

Pursuant to Article 14, paragraph 1, item 10 and Article 38 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004 and 44/2010), the Executive Board of the National Bank of Serbia issues

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

1. This Decision sets forth the terms and conditions under which the National Bank of Serbia may grant to banks dinar liquidity loans with maximum one-year maturity against the collateral of securities (hereinafter: short-term loan).

2. The NBS may grant to a bank a short-term loan against the collateral of dinar-denominated securities, with no foreign currency clause, with minimum 90-day maturity, and which are issued by:

- 1) the National Bank of Serbia;
- 2) the Republic of Serbia;
- 3) an international financial organisation and development bank, or a financial institution 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'.

A bank may pledge the securities from paragraph 1 hereof (hereinafter: securities) provided their maturity at the moment of registration of the NBS right of pledge is longer than the maturity of a short-term loan.

Notwithstanding paragraph 2 hereof, if the maturity of a short-term loan is longer than three months, a bank may pledge securities with at least a three-month term remaining to their maturity.

The foreign currency clause from 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 short-term 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 short-term 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.

3. The entry of the right of pledge of the NBS in respect of securities 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 a short-term loan, in accordance with regulations of the Central Securities Depository and Clearing House a.d. Beograd (hereinafter: Central Securities Depository).

4. If the securities pledged mature during the term of a short-term loan, or if during this term the issuer of such securities ceases to meet the condition relating to the credit rating as stipulated in Section 2, paragraph 1, item 3) or the condition relating to the solvency/creditworthiness rating as stipulated in Section 2, paragraph 1, item 4) hereof - a bank shall replace such pledged securities with securities from that paragraph.

A bank shall replace the securities pledged no later than five days prior to their maturity, i.e. no later than five working days after receiving from the NBS a request for such replacement due to the change in the issuer's credit rating, or a request to repay to the NBS the established amount of the short-term loan collateralised by the securities replaced in accordance with paragraph 1 hereof.

If, after taking into account the current market and monetary developments, the NBS assesses that the current value of the collateral is not sufficient to cover the costs of a short-term loan, it may require from the bank to pledge additional securities from Section 2, paragraph 1 hereof.

A bank shall pledge additional securities in full compliance with the NBS's request from paragraph 3 hereof, no later than five working days after

receiving the request or shall within that time repay to the NBS the established amount of the short-term loan that additional collateral was required for.

5. The NBS shall grant to a bank a short-term loan equal to the nominal value of collateralised securities, reduced by the percentage which ensures loan collection, with accrued interest (downward adjustment).

To grant a short-term 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 short-term 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 of this Section shall be determined in line with the act on the issue of indexed securities.

The governor or a person he authorises 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.

6. A bank shall pay to the NBS interest on the short-term loan disbursed within the meaning hereof - at the rate equalling the NBS key policy rate plus a certain number of percentage points depending on current market and monetary developments.

7. To grant a short-term loan, the NBS shall conclude with a bank a master agreement on this loan (hereinafter: master agreement).

The master agreement 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 such 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.

8. The NBS shall release a short-term loan to a bank based on the

previously concluded master agreement, submitted promissory notes from Section 25 hereof and the established collateral within the meaning of Section 3 hereof, and based on a concluded individual loan agreement (hereinafter: individual agreement).

9. A bank may repay the short-term loan to the NBS before it reaches maturity, without additional costs to the bank.

10. The NBS shall grant short-term loans to banks via auctions.

11. For short-term lending to banks, the NBS may organise the following types of auctions:

1) fixed rate auctions - at interest rate pre-defined and announced by the NBS;

2) variable rate auctions - at interest rate that has not been previously fixed and communicated to banks by the NBS.

Variable rate auctions may be:

1) multiple rate auctions where the NBS extends short-term loans at interest rates offered by applicant banks whose requests were accepted at the auction;

2) single rate auctions where the NBS extends short-term loans at the same interest rate to all applicant banks whose requests were accepted at the auction.

12. The Governor or a person authorised by him shall adopt the decision on organisation of a short-term loan auction (hereinafter: decision on organisation of an auction) to be published on the NBS website no later than one day before the auction date.

13. The decision on organisation of an auction shall contain the following key data:

1) auction date;

2) auction type;

3) the amount of haircut for collateralised securities from Section 2 hereof;

4) interest rate - in case of fixed rate auctions;

5) loan term;

6) number of requests a bank may submit - in case of variable rate auctions;

7) minimum amount that a bank's request can be made out to;

8) deadline for the submission of bank requests.

In addition to data from paragraph 1 hereof, the decision on organisation of an auction may also contain data on the minimum rate at which banks may place their requests to be processed, and other data relevant to the auction and/or approval of short-term loans.

If the decision on organisation of an auction does not contain information on the total amount of funds - loans to be approved to banks by the NBS at auctions, the Governor or a person authorised by him shall, based on the received bank requests as at the date of auction, decide on the total amount of loans to be approved at the auction.

14. The Governor or a person authorised by him shall adopt the decision to determine the calendar of regular auctions the NBS plans to organise over a period not shorter than one month.

The decision referred to in paragraph 1 hereof shall be published on the NBS website.

Taking into account current market and monetary developments, the NBS may also organise extraordinary auctions to grant short-term loans to banks.

15. Within the timeframe specified by the decision on organisation of an auction, banks shall submit to the NBS loan requests containing the key elements stipulated by the guidelines for the implementation of that decision.

16. If a fixed rate auction is organised, a bank may submit to the NBS only one request specifying the amount of the loan at the interest rate previously fixed and communicated by the NBS.

If the total amount of the loan stated in bank requests is higher than the total amount of funds - loans that the National Bank of Serbia approves, the loans shall be proportionately distributed to individual banks, commensurately with the share of a single bank's request in the total amount of loans stated in the banks' requests.

17. If a variable rate auction is organised, a bank may submit to the NBS one or more requests in accordance with the decision on organisation of an auction, specifying loan amounts and interest rates on such loans.

18. The sequence of individual bank requests at variable rate auctions shall be determined based on interest rate levels specified in such requests, starting from the highest down to the lowest interest rate.

After the sequence from paragraph 1 hereof is determined, the Governor or a person authorised by him shall decide on the minimum interest rate for a request to be accepted.

If a multiple rate auction is organised, the NBS shall grant loans to banks whose requests were accepted at the rate offered by banks.

If a single rate auction is organised, the NBS shall grant loans to all banks whose requests were accepted at the same rate, i.e. at the minimum accepted interest rate.

The total amount of loans shall be distributed according to the sequence from paragraph 1 hereof. If there are several bids with the same lowest interest rate accepted (marginal interest rate) and the amount of the loan specified in requests at marginal interest rate is higher than the amount of the remaining loan that the NBS approves - the distribution shall be proportionate to the share of requests in the amount of loans specified in requests at the marginal interest rate.

19. If the NBS has accepted a bank's request in part or in full, it shall send the bank a confirmation thereof, which represents the individual agreement concluded within the meaning hereof and is integral to the master agreement.

20. After a short-term loan auction, the NBS shall publish on its website a summary report on the auction results, on the auction date, as a rule.

21. If a bank fails to repay a short-term loan by its maturity date specified in the confirmation from Section 19 hereof, or if it fails to repay it in accordance with Section 4, paragraphs 2 and 4 hereof – the NBS shall collect the outstanding amount of that loan, with accrued interest, from the sale or appropriation of collateralised securities in accordance with the law governing collateral, regulations of the Central Securities Depository, the NBS guidelines for the implementation of this Decision and the master agreement.

Exceptionally, if the NBS is unable to collect its receivables from paragraph 1 hereof in the manner defined in that paragraph, it may use to that effect the promissory notes from Section 25 hereof.

If a bank fails to repay a short-term loan by its maturity date specified in the confirmation from Section 19 hereof, or if it fails to repay it in accordance with Section 4, paragraphs 2 and 4 hereof – to collect the NBS receivables due, the amounts paid by the issuer of collateralised securities in respect of these securities after the expiry of these deadlines (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 its monetary account in accordance with the master agreement.

22. The NBS shall be entitled to unilateral cancellation of the master and individual agreements, and/or all individual agreements even before the expiration of the agreed timeframe if the bank fails to meet its obligations in accordance with this Decision and those agreements.

Any unsettled debt that a bank owes or will owe (interest accruing until the date of cancellation) pursuant to a short-term loan agreement shall mature for payment at the date of the cancellation of that agreement.

If on the day of cancellation of a short-term loan agreement, a bank fails to settle its obligations within the meaning of paragraph 2 hereof and/or in accordance with the statement on loan cancellation, the NBS shall collect its receivables as stipulated by the provision on activating the collateral from Section 21 hereof.

23. The Governor may take the decision that in future, a bank from Section 22, paragraph 1 hereof shall not be granted a short-term loan within the meaning of this Decision, either for a specified period (temporarily) or permanently.

24. On the amount of the mature but outstanding short-term loan - the NBS shall calculate and charge interest for the period of default at the rate which, in line with the decision prescribing interest rates applied by the NBS in the implementation of monetary policy, relates to loans that have not been repaid within the agreed timeframe and/or loans that have been used in breach of regulations.

The interest from paragraph 1 hereof and the interest from Section 6 hereof shall be calculated by the NBS on the first working day in the month for the previous month - for both working and non-working days, and shall be collected by the 8th day of the month for the previous month.

If a bank fails to pay the interest within the timeframe from paragraph 2 hereof, the NBS shall activate promissory notes from Section 25 hereof.

25. To secure collection of interest from Sections 6 and 24 hereof and the collection of receivables by the NBS under a disbursed short-term loan, provided such receivables cannot be collected as set forth in Section 21, paragraph 1 hereof - when signing a master agreement a bank shall surrender to the NBS an appropriate number of signed and certified blank promissory notes and an authorisation to fill in those notes.

26. The National Bank of Serbia shall issue guidelines for the implementation of this Decision.

27. This Decision shall be published in the RS Official Gazette and shall enter into force on 1 January 2011.

NBS Executive Board No 15/2
9 December 2010
Belgrade

Chairman
of the Executive Board
of the National Bank of Serbia
Governor of the National Bank of Serbia
Dejan Šoškić, PhD