

Pursuant to Article 14, Section 8, in reference to Article 42, paragraph 1, item 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003 and 55/2004), the Monetary Policy Committee of the National Bank of Serbia issues

DECISION
ON THE CONDITIONS AND MANNER OF EXTENDING DAILY LIQUIDITY
LOANS TO BANKS AGAINST THE COLLATERAL OF SECURITIES

1. This Decision governs the conditions and manner in which the National Bank of Serbia (NBS) may extend daily liquidity loans to banks against the collateral of securities (hereinafter: liquidity loans).

2. The NBS shall extend liquidity loans to banks based on the collateral of dinar securities, without a currency clause, issued by:

- 1) National Bank of Serbia;
- 2) Republic of Serbia;
- 3) international financial organisation and development bank, or a financial institution which was founded by a foreign state and whose credit rating was set at "AAA" by Standard&Poor's or Fitch-IBCA, and/or "Aaa" by Moody's;
- 4) domestic company with a solvency scoring of minimum '(D) acceptable solvency' as assigned by the Serbian Business Registers Agency or with other solvency/creditworthiness assessment equivalent to '(D) acceptable solvency'.

The foreign currency clause referred to in paragraph 1 hereof means the currency clause pursuant to the law on foreign exchange operations, as well as any other clause establishing dinar exchange rate risk protection.

Under the terms of paragraph 1 hereof:

- an international financial organisation is a financial organisation that the Republic of Serbia holds membership of or with which it entered into an agreement to regulate activities of that financial organisation in the Republic of Serbia;
- a development bank or financial institution founded by a foreign state is a bank and/or institution founded by a member state of the European Union or the Organisation for Economic Cooperation and Development (OECD);
- a domestic company is a company or other legal entity headquartered in the Republic of Serbia, except for a company or legal entity supervised by the NBS in accordance with the provisions of the law governing the status, organisation, powers and functions of the NBS.

The NBS may grant to bank a liquidity loan against the collateral of securities referred to in paragraph 1, item 4) of this Section if those securities are issued by domestic companies until 31 December 2020 and their original maturity is maximum ten years.

In deciding on a bank's request for a liquidity loan against the collateral of securities referred to in paragraph 1, item 4) of this Section, the NBS shall take into account the total nominal value of those securities in the NBS portfolio, maximum exposure to individual issuers of such securities, their maturity, as well as other criteria, in accordance with the Governor's decision.

2a. The NBS shall grant to a bank a liquidity loan equal to the nominal value of pledged securities, reduced by the percentage which ensures loan collection, with accrued interest (downward adjustment).

To grant a liquidity loan to a bank against the collateral of amortising bonds, the NBS shall apply the downward adjustment to the portion of the nominal value of these securities which remains on the maturity date.

To grant a liquidity loan against the collateral of indexed securities, the NBS shall apply the downward adjustment to the nominal value of these securities, i.e. to the remaining portion of their nominal value on their maturity date, multiplied by the index ratio valid on the date of loan extension.

The index ratio referred to in paragraph 3 hereof shall be determined in line with the act on the issue of indexed securities.

The governor or a person authorised by the governor shall adopt the decision determining the amount of adjustments referred to in paragraph 1 hereof, by types of securities that can be pledged under this Decision and by their remaining maturity, bearing in mind the market value of these securities and current market and monetary developments.

The decision referred to in paragraph 5 hereof shall be published on the NBS website.

3. Securities referred to in Section 2 hereof may be placed as collateral by no later than the last business day preceding the date of their maturity.

The entry of the right of pledge of the NBS in respect of securities referred to in paragraph 1 hereof shall be made by transferring these securities to the

holding account of the bank as the collateral provider in favour of the NBS as the collateral taker based on liquidity loan, in accordance with regulations of the Central Securities Depository and Clearing House a.d. Beograd (hereinafter: Central Securities Depository).

4. Banks shall conclude a liquidity loan agreement with the NBS so as to be able to use liquidity loans.

The agreement referred to in paragraph 1 hereof means a collateral agreement within the meaning of the law governing collateral, which regulates in particular the relations between the NBS and banks with regard to the extension, use and repayment of liquidity loans, entry and cessation of the right of pledge of the NBS, as well as the collection of claims by the NBS from securities placed as collateral.

5. The NBS shall extend a liquidity loan to a bank subject to the previously concluded agreement from Section 4 hereof and the bank's request for the use of such loan. During one business day, the bank may submit several liquidity loan requests to the NBS.

By way of exception to paragraph 1 hereof, the bank shall not submit the request referred to therein in the event specified in Section 8, paragraph 1 of this Decision.

6. Banks may use liquidity loans as:

- 1) a daylight liquidity loan - intraday loan (hereinafter: intraday loan),
- or as
- 2) an overnight liquidity loan - overnight loan (hereinafter: overnight loan).

The bank may use intraday loan within the meaning of this Decision only if it repaid the previously used overnight loan as prescribed by this Decision.

7. The bank shall repay intraday loan to the NBS on the same business day, and no later than the expiration of time envisaged for the execution of transfer orders, as defined by the operating rules of the NBS RTGS payment system.

The bank shall pay no interest to the NBS on the intraday loan funds repaid in accordance with paragraph 1 hereof.

8. If the bank fails to repay the intraday loan funds within the deadline from Section 7, paragraph 1 hereof, the NBS shall extend to such bank an overnight loan in the amount of unrepaid intraday loan.

The NBS shall charge interest on the amount of overnight loan used within the meaning of paragraph 1 hereof by applying the interest rate prescribed by the decision on interest rates applied by the NBS in the implementation of monetary policy (hereinafter: regular interest), and in the manner defined by the decision on the method of calculation, collection and payment of interest by the NBS.

9. The bank shall repay the overnight loan, including the appertaining interest, to the NBS by no later than 11 a.m. on the following business day.

10. If the bank fails to repay the overnight loan within the deadline from Section 9 hereof, the NBS shall collect the outstanding amount of such loan, as well as interest from Section 11 hereof (hereinafter: default interest) from collateralised securities, by selling or appropriating those securities in accordance with the law governing collateral, regulations of the Central Securities Depository, guidelines of the NBS for the implementation of this Decision and the liquidity loan agreement.

By way of exception, the NBS may also collect due but uncollected regular interest from the amount obtained through the sale and/or appropriation of pledged securities, if such interest cannot be collected from the promissory notes referred to in Section 12, paragraph 1 hereof.

If the bank fails to repay overnight loan within the deadline referred to in Section 9 hereof, to collect the NBS's receivables due, the amounts that the issuer of pledged securities pays out in respect of those securities after the expiry of the deadline (redemption at maturity, payment of a portion of nominal value, early repurchase, payment of proceeds, etc.) shall belong to the NBS and shall be transferred to the monetary account in accordance with the agreement referred to in Section 4 hereof.

11. Under the terms hereof, default interest shall be the interest calculated on due but uncollected claims in respect of the used overnight loan for the period from the day when these claims were due until the day of their collection, at the rate applied, in accordance with the decision on interest rates applied by the NBS in the implementation of monetary policy, on the amount of loans that have not been repaid within the agreed deadline, and/or that have been used in

breach of regulations.

12. When concluding the liquidity loan agreement, the bank shall, for the purpose of securing the collection of regular interest, submit to the NBS an adequate number of signed and certified blank promissory notes, as well as an authorisation for their completion.

By way of exception, the NBS may use the promissory notes referred to in paragraph 1 hereof also for the collection of receivables referred to in Section 10, paragraph 1 hereof provided such receivables cannot be collected in the manner defined in that Section.

13. Under the terms hereof, business days shall be the days when interbank payments with the NBS are effected, in line with regulations governing the operations of the NBS RTGS and clearing system.

14. The NBS shall issue guidelines for the implementation of this Decision.

15. In order to use liquidity loans defined hereunder, banks shall, prior to the effectiveness of this Decision, settle all obligations towards the NBS arising from loans used in line with the Decision on Conditions and Manner of Extending Daily Short-Term Liquidity Loans Against Collateral of Securities (RS Official Gazette, Nos 95/2005 and 73/2006).

16. This Decision repeals the Decision on Conditions and Manner of Extending Short-Term Liquidity Loans to Bank against a Collateral of Securities (RS Official Gazette, Nos 95/2005 and 73/2006).

17. This Decision shall be published in the RS Official Gazette and shall enter into force on 3 June 2008.

NBS MPC No 11
15 May 2008
Belgrade

Chairman of
NBS Monetary Policy Committee
Governor of
National Bank of Serbia
Radovan Jelašić