidity ratio is lower than one of the limits laid down in Section 9 of this Decision;
- 2) the liquidity coverage ratio is below the minimum laid down in Section 14, paragraph 1 of this Decision, including under stress conditions;
- 3) the net stable funding ratio is below the minimum laid down in Section 91, paragraph 2 of this Decision, including under stress conditions.

A critically low liquidity level shall also be the liquidity level where the bank rightly expects the liquidity coverage ratio or the net stable funding ratio to be below the minimum laid down in Section 14, paragraph 1 and Section 91, paragraph 2 of this Decision.

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 contain the data about the ratio or the anticipated ratio from paragraph 2 of this Section, as well as the reasons that have led or will lead to a critically low liquidity level. Along with the notification, the bank shall submit a plan for removing the causes that have led to a critically low liquidity level, as well as 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 or the net stable funding ratio has fallen below the prescribed minimum, in addition to meeting the obligations referred to in paragraph 3 of this Section, on each business day it shall report to the National Bank of Serbia about 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 or Section 91, paragraph 2 of this Decision.

By derogation from paragraph 4 of this Section, the National Bank of Serbia may approve a lower frequency of reporting referred to in that Section,

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 3 of this Section and may request that the bank complies 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.

The National Bank of Serbia shall assess the reasons that have led or may lead to the ratios referred to in paragraph 4 of this Section falling below the minimum prescribed levels before deciding to take adequate measures in respect of a bank.

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 about the causes of the liquidity crisis and about 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.

Chapter III

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:

- 1) vault cash, current account balances, gold and other precious metals;
- 2) 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);
- 3) deposits with the National Bank of Serbia;
- 4) cheques and other cash receivables under collection;
- 5) 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 value of other non-listed securities issued by the Republic of Serbia.

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, namely:

- 1) 40% of demand deposits of banks,
- 2) 20% of demand deposits of other depositors,
- 3) 10% of savings deposits,
- 4) 5% of guarantees and other warranties,
- 5) 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.

Chapter IV

LIQUIDITY COVERAGE RATIO

Part 1

The main rules for calculating the liquidity coverage ratio

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. A bank is obligated to calculate the liquidity coverage ratio in dinars, namely:

- 1) aggregately for all balance sheet positions and off-balance sheet items included in the calculation of the ratio, regardless of whether they are in dinars or in other currencies;
- 2) individually for each significant currency.

When calculating the ratio from paragraph 1 of this Section, the bank shall recalculate 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.

The positions of assets, liabilities or off-balance sheet items, or a certain part of the position, may not be disclosed several times within liquid assets, liquidity outflows or liquidity inflows for the purpose of calculating the liquid assets coverage ratio.

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

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

Part 2

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;
- 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 an interest, or assets of a bank included in a pool, free from any encumbrance. For the purpose of this Chapter, an asset shall be deemed to be unencumbered where it is not subject to any regulatory, contractual, or other restriction preventing the bank 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 irrevocable or conditionally revocable undrawn credit facilities available to the bank, assets that the bank has received as collateral for credit risk mitigation purposes in reverse repo or securities borrowing transactions and that the bank may dispose of, etc.). The bank assumes that assets in a pool of encumbered assets are in the amount equal to the amount of the drawn credit facility in the rising order of liquidity within the meaning of Subpart 2 of this Part, starting from assets that fail to meet the requirements to be included in the liquidity buffer;

- 2) the assets shall not have been issued by any of the following:
 - 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 an SSPE with which the bank has close links;
 - 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), Section 28, paragraph 1, items 3) and 4) and Section 30, item 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 10), except for an SSPE and an export credit agency;

3) 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;

4) the assets shall be listed on a recognised exchange or tradable via outright sale or via simple repurchase transaction on generally accepted repurchase markets. An asset admitted to trading in an organised trading 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.

To assess whether a trading venue provides for an active and sizeable market, the bank shall take into account the following: 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 3) and 4) of this Section shall not apply to:

1) banknotes and coins referred to in Section 26, item 1) of this Decision;

2) exposures to central governments referred to in Section 26, item 4) of this Decision;

3) 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 requirement set out in paragraph 1 of this Section. Any such restriction and requirement, however, shall not apply to:

1) banknotes and coins referred to in Section 26, item 1) of this Decision;

2) level 1 liquid assets representing exposures to the central bank as referred to in Section 26, items 2) and 4) of this Decision;

3) 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, 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.

4) 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.

20. Liquid assets shall be readily accessible to a bank where there are no legal 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 or to cover operational costs of a bank shall not be deemed liquid assets referred to in paragraph 1 of this Section.

Assets held in a third country 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 third 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 managed by an organisational unit in charge of bank liquidity management.

Compliance with the requirement referred to in paragraph 1 of this Section shall be demonstrated in one of the following ways:

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

2) by putting in place internal systems and controls, 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 the monetisation of those assets during the 30-day stress period without directly conflicting with any existing business or risk management strategies of the bank;

3) through a combination of options 1) and 2) of this paragraph.

22. Banks shall regularly, and 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 monetisation of assets is effective.

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

1) test the access to the market and development of the market for that type of assets,

2) check that the bank's processes for the timely monetisation of liquid assets are effective,

3) minimise the risk of sending a negative signal to the market as a result of the bank's monetisation of its liquid assets during stress periods.

The provisions of this Section shall not apply to level 1 liquid assets referred to in Section 26 of this Decision, other than 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:

1) the bank has put 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;

2) 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 composition of their liquid assets

is consistent with the distribution by currency of their net liquidity outflows.

However, when the National Bank of Serbia deems necessary, it may set the bank a maximum limit on the 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 3 of this Decision.

In determining the restriction referred to in paragraph 2 of this Section, the National Bank of Serbia shall assess:

1) whether the bank has the ability to do any of the following:

- use the liquid assets to generate liquidity in the currency and jurisdiction in which the 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 3) 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, item 2) 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:
 - exposure to and/or guaranteed by the National Bank of Serbia, the European Central Bank or central banks of EU member states;

- exposure to and/or guaranteed by central banks of non-EU countries, provided that exposures to that central bank or its central government are assigned a credit assessment which is at least credit quality step 1 in accordance with the decision governing the capital adequacy of banks;

- excess liquidity deposited with the National Bank of Serbia;

- amount of allocated dinar required reserves with the National Bank of Serbia, as well as the amount of allocated foreign currency required reserves in excess of the calculated amount of the bank's foreign currency required reserves with the National Bank of Serbia;

- reserves held by a bank's subsidiary with the central bank from indents one and two of this item, provided that adequate agreements or regulations allow for the withdrawal of these reserves in stress conditions;

3) exposure 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 the 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 the 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 the capital adequacy of banks;

4) exposure 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 the capital adequacy of banks, as well as reserves which a bank's subsidiary holds with that central bank if adequate agreements or regulations have allowed for the withdrawal of these reserves in stress conditions. Where the asset is not denominated in the domestic currency of the issuer's 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 the Republic of Serbia or an EU member

state, or a territorial autonomy or a 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 the 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 foreign 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 comply with the following requirements:

- they are covered bonds 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 a 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 the capital adequacy of banks;

- 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 the 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 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 cover pool portfolio: 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 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) exposures to and/or guaranteed by multilateral development banks and international organisations which are assigned a 0% risk weight in accordance with the decision governing the 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) 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 the capital adequacy of banks;

2) 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 the capital adequacy of banks;

3) exposures in the form of extremely high quality covered bonds, which shall 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 cover pool;

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

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

- 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 cover pool portfolio: 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;

- 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 the 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, 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 requirement regarding the value of issued covered bonds 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 cover pool 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 the 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 cover 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 the capital adequacy of banks;

- 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 cover pool portfolio: 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 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 the 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, 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 the 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 cover pool including one or several of the following types of assets:

1) 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 the capital adequacy of banks;

2) 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;

3) exposures to persons referred to in items 1) and 2) 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;

4) 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;

5) 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;

6) 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 asset-backed securities meeting 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 the 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 or part of a major stock index in a country 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 record as a reliable source of liquidity at all times, including during stress periods. This requirement shall be deemed met where the level of decline in the share's stock 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 extremely high quality covered bonds which shall comply with the following requirements:

– they are covered bonds issued by a bank established in the Republic of Serbia or an EU member state, and are collateralised by a cover pool;

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

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

– the issuer of covered bonds submits to the bank, at least quarterly, the following information regarding the cover pool portfolio: 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 cover pool consists exclusively of exposures which qualify for a 35% or lower risk weight in accordance with the decision governing the 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) a 50% haircut for corporate debt securities referred to in Section 30, item 2) of this Decision;

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

Decision;

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

4) applicable haircuts for securitisation positions in accordance with Section 34 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 the 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 or other similar payments in accordance with the decision governing the 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 their main 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, 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) agreements on leasing of such vehicles to borrowers-residents 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-residents 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 the 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 the 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 the 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 the 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 securitisation where the securitised exposures are residential loans from 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 the borrower's creditworthiness is based are established, documented and regularly revised;

3) the assessment of a 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 regulatory authority in the Republic of Serbia and/or an EU member state or subject 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 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 at least on 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 coins and banknotes and 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 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 underlying the units in the investment fund, it shall look-through to those

underlying exposures and assign them the appropriate haircut in accordance with Section 36 of this Decision;

2) where the bank is not aware of the structure of exposures underlying the units in the investment fund, it shall assume, for the purposes of determining the liquidity level of the underlying assets and for the purposes of assigning the appropriate haircut to those assets, that the investment fund invests in liquid assets, up to the maximum amount allowed under its investment policy, in the same ascending order as liquid assets are classified for the purposes of Section 36 of this Decision, starting with the liquid assets referred to in item 8) of that Section and ascending until the maximum total investment limit is reached.

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

Where a bank's exposure underlying the 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 underlying the units in open-ended investment funds:

1) the depository institution 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;

2) for other investment funds which do not meet the requirement set out in item 1) 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.

The correctness of the determined market value and assessment of third persons from paragraph 2 of this Section shall be confirmed by an external bank auditor on at least an annual basis.

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

accordance with Section 41 of this Decision.

3. *Composition of the liquidity buffer*

40. The bank shall comply at all times with the following limits in relation to the composition of their 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 extremely high quality covered bonds referred to in Section 26, item 6) of this Decision;
- 3) a maximum of 15% of the liquidity buffer may be held in level 2B liquid assets.

The limits set out in paragraph 1 of this Section shall be calculated after adjusting for the impact of repo and reverse repo transactions, securities or commodities lending or borrowing transactions, margin lending transactions and collateral swap transactions, and after deducting any applicable haircuts if the following conditions are met:

- 1) the transactions use liquid assets on at least one leg of the transaction;
- 2) a collateral that is posted or received in these transactions meets the operational requirements from Sections 19 to 24 of this Decision;
- 3) transactions mature within 30 days of the ratio calculation date.

Banks shall determine the composition of their liquidity buffer in accordance with Part 4 of this Chapter.

On a case-by-case basis, the National Bank of Serbia may waive the application of paragraphs 2 and 3 of this Section in full or in part with respect to transactions or swap agreements from paragraph 2 of that Section provided that the following conditions are met:

- 1) the counterparty to the transaction is the National Bank of Serbia;
- 2) exceptional circumstances have emerged which pose a systemic risk affecting the Serbian banking sector.

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

breach of requirements occurred.

Part 3

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 less than zero): 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 5 of this Chapter.

Banks shall calculate liquidity outflows and inflows expected over a 30 day period for contracts on financial derivatives and for credit derivatives, on a net basis by each counterparty subject to the existence of bilateral netting agreements eligible for recognition for the purpose of limiting the counterparty risk as prescribed by the decision governing the capital adequacy of banks, where the net basis shall be considered to be net of collateral to be posted or received under these transactions within the following 30 days.

If the collateral is to be received within the following 30 days, the net basis shall be considered to be net of that collateral only if these are assets that qualify to be included in the bank's liquidity buffer and if there are no legal or operational obstacles for the bank to reuse the collateral, when received.

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) may be netted, 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 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 rate:

1) 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;

2) 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 and Section 78 of this Decision;

3) the additional outflows pertaining to collateral, determined in accordance with Sections 59 to 69 of this Decision;

4) 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;

5) the additional liquidity outflows for other products and services assessed in accordance with Section 77 of this Decision.

44. The National Bank of Serbia may allow the bank to 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.

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.

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 retail 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 laid down 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 with the bank, other than a loan.

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 held 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 held 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 with 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 funds in excess of those shall be treated 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 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 or the provision of operational and 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, and surplus cash management services, and may also include the collection of dividends and other income,

and payment and collection of a client's claims.

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 execution of necessary financial transactions in ongoing operations, including the payment of remittances, collection or provision of assets, administration of salaries and control of asset pay-outs.

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 non-financial customer;
- 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 contractual 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 non-financial customers or natural persons, where these deposits also include deposits made by central governments, territorial autonomies, local government units, central banks, multilateral development banks, public administrative bodies, credit unions operating in line with EU regulations and authorised by a competent authority, personal investment companies or clients who are deposit brokers, to the extent they are not considered operational deposits under Section 51 of this Decision.

By 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 or borrowing transactions, margin lending transactions and capital market-driven transactions maturing within 30 days:

1) 0% where they are collateralised by assets that, but for being used as collateral for those transactions, would meet the general requirements from Section 18 and qualify as level 1 liquid assets in accordance with Section 26 of this Decision, with the exception of extremely high quality covered bonds referred to in item 6) of that Section, or if the counterparty is a central bank;

2) 7% where they are collateralised by extremely high quality covered bonds that, but for being used as collateral for those transactions, would meet the general requirements from Section 18 and qualify as level 1 liquid assets in accordance with Section 26, item 6) of this Decision;

3) 15% where they are collateralised by assets that, but for being used as collateral for those transactions, would meet the general requirements from Section 18 and qualify as level 2A liquid assets in accordance with Section 28 of this Decision;

4) 25% where they are collateralised by assets that, but for being used as collateral in those transactions, would meet the general requirements from Section 18 and requirements from Section 32, item 7), indents one and three of this Decision;

5) 35% where they are collateralised by types of assets that, but for being used as collateral in those transactions, would meet the general requirements from Section 18 and requirements from Section 32, item 7), indents two and four of this Decision;

6) 50% where they are collateralised by types of assets that, but for being used as collateral in those transactions, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in

accordance with Section 30, items 2) and 3) of this Decision;

77) 30% where they are collateralised by extremely high quality covered bonds that, but for being used as collateral in those transactions, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in accordance with Section 30, item 4) of this Decision;

8) the percentage haircut determined in accordance with Sections 36 and 37 of this Decision where they are collateralised by exposures underlying units in open-ended investment funds that, but for being used as collateral in those transactions, would meet the general requirements under Section 18 and qualify as liquid assets of the same level as those underlying the investment fund in accordance with Sections 35 to 39 of this Decision;

9) 100% where they are collateralised by assets that do not meet the criteria for applying the outflow rate under items 1) to 8) of this paragraph.

By way of derogation from paragraph 1 of this Section, banks shall apply the outflow rate of 25% on transactions arising from repo agreements, securities or commodities lending or borrowing transactions, margin lending transactions and capital market-driven transactions which meet the conditions for the application of the outflow rate of more than 25%, if the counterparty is:

1) a central government;

2) a multilateral development bank;

3) a territorial autonomy, a local government unit or a public administrative body which qualifies for a risk weight of 20% or lower, in accordance with the decision governing the capital adequacy of banks.

57. Collateral swaps and other similar transactions that mature within the following 30 days shall lead to an outflow where the borrowed asset from Sections 26 to 39 is subject to a lower haircut than the asset lent. The outflow shall be calculated by multiplying the market value of the asset borrowed by the difference between the outflow rate applicable to the asset lent and the outflow rate applicable to the asset borrowed, determined in accordance with Section 56 of this Decision.

For the purposes of calculation from paragraph 1 of this Section, a 100% haircut shall be applied to assets that do not qualify to be included in the bank's liquidity buffer.

By way of derogation from paragraph 1 of this Section, where the counterparty is a central bank, the outflow rate to be applied to the market value of the asset borrowed shall be 0%.

By way of derogation from paragraph 1 of this Section, for collateral swaps or other similar transactions that would require an outflow rate higher than 25% in accordance with Section 56 of this Decision, the outflow rate to

be applied to the market value of the asset borrowed shall be 25% where the counterparty is:

- 1) a central government;
- 2) a multilateral development bank;
- 3) a territorial autonomy, a local government unit or a public administrative body which qualifies for a risk weight of 20% or lower, in accordance with the decision governing the capital adequacy of banks.

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 for purposes not intended for their business or other commercial activities 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.

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

Additional liquidity outflows

59. Collateral 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%.

Collateral in the form of 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 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 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, 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 data about the fair value amount of collateral posted for all derivative 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.

The bank may net calculate inflows and outflows under transactions from paragraph 1 of this Section provided they are executed under the same standardised netting agreement within the meaning of the decision governing the capital adequacy of banks. The absolute amount of the difference under collateral shall be based on the recorded inflows and outflows, while netting shall be done at the level of the bank's portfolio.

62. Banks shall take liquidity inflows and outflows expected over 30 days from the financial derivatives contracts and credit derivatives 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 multiply the result by a 100% outflow rate.

63. Where a bank has a short position that is covered by an unsecured security borrowing, it shall also determine and add to total liquidity outflows an additional outflow obtained by applying the 100% outflow rate to the market value of the securities or other assets sold short.

The additional outflow referred to in paragraph 1 of this Section shall not be calculated if the bank has borrowed the securities at terms requiring their return only after 30 days.

Where a bank has a short position covered by a collateralised repo agreement, securities or commodities lending or borrowing transaction, or margin lending transaction, it shall be assumed that the obligation to return the securities sold short is not 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 2 of this Chapter that can be substituted for collateral that would not qualify as the bank's liquid assets 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 or Section 78 of this Decision, but additional outflows in this respect shall be subject to Sections 59 to 64 of this Decision where applicable.

66. The amount of the cash received exceeding the amount of cash received as collateral shall be treated as deposits in accordance with Sections 45 to 58 of this Decision and/or Section 78 of this Decision.

67. 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 or by SSPEs sponsored by the bank.

68. Banks shall assume a 100% outflow rate for loss of funding on asset-backed commercial papers, asset-backed commercial paper 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.

69. In relation to the provision of brokerage services, where a bank has covered the provisional sale of a client by internally matching them with the assets of another client, and the assets are not included in the liquidity buffer, those transactions shall be subject to a 50% outflow rate for the contingent obligation.

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 utilised 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 the 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 or portions of liquidity facilities which have a purpose different from the purpose referred to in paragraph 1 of this Section, as well as the 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 4 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:

- 1) it may be reused or hypothecated by the bank;
- 2) it qualifies as liquid assets, but is not recognised as part of the liquidity buffer for the purpose of calculating the liquidity coverage ratio;
- 3) it does not consist of assets issued by the counterparty of the credit or liquidity facility or affiliated entities.

If 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, 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 5 of this Decision shall be multiplied by the outflow rate of 5% if these are facilities approved to a natural person or an SME.

72. The amount of irrevocable or conditionally revocable credit facilities referred to in Section 70, paragraph 5 of this Decision shall be multiplied by the outflow rate of 10% where they meet the following conditions:

- 1) the counterparty is not a natural person or an SME;
- 2) they have been provided to clients that are not financial sector entities, including credit facilities approved to a company, central government, territorial autonomy, local government unit, central bank, multilateral

development bank or public administrative body;

3) they have not been provided for the purpose of replacing the funding of the client 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 5 of this Decision shall be multiplied by the outflow rate of 30% where they meet the conditions referred to in Section 72, items 1) and 2) of this Decision, or by the outflow rate of 40% if the liquidity facilities were approved to personal investment companies.

74. The undrawn amount of an irrevocable or conditionally revocable liquidity facility that has been provided to an SSPE for the purpose of enabling that 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 5 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 have been met:

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 a parent or a subsidiary of the bank, or another subsidiary of the parent of the bank, or a company the bank is linked with by common management within the meaning of the decision governing the

capital adequacy of banks.

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

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 laid down in that paragraph.

By way of derogation from Sections 70 to 75 of this Decision, a bank established by the Republic of Serbia may apply the treatment from Sections 71 to 73 of this Decision to credit or liquidity facilities approved with the aim of direct or indirect financing of promotional loans – provided that these loans meet the requirements for the application of outflow rates referred to therein.

By way of derogation from Section 81, item 7) of this Decision, where the promotional loans are extended through another bank acting as an intermediary, that bank may apply symmetric inflows and outflows. These are calculated by applying the outflow rate from Sections 71 and 73 of this Decision, under the terms laid down therein, to the undrawn committed irrevocable or conditionally revocable credit or liquidity facility.

The promotional loans referred to in paragraphs 3 and 4 of this Section may be available only to clients who are not financial sector entities, on a non-competitive, not for profit basis in order to promote public policy objectives of the Republic of Serbia, the territorial autonomy or local government units in the Republic of Serbia. Credit and liquidity facilities may be drawn only under a reasonably expected application for a promotional loan and only up to the amount of such application, provided there is an obligation of subsequent reporting on the use of the funds distributed.

*Additional liquidity outflows
for other products and services*

77. The following outflow rates shall apply to a bank's liabilities from other products and services not referred to in Sections 51 to 76 and Section 78 of this Decision:

- 1) 5% for the amount of guarantees and other types of warranty;
- 2) 5% for the undrawn amount of committed credit facilities 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) 5% 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 the 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 76 of this Decision.

If the total amount of contracted liabilities to clients that are not financial sector entities, but require financing over 30 days, with the exception of liabilities from Sections 45 to 76 of this Decision, exceeds the amount of such clients' inflows calculated in accordance with Section 81, item 1), the 100% outflow rate shall be applied to that difference.

For the purposes of paragraph 2 of this Section, clients that are not financial sector entities shall include, but not be limited to, natural persons, companies, central governments, territorial autonomies, local government units, public administrative bodies and multilateral development banks, except financial sector entities and central banks.

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 into account 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 non-convertible currencies, 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 and financial sector entities with the residual maturity of no more than 30 days;
- 2) receivables from self-liquidating short-term trade financing transactions pertaining to the trade in goods and services, with the residual maturity of no more than 30 days;
- 3) receivables from securities maturing within 30 days;
- 4) receivables from positions in indexes of equity instruments which are due within 30 days (e.g. dividends and receivables due from those equity instruments sold but not yet settled), provided there is no double counting as both liquidity inflows and the 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 from Section 78, paragraph 3 of this Decision, with a residual maturity of no more than 30 days, except receivables from trade financing transactions, securities maturing within 30 days and receivables from item 2) of this Section shall be reduced by 50% of those receivables. The intermediary bank from Section 76, paragraph 4 with a liability to a bank established by the Republic of Serbia or a similar liability to a multilateral development bank or a public administrative body shall take into account the amount of the inflow up to the amount of the outflow arising from a corresponding commitment of the bank under a promotional loan;

2) receivables from repo agreements, securities or commodities lending or borrowing transactions, margin lending transactions and capital market-driven transactions with the remaining maturity of below 30 days, shall be included in inflows as follows:

– 0% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 1 liquid assets in accordance with Section 26 of this Decision, with the exception of extremely high quality covered bonds referred to in item 6) of that Section;

– 7% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 1 liquid assets in accordance with Section 26, item 6) of this Decision;

- 15% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 2A liquid assets in accordance with Section 28 of this Decision;

- 25% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in accordance with Section 32, item 7), indents one and three of this Decision;

- 30% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in accordance with Section 30, item 4) of this Decision;

- 35% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in accordance with Section 32, item 7), indents two and four of this Decision;

- 50% where they are collateralised by assets that, whether or not they are re-used in another transaction, would meet the general requirements from Section 18 and qualify as level 2B liquid assets in accordance with Section 30, items 2) and 3) of this Decision;

- the percentage haircut determined in accordance with Sections 36 and 37 of this Decision, if they are collateralised by exposures underlying units in open-ended investment funds that, whether or not they are re-used in another transaction, would meet the general requirements under Section 18 and qualify as liquid assets underlying the relevant investment fund in accordance with Sections 35 to 39 of this Decision;

- 100% where they are secured by assets that do not meet the criteria for applying the percentage under indents one to eight of this paragraph;

3) receivables due from margin loans maturing within 30 days, 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 where the bank is not using 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 and other similar transactions that mature within 30 days shall lead to an inflow where the assets lent is subject to a lower haircut than the asset borrowed in accordance with Subpart 2, Part 2 of this Chapter. The inflow shall be calculated by multiplying the market value of the asset lent by the difference between the inflow rate applicable to the asset borrowed

and the inflow rate applied to the asset lent, determined in accordance with item 2) of this Section. For the purposes of this calculation, a 100% haircut shall be applied to assets that do not qualify to be included in the bank's liquidity buffer;

6) where the bank obtained the collateral through a reverse repo transaction, securities borrowing contract, collateral swaps or another similar transaction maturing within 30 days, and then used that collateral to cover a short position that can be extended beyond 30 days, the bank shall assume that such transactions 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 or to re-purchase the relevant securities. Short positions shall 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 in the matched book the bank has borrowed a security for a given period and lent the security out for a longer period;

7) the amount of undrawn credit or liquidity facilities extended to the bank, including the facilities extended by the central banks, except facilities referred to in Section 76, paragraph 4 and 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 an affiliated 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 the provisions of this Section;

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

10) banks shall calculate liquidity outflows and inflows expected over a 30 day period arising from financial derivative contracts and credit derivatives 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 derivative contract during such netting, it shall apply a 100% inflow rate to such inflow.

Liquidity inflows under transactions from paragraph 1, item 2) of this Section shall not be recognised if the collateral for those transactions is used to cover the short position in accordance with Section 63, paragraph 3 of this Decision.

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. The National Bank of Serbia may allow the bank to 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, or a company the bank is linked to by common management within the meaning of the decision governing the capital adequacy of banks.

2) inflows from bank deposits placed with another bank in 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;

3) interdependent liquidity inflows from Section 44 of this Decision, including inflows from loans associated with mortgage lending.

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 or the provider of funding, as well as documentation proving the fulfilment of the conditions referred to in paragraph 1, item 2) of this Section.

If it obtains the approval of the National Bank of Serbia referred to in paragraph 1 of this Section, the bank who is the ultimate parent company of a banking group may, at the consolidated level, exempt inflows referred to in that paragraph from the cap referred to in Section 82 of this Decision.

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 5 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 a parent or a subsidiary of the bank, or another

subsidiary of the parent of the bank, and/or a company the bank is linked with by common management within the meaning of the decision governing the capital adequacy of banks.

3) the inflow rate, for whose application the bank is seeking 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 4

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 minus 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 amount of excess liquid assets 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) the adjusted level 1 liquid assets amount, without extremely high quality covered bonds, which shall be equal to the total value of all level 1 liquid assets, excluding extremely high quality covered bonds, after the application of haircuts, that would be held by the bank upon the unwinding of securities financing transactions, margin lending transactions, secured lending transactions, in accordance with the decision governing the 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) the 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 unwinding of securities financing transactions, margin lending transactions, secured lending transactions, in accordance with the decision governing the 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) the adjusted amount of level 2A liquid assets, which shall be equal to the value post-haircuts of all level 2A liquid assets that would be held by the bank upon the unwinding of securities financing transactions, margin lending transactions, secured lending transactions, in accordance with the decision governing the 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) the adjusted amount of level 2B liquid assets, which shall be equal to the value post-haircuts of all level 2B liquid assets that would be held by the bank upon the unwinding of securities financing transactions, margin lending transactions, secured lending transactions, in accordance with the decision governing the 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 minus the lower 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.

Part 5

Formula for the calculation of the net liquidity outflow

89. Net liquidity outflow shall equal total liquidity outflows minus 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 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.

Part 6

Application on the consolidated basis

90. The ultimate parent company shall calculate the liquidity coverage ratio on a consolidated basis for the banking group in the following manner:

1) assets of a subsidiary having its head office in a third country shall be treated as liquid assets for the purpose of consolidation if such assets are deemed liquid under the regulations of the third country governing the liquidity coverage ratio and if such assets:

- qualify to be included in the liquidity buffer in accordance with Part 2 of this Chapter, or

- meet the requirements from indent one of this item, except the requirements determining the minimum issue value, in which case the assets are recognised only to the amount of stressed net liquidity outflows in the currency in which they are denominated and which originate from the same subsidiary;

2) liquidity outflows of a subsidiary having its head office in a third country subject to outflow rates laid down in the regulations from item 1) of this paragraph which are higher than the outflow rates in accordance with Subpart 1, Part 3 of this Chapter, are subject to such higher rates;

3) liquidity inflows of a subsidiary having its head office in a third country subject to inflow rates laid down in the regulations from item 1) of this paragraph, which are lower than the inflow rates in accordance with Subpart 2, Part 3 of this Chapter, are subject to such lower rates.

Chapter V

NET STABLE FUNDING RATIO

Part 1

Main rules for calculating the net stable funding ratio

91. Banks shall calculate the net stable funding ratio (NSFR) as a ratio of a bank's available stable funding (ASF) to its required stable funding (RSF).

Banks shall maintain an NSFR of at least 100%, aggregately in all currencies, for all items referred to in paragraph 1 of this Section.

Where, at any time, the NSFR of a bank has fallen below 100%, or can be reasonably expected to fall below 100%, the bank shall act in accordance with Section 4 of this Decision.

92. Banks shall calculate the NSFR in dinars, namely:

1) aggregately for all balance sheet positions and off-balance sheet items included in the calculation of the ratio, regardless of whether they are in dinars or in other currencies;

2) individually for each currency that is significant within the meaning of Section 15, paragraph 3 of this Decision.

When calculating the ratio from paragraph 1 of this Section, the bank shall recalculate 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.

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

Banks shall ensure that the currency composition of the sources of funding is largely matched with the currency composition of its assets.

Banks shall report to the National Bank of Serbia about the NSFR aggregately, as well as individually in each significant currency, in accordance with the decision on reporting requirements for banks.

For the purposes of reporting from paragraph 5 of this Section, the amount of the shortfall of the ASF in dinars which is needed to cover the RSF in that currency shall be covered by the ASF in euros (by the amount of these items exceeding the amount of the RSF in that currency) as follows:

1) a maximum of 40% of the RSF in dinars may be covered by the ASF in euros – in the period from 30 June 2024 to 31 December 2025;

2) a maximum of 35% of the RSF in dinars may be covered by the ASF in euros – in the period from 1 January 2026 to 31 December 2027;

3) a maximum of 30% of the RSF in dinars may be covered by the ASF in euros – in the period from 1 January to 31 December 2028;

4) a maximum of 25% of the RSF in dinars may be covered by the ASF in euros – in the period from 1 January to 31 December 2029;

5) a maximum of 20% of the RSF in dinars may be covered by the ASF in euros – starting from 1 January 2030.

If a bank's NSFR in dinars is lower than 100% after the highest

percentage from paragraph 6 of this Section is applied, the bank shall send to the National Bank of Serbia no later than 10 days after the deadline for submitting the report on the NSFR, prescribed by the decision from paragraph 5 of this Section, a notification about the reasons that have led to the shortfall of the ASF in dinars, as well as about the activities the bank intends to take or has taken in order to ensure appropriate coverage of the RSF in dinars by the ASF in that currency.

In cases from paragraph 7 of this Section, banks are obliged to report to the National Bank of Serbia about their NSFR level in dinars on a monthly basis, at the end of the previous month, in the manner laid down in the decision governing the reporting requirements for banks by no later than the 20th day of the month, until they reach appropriate coverage of RSF in dinars by ASF in that currency.

Notwithstanding the provisions of paragraphs 6 to 8 of this Section, if during the bank supervision procedure the National Bank of Serbia deems it necessary, it may order the bank to restrict currency mismatches by determining which part of the RSF in a certain currency can be covered by the ASF not denominated in that currency. This restriction may be determined and applied only in relation to the currency considered significant within the meaning of Section 15, paragraph 3 of this Decision.

In determining the level of any restriction on currency mismatches referred to in paragraph 9 of this Section, the National Bank of Serbia shall take into account:

- 1) whether the bank has the ability to transfer the ASF from one currency to another and across jurisdictions and legal entities within its group, and the ability to swap currencies and raise funds in foreign currency markets over the one-year horizon of the calculation of NSFR;
- 2) the impact of adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign currency exchange hedges that are in place.

93. When calculating the NSFR, a bank is obliged to apply the appropriate haircuts laid down in Part 2 or Part 3 of this Chapter to the net accounting value of assets, liabilities and off-balance sheet items on a gross basis, unless otherwise set out in this Decision.

The positions of assets, liabilities, capital or off-balance sheet items, or a certain part of the position, may not be disclosed several times within the ASF or RSF for the purposes of calculating the ratio from paragraph 1 of this Section.

Where a certain position of assets or off-balance sheet items or some part of that position can be classified into more than one RSF category, it shall be classified as the category that requires the highest coverage by stable funding, i.e. in the category subject to the highest haircut set out in Subpart 2, Part 3 of this Chapter, unless otherwise stipulated by this Decision.

94. By way of exception from Section 93, paragraph 1 of this Decision, banks shall take into account the fair value of derivative positions on a net basis where those positions are included in the same netting set and where the requirements are met pertaining to the contractual netting, laid down in the decision governing the capital adequacy of banks.

The fair value of derivative positions that do not meet the requirements from paragraph 1 of this Section shall be taken into account on a gross basis and those derivative positions shall be treated as belonging to their own netting set for the purpose of calculating RSF items.

For the purpose of calculating the NSFR, the fair value of a netting set shall be the sum of the fair values of all derivative transactions included in that netting set.

Transactions under cross-currency interest rate swaps, currency forward and futures contracts, bought currency options and other similar contracts that involve a full exchange of principal amounts on the same date may be netted at currencies (aggregately in dinars and all other currencies, as well as individually in each significant currency), although such transactions are not included in the same netting set, i.e. the conditions are not met for the contractual netting, set out in the decision governing the capital adequacy of banks.

Cash received as collateral to mitigate exposure from derivative transactions shall not be considered a deposit included in the calculation of ASF and shall be treated as collateral for the purpose of calculating the NSFR.

The National Bank of Serbia may inform banks to waive the impact of derivative contracts on the calculation of the NSFR, including through the determination of haircuts for RSF and of provisions and losses, provided that the following conditions are met:

- 1) the residual maturity of the derivative contract is less than six months;
- 2) the counterparty is the National Bank of Serbia;

3) the derivative contracts serve to implement the monetary policy determined by the National Bank of Serbia.

If the decision from paragraph 6 of this Section is applied to a bank's subsidiary having its head office in a third country, and the decision was adopted by the competent authority in accordance with the regulations of that country governing the NSFR, that decision shall be taken into account when calculating this ratio on a consolidated basis for the banking group.

In terms of netting capital market-driven transactions and secured lending transactions, assets and liabilities arising from repo transactions, securities or commodities lending or borrowing transactions and margin lending transactions, they may be calculated on a net basis for each counterparty if the following conditions are met:

- 1) the transactions have the same explicit final settlement date;
- 2) the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable in the normal course of business and in the event of default, liquidation and bankruptcy;
- 3) the counterparties intend to settle on a net basis or to settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement.

95. Subject to prior approval of the National Bank of Serbia, a bank may treat an asset and a liability as interdependent, provided that all the following conditions are met:

- 1) the bank acts solely as a pass-through unit to channel the funding from the liability into the corresponding interdependent asset;
- 2) the individual interdependent assets and liabilities are clearly identifiable and have the same principal amount;
- 3) the asset and interdependent liability have substantially matched maturities, with a maximum delay of 20 days between the maturity of the asset and the maturity of the liability;
- 4) the liability is defined pursuant to a legal, regulatory or contractual commitment and is not used to fund other assets;
- 5) the principal payment flows from the asset are not used for other purposes than repaying the interdependent liability;
- 6) the counterparties for each pair of interdependent assets and liabilities are not the same.

Assets and liabilities shall be considered to meet the conditions set out in paragraph 1 of this Section and be considered as interdependent where they are directly linked to the following products or services:

1) centralised regulated savings, provided that banks are required to transfer regulated deposits to a centralised fund which is set up and supervised by the central government of an EU member state and which provides loans to promote public interest objectives, and provided that the transfer of deposits to the centralised fund occurs on at least a monthly basis;

2) promotional loans and credit and liquidity facilities referred to in Section 76, paragraphs 4 and 5 of this Decision, for banks acting as simple intermediaries that do not incur any funding risk;

3) covered bonds issued by a bank founded 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, whereas the covered bonds and their issuer are subject to supervision by a competent public authority designed to protect bondholders;

4) covered bonds that are eligible for preferential treatment in accordance with the decision governing capital adequacy;

5) derivative client clearing activities, provided that the bank does not provide guarantees of the performance of the CCP and, as a result, does not incur any funding risk.

For the purpose of applying this Section, covered bonds referred to in paragraph 2, items 3) and 4) of that Section should meet one of the following conditions:

1) the underlying loans are fully match funded with the covered bonds that were issued;

2) the covered bonds have non-discretionary extendable maturity triggers of one year or more until the term of the underlying loans in the event of refinancing failure at the maturity date of the covered bond.

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

96. The National Bank of Serbia may approve to the bank to apply to assets, liabilities, irrevocable or conditionally revocable credit and liquidity facilities a higher haircut for ASF or a lower haircut for RSF, relative to the haircuts laid down in Part 2 or Part 3 of this Chapter, if the following conditions are met:

1) the counterparty is a parent or a subsidiary of the bank, or another subsidiary of the bank's parent, or a company linked with the bank by common management within the meaning of the decision governing the capital adequacy of banks;

2) there are justified reasons to expect that the bank's liability or

irrevocable or conditionally revocable credit or liquidity facility received by the bank constitutes a more stable source of funding, or that the bank's asset or irrevocable or conditionally revocable credit and liquidity facility approved by the bank requires less stable funding over the one-year horizon of the net stable funding ratio than the same liability, asset or irrevocable or conditionally revocable credit or liquidity facility received or granted by the counterparties;

3) the counterparty applies to RSF items a haircut that is equal to or higher than the higher haircut applied to ASF items, or applies to ASF items a haircut equal to or lower than the lower haircut applied to RSF items;

4) the bank and the counterparty are with the head office in the Republic of Serbia.

When applying for the approval 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 2

Available stable funding (ASF)

1. Calculation of the amount of ASF

97. Unless otherwise specified in this Decision, the amount of ASF shall be calculated by multiplying the accounting value of various categories or types of liabilities and capital of the bank by the appropriate haircuts to be applied under Subpart 2 of this Part.

The total amount of ASF items shall be the sum of items from paragraph 1 of this Section.

Bonds and other debt securities issued by the bank sold exclusively in the retail market for purposes not intended for natural persons' business or other commercial activities and are held in a retail account may be treated as belonging to the appropriate retail deposit category for the purposes of calculating items under this Section, on the sole condition that those instruments cannot be bought or held by parties other than retail customers.

98. In calculating the amount of ASF items, a bank shall take into account the residual contractual maturity (hereinafter: residual maturity) of liabilities and capital in order to determine the haircut in accordance with Subpart 2 of this Part, unless otherwise specified in this Decision.

Banks shall take into account the concluded still valid options when determining the residual maturity of a liability or capital assuming that the counterparty will redeem call options at the earliest possible date. For options

exercisable at the discretion of the bank, the bank shall take into account reputational factors that may limit a bank's ability not to exercise the option, in particular market expectations that the bank should redeem or repay certain liabilities before their maturity.

A bank shall determine the residual maturity of deposits with fixed notice periods in accordance with their notice period, and shall treat term deposits in accordance with their residual maturity.

By way of derogation from paragraph 2 of this Section, in determining the residual maturity of term retail deposits, banks shall not take into account options for early withdrawals which occur in less than one year, where the depositor would suffer a loss equal to the interest between the date of withdrawal and the contractual maturity date and where the depositor has to pay a material penalty for early withdrawals, whereby such penalty does not have to exceed the interest between the date of depositing and the date of withdrawal.

In order to determine the haircuts applicable to ASF items in accordance with Subpart 2 of this Part, banks shall treat any portion of liabilities having a residual maturity of one year or more that matures in less than six months and any portion of such liabilities that matures between six months and less than one year as having a residual maturity of less than six months or between six months and less than one year, respectively. When determining haircuts applicable to ASF items in accordance with Subpart 2 of this Part, in case of liabilities with residual maturity of at least six months but less than one year, the portion of liabilities maturing within less than six months shall be considered liabilities with the residual maturity of less than six months.

2. Haircuts applicable to ASF items

0% haircut

99. Unless otherwise specified in Sections 102 to 105 of this Decision, a 0% haircut shall be applied to liabilities without a stated maturity, including short positions and open maturity positions.

By way of derogation from paragraph 1 of this Section, deferred tax liabilities and minority interests within the meaning of the decision governing the consolidated supervision of the banking group shall be subject to the following haircuts:

- 1) 0%, where the residual maturity is less than six months;

- 2) 50%, where the residual maturity is at least six months but less than one year;
- 3) 100%, where the residual maturity is one year or more.

For the purposes of paragraph 2 of this Section, the residual maturity of deferred tax liabilities shall be determined in accordance with the nearest possible date on which such liabilities could be realised, and the residual maturity of minority interests shall be determined in accordance with the term of the underlying capital instrument.

100. The 0% haircut shall be applied to:

- 1) trade date payables arising from purchases of financial instruments, of foreign currencies and of commodities, that are expected to settle within the period that is customary for the relevant exchange or type of transactions, or that have failed to settle but are nonetheless expected to settle;
- 2) liabilities that are categorised as being interdependent with appropriate assets, within the meaning of Section 95 of this Decision;
- 3) liabilities with a residual maturity of less than six months provided by the National Bank of Serbia, the European Central Bank, central banks of member states or financial customers;
- 4) any other liabilities and capital items not referred to in Sections 102 to 105 of this Decision.

101. Banks shall apply a 0% haircut to the absolute value of the difference, if negative, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Section 94 of this Decision.

For the purpose of calculation referred to in paragraph 1 of this Section, the bank shall apply the following:

- 1) variation margin received by banks from their counterparties shall be deducted from the fair value of a netting set with positive fair value where the collateral received as variation margin qualifies as a level 1 liquid asset, excluding extremely high quality covered bonds, in accordance with this Decision, and where banks may freely dispose of that collateral;
- 2) all variation margin posted by banks with their counterparties shall be deducted from the absolute amount of fair value of a netting set with negative fair value.

50% haircut

102. The 50% haircut shall be applied to:

1) deposits that are considered operational deposits in accordance with Sections 51 and 53 of this Decision;

2) liabilities with a residual maturity of less than one year provided by the central government, territorial autonomy, local government unit, public administrative body, multilateral development bank or an international organisation which qualify for a 0% risk weight in accordance with the decision governing the capital adequacy of banks, a non-financial corporate customer, a credit union operating in accordance with the EU regulations and authorised by a competent authority, personal investment companies and clients that are deposit brokers to the extent that the amount does not fall under provision 1) of this Section;

3) liabilities with a residual maturity of a minimum of six months but less than one year that are provided by the National Bank of Serbia, the ECB or the central bank of a Member State or financial customers;

4) any other liabilities and capital items with a residual maturity of a minimum of six months but less than one year not referred to in Sections 103 to 105 of this Decision.

90% haircut

103. Sight retail deposits, retail deposits with a fixed notice period of less than one year and term retail deposits having a residual maturity of less than one year that are considered stable deposits referred to in Section 104 of this Decision shall be subject to a 90% haircut.

95% haircut

104. Sight retail deposits, retail deposits with a fixed notice period of less than one year and term retail deposits having a residual maturity of less than one year that are considered stable deposits in accordance with Section 49 of this Decision shall be subject to a 95% haircut.

100% haircut

105. The 100% haircut shall be applied to:

1) the Common Equity Tier 1 items of the bank before the regulatory adjustments and before deductions from Common Equity Tier 1, except deductions for losses of the current year and earlier years, and for unrealised losses, in accordance with the decision governing the capital adequacy of banks;

2) the Additional Tier 1 items of the bank before deductions from Additional Tier 1 in accordance with the decision governing the capital adequacy of banks, excluding any capital instruments with explicit or

embedded options that, if exercised, would reduce the residual maturity of an instrument to less than one year;

3) the Tier 2 items of the bank before deductions from Tier 2, in accordance with the decision governing the capital adequacy of banks, having a residual maturity of one year or more, excluding any capital instruments with explicit or embedded options that, if exercised, would reduce the effective residual maturity of an instrument to less than one year;

4) any other capital instruments of the bank with a residual maturity of one year or more, excluding any instruments with explicit or embedded options that, if exercised, would reduce the residual maturity to less than one year;

5) any other secured or unsecured liabilities with a residual maturity of one year or more, including term deposits, unless otherwise specified in Sections 99 to 104 of this Decision.

Part 3 **Required stable funding (RSF)**

1. Calculation of the amount of RSF

106. Unless otherwise specified in this Decision, the amount of RSF shall be calculated by multiplying the accounting value of various categories or types of assets and off-balance sheet items by the appropriate haircuts to be applied in accordance with Subpart 2 of this Part.

The total amount of RSF items shall be the sum of amounts of items from paragraph 1 of this Section.

Assets which banks have borrowed from a counterparty, including the transfer of assets within repo transactions, securities or commodities borrowing transactions or margin lending transactions, where those assets are accounted for on the balance sheet of the bank and the bank does not have beneficial ownership of the asset, shall be excluded from the calculation of RSF.

Assets referred to in paragraph 3 of this Section shall be subject to a haircut in accordance with Subpart 2 of this Part, if the bank has beneficial ownership of the asset, regardless of whether it is accounted for on the bank's balance sheet.

Assets that banks have lent to a counterparty, including the transfer of assets within repo transactions, securities or commodities lending transactions or margin lending transactions over which the bank retains beneficial ownership, shall be considered as encumbered assets for the

purposes of this Part and shall be subject to the appropriate haircuts to be applied under Subpart 2 of that Part, regardless of whether the assets remain on the bank's balance sheet.

If the bank does not have beneficial ownership over the asset from paragraph 5 of this Section, such assets shall be excluded from the calculation of the amount of RSF.

107. Assets that are encumbered for a residual maturity of six months or longer shall be assigned either the haircut that would be applied under Subpart 2 of this Part to those assets if they were held unencumbered or the haircut that is otherwise applicable to those encumbered assets, whichever factor is higher.

Where the residual maturity of the encumbered assets is shorter than the residual maturity of the transaction that is the source of encumbrance, the applicable haircut shall be the one assigned to the encumbered assets or the one relating to the transaction that is the source of encumbrance, whichever factor is higher.

Assets that have less than six months remaining in the encumbrance period shall be subject to the haircut to be applied under Subpart 2 of this Part to the same assets as if they were held unencumbered.

Where the bank reuses or repledges an asset that was borrowed from a counterparty, including the transfer of assets in repo transactions, securities or commodities lending or borrowing transactions or margin lending transactions, and that asset is accounted for off-balance sheet, the transaction in relation to which that asset has been borrowed shall be treated as encumbered, provided that the transaction cannot mature without the bank returning the asset borrowed to the counterparty.

For the purposes of this Chapter, unencumbered assets shall be assets that the bank is not restricted or prevented from liquidating, transferring, selling, assigning, or otherwise freely disposing of, through direct sale in the active market or sale within repo contracts in a market generally accepted for this type of transactions due to regulatory, contractual or other limitations – in particular:

- 1) assets included in a pool which are available for immediate use as collateral to obtain additional funding under irrevocable or conditionally revocable credit facility, not yet funded and available to the bank, or irrevocable or conditionally revocable credit facility, or where the asset pool is operated by a central bank, under conditionally revocable credit facility, not yet funded and available to the bank;

2) assets that the bank has received as collateral for credit risk mitigation purposes in securities financing transactions, secured lending transactions or collateral exchange transactions and that the bank may freely dispose of;

3) assets attached as non-mandatory overcollateralisation to a covered bond issuance.

For the purpose of paragraph 5, item 1) of this Section, the bank shall assume that assets in a pool of encumbered assets are in the amount equal to the amount of the withdrawn credit facility in the ascending order of liquidity within the meaning of Chapter IV of this Decision, starting from assets that fail to meet the conditions to be included in the liquidity buffer.

Non-mandatory overcollateralisation within the meaning of paragraph 5, item 3) of this Section means any amount of assets which the bank is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline, including in particular where the assets are provided in excess of the minimum legal, statutory or regulatory overcollateralisation requirement applicable to the covered bonds under the national law of the state applicable to such bonds.

108. In the case of non-standard or temporary operations conducted by the National Bank of Serbia in order to fulfil its mandate in a period of market-wide financial stress or in exceptional macroeconomic circumstances, the National Bank of Serbia may determine by a regulation a reduced haircut for the following RSF items:

1) assets encumbered for the purposes of carrying out these operations that would be assigned the haircut from Section 125, paragraph 1, item 6) of this Decision or haircut from Section 129, paragraph 1, item 1) of that Decision;

2) cash receivables that result from these operations that would be assigned the haircut referred to in Section 125, paragraph 1, item 4) in the case of receivables from central banks, the haircut from Section 127, item 2) of this Decision or the haircut from Section 128, paragraph 1, item 3) of that Decision.

For encumbered assets referred to in paragraph 1, item 1) of this Section, the haircut determined by the National Bank of Serbia shall not be lower than the haircut that would apply to those assets under Subpart 2 of this Part if they were held unencumbered.

109. Banks shall exclude assets that are associated with collateral that is recognised as variation margin posted to a counterparty in accordance with

Section 101, paragraph 2, item 2) and Section 129, paragraph 3, item 2) of this Decision, recognised as initial margin posted to a counterparty, or recognised as a contribution to the default fund of a CCP in accordance with Section 128, paragraph 1, items 1) and 2) of that Decision from calculation of other RSF items.

110. Banks shall include financial instruments, foreign currencies and commodities for which a purchase order has been executed in the calculation of the amount of RSF items.

Banks shall exclude financial instruments, foreign currencies and commodities for which a sale order has been executed from the calculation of the amount of RSF items, provided that those transactions are not reflected as derivatives or securities financing transactions on the banks' balance sheet and that those transactions are to be reflected on the banks' balance sheet when settled.

111. The National Bank of Serbia may determine by a regulation the haircuts to be applied to RSF items for off-balance sheet exposures that are not referred to in this Part.

The National Bank of Serbia shall determine haircuts referred to in paragraph 1 of this Section to ensure that banks hold an appropriate amount of ASF for the portion of exposures from that paragraph that are reasonably expected to require funding over the one-year horizon of the calculation of the net stable funding ratio.

112. Unless otherwise specified in this Decision, in calculating the amount of RSF items, banks shall take into account the residual maturity of assets and off-balance sheet items when determining the haircuts to be applied to that asset and an off-balance sheet item in accordance with Subpart 2 of this Part.

When calculating the residual maturity of an asset, banks shall take into account the concluded still valid options, based on the assumption that the issuer or counterparty will exercise any option to extend the maturity of an asset. For options that are exercisable at the discretion of the bank, the bank shall take into account reputational factors that may limit the bank's ability not to exercise the option, in particular markets' expectations that the bank should extend the maturity of certain assets at their maturity date.

When determining haircuts applicable to RSF items in accordance with Subpart 2 of this Part, in case of loans and other receivables repaid periodically with residual maturity of one year or more, banks shall treat any portion of receivables that matures in less than six months and any portion of

such receivables that matures between six months and less than one year as having a residual maturity of less than six months and between six months and less than one year, respectively.

When determining haircuts applicable to RSF items in accordance with Subpart 2 of this Part, in case of loans and other receivables repaid periodically with residual maturity of at least six months but less than one year, banks shall treat any portion of receivables maturing within less than six months as a loan or receivable with the residual maturity of less than six months.

2. Haircuts applied to RSF items

0% haircut

113. The 0% haircut shall be applied to:

1) unencumbered assets that are eligible as level 1 liquid assets pursuant to Section 26 of this Decision, excluding extremely high quality covered bonds specified in item 6) of that Section, if those assets meet the conditions from Section 18 of this Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision;

2) unencumbered exposures based on investment in open-ended investment funds subject to the reduction by the haircut from Section 36, item 1) of this Decision (before the reduction) and which meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and the requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

3) the amount of allocated required reserves with the National Bank of Serbia, except for the amount included in level 1 liquid assets from item 1) of this paragraph;

4) other claims on the National Bank of Serbia, the ECB and central banks of member states that have a residual maturity of less than six months;

5) trade date receivables arising from sales of financial instruments, foreign currencies or commodities that are expected to settle within the period that is customary for the relevant exchange or type of transaction, or receivables that have failed to settle but are nonetheless expected to settle;

6) assets that are categorised as being interdependent with appropriate liabilities in accordance with Section 95 of this Decision;

7) cash receivables from repo transactions, securities or commodities lending transactions or margin lending transactions with financial customers, where those transactions have a residual maturity of less than six months, where those cash receivables due are collateralised by assets that qualify as

level 1 liquid assets pursuant to Section 26 of this Decision, excluding extremely high quality covered bonds referred to in item 6) of that Section, and where the bank would be legally entitled and operationally able to reuse those assets for the duration of the transaction.

By way of derogation from paragraph 1 of this Section, the National Bank of Serbia may decide to apply a higher haircut to the required reserve at the National Bank of Serbia for RSF items, taking into account, in particular, the extent to which required reserve allocations exist over a one-year horizon and therefore require associated stable funding.

Banks shall calculate cash receivables from paragraph 1, item 7) of this Section on a net basis, if the conditions from Section 94, paragraph 8 of this Decision are met.

For subsidiaries having their head office in a third country, where the required central bank reserves are subject to a higher haircut for RSF items under the net stable funding requirement set out in the national law of that third country, that higher haircut shall be taken into account for banking group consolidation purposes.

5% haircut

114. The 5% haircut shall be applied to:

1) unencumbered exposures based on investment in open-ended investment funds subject to the reduction by the haircut from Section 36, item 2) of this Decision (before the reduction) and which meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and the requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

2) cash receivables from repo transactions, securities or commodities lending transactions or margin lending transactions with financial customers, where those transactions have a residual maturity of less than six months, other than those referred to in Section 113, paragraph 1, item 7) of this Decision;

3) the undrawn portion of irrevocable and conditionally revocable credit and liquidity facilities referred to in Section 70, paragraphs 1 to 3 of this Decision;

4) trade finance off-balance sheet related products with a residual maturity of less than six months.

Banks shall calculate cash receivables from paragraph 1, item 2) of this Section on a net basis, if the conditions from Section 94, paragraph 8 of this Decision are met.

For all netting sets of derivative contracts, banks shall apply a 5% haircut to the absolute fair value of those netting sets of derivative contracts, where those netting sets have a negative fair value, gross of any collateral posted, or settlement payments and receipts related to market valuation changes of such contracts.

7% haircut

115. The 7% haircut shall be applied to unencumbered level 1 liquid assets in the form of extremely high quality covered bonds referred to in Section 26, item 6) of this Decision which meet the requirements from Section 18 of this Decision and regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

7.5% haircut

116. The 7.5% haircut shall be applied to trade finance off-balance sheet related products with a residual maturity of at least six months but less than one year.

10% haircut

117. The 10% haircut shall be applied to:

1) cash receivables based on transactions with financial customers that have a residual maturity of less than six months other than those referred to in Section 113, paragraph 1, item 7) and Section 114, paragraph 1, item 2) of this Decision;

2) trade finance on-balance sheet related products with a residual maturity of less than six months;

3) trade finance off-balance sheet related products with a residual maturity of one year or more.

12% haircut

118. The 12% haircut shall be applied to unencumbered exposures based on investment in open-ended investment funds that are subject to reduction by the haircut from Section 36, item 3) of this Decision (before reduction) and meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in

accordance with Section 40 of that Decision.

15% haircut

119. The 15% haircut shall be applied to unencumbered assets that are eligible as level 2A assets pursuant to Section 28 of this Decision, if those assets meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

20% haircut

120. The 20% haircut shall be applied to unencumbered exposures based on investment in open-ended investment funds subject to reduction by the haircut from Section 36, item 4) of this Decision (before the reduction) and meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements and as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

25% haircut

121. The 25% haircut shall be applied to unencumbered asset-backed securitisations referred to in Section 32, item 7), indents one and three of this Decision that are eligible as level 2B liquid assets and are subject to reduction by the haircut from Section 34, item 1) of that Decision (before the reduction), if those assets meet the requirements from Section 18 of this Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

30% haircut

122. The 30% haircut shall be applied to:

1) exposures based on high quality covered bonds that are eligible as level 2B liquid assets in accordance with Section 30, item 4) of this Decision, and meet the requirements from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and the requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

2) unencumbered exposures based on investment in open-ended investment funds subject to reduction by the haircut from Section 36, item 5)

of this Decision (before the reduction) which meet the requirements from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

35% haircut

123. The 35% haircut shall be applied to:

1) unencumbered assets in the form of asset-backed securitisations referred to in Section 32, item 7), indents two and four of this Decision that are eligible as level 2B liquid assets and are subject to reduction by the haircut from Section 34, item 2) of this Decision (before the reduction), if those assets meet the requirements from Section 18 of this Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and the requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

2) unencumbered exposures based on investment in open-ended investment funds subject to reduction by the haircut from Section 36, item 6) of this Decision (before the reduction) which meet the requirements from Section 18 of that Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

40% haircut

124. The 40% haircut shall be applied to unencumbered exposures based on investment in open-ended investment funds subject to reduction by the haircut from Section 36, item 7) of this Decision (before the reduction) and meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements and as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

50% haircut

125. The 50% haircut shall be applied to:

1) unencumbered assets that are eligible as level 2B liquid assets pursuant to Section 30 of this Decision, other than exposures based on asset-backed securities referred to in item 1) of this Section and extremely high quality covered bonds specified in item 4) of that Section, if those assets

meet the requirements from Section 18 of this Decision, regardless of whether they comply with the operational requirements as set out in Sections 19 to 24 of that Decision and the requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision;

2) deposits held by the bank in another bank that fulfil the criteria for operational deposits as set out in Sections 51 and 53 of this Decision;

3) cash receivables due from transactions with a residual maturity of less than one year where the counterparty is a foreign country, territorial autonomy, local government unit, public administrative body, multilateral development bank or an international organisation which qualifies for a 0% risk weight in accordance with the decision governing the capital adequacy of banks, a non-financial corporate customer, a small or medium-sized company, a credit union operating in accordance with the EU regulations and authorised by a competent authority, personal investment company, natural person and clients that are deposit brokers in the amount that does not fall under item 2) of this paragraph;

4) receivables with a residual maturity of at least six months but less than one year due from the National Bank of Serbia, the ECB, central banks of Member States or financial customers;

5) trade finance on-balance sheet related products with a residual maturity of at least six months but less than one year;

6) assets encumbered for a residual maturity of at least six months but less than one year, except where those assets would be assigned a higher haircut in accordance with Sections 126 to 129 of this Decision if they were held unencumbered;

7) any other assets with a residual maturity of less than one year, except assets from Sections 113 to 124 of this Decision.

Where unencumbered assets referred to paragraph 1, item 6) of this Section are subject to a higher haircut in accordance with Sections 126 to 129 of this Decision, banks shall apply that haircut to those assets.

55% haircut

126. The 55% haircut shall be applied to unencumbered exposures based on investment in open-ended investment funds subject to reduction by the haircut from Section 36, item 8) of this Decision (before the reduction) and meet the conditions from Section 18 of that Decision, regardless of whether they comply with the operational requirements and as set out in Sections 19 to 24 of this Decision and requirements on the composition of the liquidity buffer in accordance with Section 40 of that Decision.

65% haircut

127. The 65% haircut shall be applied to:

1) unencumbered loans secured by mortgages on residential property with a residual maturity of one year or more, provided that those loans are assigned a risk weight of 35% or less in accordance with the decision governing capital adequacy;

2) unencumbered loans with a residual maturity of one year or more, provided that those loans are assigned a risk weight of 35 % or less in accordance with the decision governing capital adequacy, excluding loans to financial customers and loans referred to in Sections 113 to 125 of this Decision.

85% haircut

128. The 85% haircut shall be applied to:

1) any assets or off-balance-sheet items, including cash, which banks posted as initial margin for derivative contracts, unless those assets would be assigned a higher haircut in accordance with Section 129 of this Decision if held unencumbered;

2) any assets or off-balance sheet items, including cash, which banks posted as contribution to the default fund of a CCP, unless those would be assigned a higher haircut in accordance with Section 129 of this Decision if held unencumbered;

3) unencumbered loans with a residual maturity of one year or more, which are assigned a risk weight of more than 35% in accordance with the decision governing capital adequacy and which are not past due for more than 90 days, excluding loans to financial customers and loans referred to in Sections 113 to 127 of this Decision;

4) trade finance on-balance sheet related products, with a residual maturity of one year or more;

5) unencumbered securities with a residual maturity of one year or more that are not in default in accordance with the decision governing capital adequacy and that are not eligible as level 1 or level 2 liquid assets pursuant to this Decision;

6) unencumbered exchange-traded equities that are not eligible as level 2B liquid assets pursuant to this Decision;

7) commodities, including gold but excluding commodity derivatives;

8) assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds issued by a bank founded in the Republic of Serbia or an EU member state and 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, whereas the covered bonds and their issuer are subject to supervision by a competent public authority designed to protect bondholders;

9) assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds eligible for preferential treatment as set out in the decision governing capital adequacy.

If unencumbered assets referred to in paragraph 1, items 1) and 2) of this Section are subject to a higher haircut in accordance with Section 129 of this Decision, banks shall be required to apply that haircut on those assets.

100% haircut

129. The 100% haircut shall be applied to:

- 1) unless otherwise specified in this Part, any assets encumbered for a residual maturity of one year or more;
- 2) any assets other than those referred to in Sections 113 to 128 of this Decision, including loans to financial customers having a residual maturity of one year or more, items deducted from capital, fixed assets, non-exchange-traded equities, receivables under defaulted securities;
- 3) non-performing exposures.

Banks shall apply a 100% haircut to the difference, if positive, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Section 94 of this Decision.

For the purpose of calculation referred to in paragraph 2 of this Section, the bank shall apply the following:

- 1) variation margin received by the banks from their counterparties shall be deducted from the fair value of a netting set with positive fair value where the collateral received as variation margin qualifies as a level 1 liquid asset, excluding extremely high quality covered bonds in accordance with this Decision, and where the bank may freely dispose of that collateral;
- 2) all variation margin posted by banks with their counterparties shall be deducted from the absolute amount of fair value of a netting set with negative fair value.

Part 4

Application on the consolidated basis

130. The ultimate parent company of a banking group shall calculate the NSFR on a consolidated basis for the banking group in the following manner:

- 1) liabilities and capital of a subsidiary having its head office in a third country subject to ASF haircuts set out in the national law of that country, that

are lower than haircuts under the Part 2 of this Chapter, shall be subject to those lower haircuts for consolidation purposes;

2) assets and off-balance sheet items of a subsidiary having its head office in a third country subject to RSF haircuts set out in the national law of that country, that are higher than haircuts under the Part 3 of this Chapter, shall be subject to those higher haircuts for consolidation purposes;

3) assets of a subsidiary having its head office in a third country that meet the requirements from Chapter IV of this Decision shall not be treated as liquid assets for the purpose of consolidation if such assets are not deemed liquid assets under the regulations of another country governing the liquidity coverage ratio.

C h a p t e r V I

TRANSITIONAL AND FINAL PROVISIONS

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

132. Pending the adoption of regulations governing the operations of a deposit broker, performing these operations in the Republic of Serbia shall not be allowed.

133. The bank shall test the application of the provisions of Chapter V 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 about the results of the testing by submitting the reports prescribed by the decision governing reporting requirements for banks, with data as at 31 March 2024, by no later than 20 April 2024.

134. This Decision repeals the Decision on Liquidity Risk Management by Banks (RS Official Gazette, No 103/2016).

135. This Decision shall enter into force on the eighth day from the day of publication in the RS Official Gazette and shall be applied as of 30 June 2024.

NBS Executive Board No 81

9 November 2023
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, sign.