Pursuant to Article 28, paragraph 7, Article 30, paragraph 4 and Article 36 of the Law on Banks (RS Official Gazette, Nos 107/2005 and 91/2010) 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, and 44/2010), the Executive Board of the National Bank of Serbia issues

DECISION
ON LIQUIDITY RISK MANAGEMENT

1. This Decision sets out the terms and manner of identifying, measuring and assessing liquidity risk to which banks are exposed in their operations (hereinafter: liquidity risk), as well as liquidity levels, including critically low level of liquidity, liquidity risk management and methodology for calculating bank liquidity ratio.

2. Liquidity risk is the risk of negative effects on the bank's financial result and capital caused by such bank's failure to meet its obligations as they fall due.

3. Banks are required to set up a liquidity risk management system as part of their overall risk management systems, and/or:

1) define the principles of liquidity risk management;
2) organise liquidity risk management;
3) establish procedures for the identification, measurement, mitigation and monitoring of liquidity risk;
4) establish an information system in support of liquidity risk management;
5) ensure prompt and adequate response in the event of increased liquidity risk;
6) put in place a system of internal controls for liquidity management.

4. The principles of liquidity risk management include in particular the principles relating to:

1) liquidity management in significant currencies (as determined by the bank);
2) sustainable diversification of the sources of finance;
3) resolving temporary and long-term liquidity crises;
4) drafting contingency business plans.

5. To organise liquidity risk management in a bank means to set up an organisational structure that enables the achievement of liquidity risk management principles.

6. To establish procedures for the identification, measurement, mitigation and monitoring of liquidity risk means to define:

– the manner of exchanging liquidity management information between the organisational unit in charge of liquidity management and other organisational units of the bank;
– main indicators of exposure to liquidity risk, its monitoring and limits, as well as actions to be taken in the event of exceeding such limits;
– the manner of drafting contingency business plans and their periodical up-dating;
– the methodology of liquidity ratio reporting to the National Bank of Serbia in accordance with this Decision.

For the purposes of measuring and monitoring liquidity risk, banks are required to adopt procedures to measure and monitor net cash flows – by monitoring assets and liabilities for the remaining maturity period, measuring and comparing cash inflows and outflows, as well as by daily monitoring of net cash flows per maturity buckets.

Banks are required to establish procedures for measuring and monitoring liquidity risk in significant currencies (of their own choice) and in total amount.

7. To establish an information system in support of liquidity risk management means to establish an information system that provides data for liquidity risk management in a timely and continuous fashion as prescribed by this Decision, and ensures compliance with procedures referred to in Section 6 of this Decision.

8. To ensure prompt and adequate response to increased liquidity risk means to ensure implementation of actions to stabilise and diversify the bank's sources of finance and create conditions for fast liquidification of other asset holdings, as well as to develop contingency business plan (in response to liquidity crises).

The plan referred to in paragraph 1 hereof comprises the following:

1) procedures for early detection of potential liquidity-related problems, and the list of liquidity ratios and other indicators;

2) names of persons responsible for the identification of problems from indent 1 hereof, as well as the names of persons who need to be informed of such problems;

3) clearly defined tasks, and/or responsibilities in liquidity crisis management;

4) mandatory preparation of special reports featuring data, ratios and other information for the purposes of internal reporting and of relevance for taking actions in liquidity crises;

5) manner of accessing available or potential sources of liquidity, as well as procedures for ensuring access to supplementary sources of finance, and/or sources not used in regular business operations;

6) manner of supplying information to the National Bank of Serbia regarding causes of liquidity crisis and activities planned for their elimination.

Banks are required to periodically test the plan referred in this Section so as to assess its efficiency and adequacy.

9. An adequate system of internal controls for liquidity management includes:

1) adequate control activities implemented by the bank's executive board, persons responsible for risk management and bank's employees;

2) regular assessment of the adequacy, reliability and efficiency of such system through internal audit.

The internal controls system referred to in this Section ensures timely notification of persons responsible for liquidity risk management of detected deficiencies, application of appropriate corrective measures, as well as of any changes to the liquidity risk management system if necessary.

10. The bank's liquidity level is shown by its liquidity ratio.

Bank liquidity ratio is the ratio of the sum of first- and second-degree liquid receivables of the bank and the sum of liabilities payable on demand with no agreed maturity and liabilities falling due within a month from the date of the liquidity ratio calculation.

Banks are required to maintain the level of liquidity so that their 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 days in a row;
– at least 0.8 if calculated for one business day only.

Pursuant to this Decision, critically low level of liquidity is indicated by the liquidity ratio below the levels specified in paragraph 3 hereof.

If the liquidity of a bank reaches a critical level, the bank shall notify the National Bank of Serbia thereof not later than on the following business day. Such notification shall contain data on the exact shortfall amount of liquid assets, causes of illiquidity and the activities planned for their elimination.

11. For the purposes hereof, first-degree liquid receivables of a bank shall mean cash and receivables falling due within a month from the date of the liquidity ratio calculation, including the following:

– vault cash, gyro account balances, gold and other precious metals;
– balance on accounts with banks that have been awarded at least BBB by the latest Standard&Poor’s or Fitch/IBCA rating or at least Baa3 by the latest Moody’s rating;
– deposits with the National Bank of Serbia;
– cheques and other monetary receivables under collection;
– irrevocable credit facilities approved to the bank;
– listed shares and bonds.

In addition to receivables referred to in paragraph 1 hereof, first-degree liquid receivables of a bank shall also constitute 90% of the fair value of dinar-denominated securities, without a foreign currency clause, issued by the Republic of Serbia, with the minimum maturity of three months or 90 days, and classified by the bank as securities being traded or available for sale.

The foreign currency clause referred to in paragraph 2 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.

Other receivables of a bank falling due within a month from the calculation of the liquidity ratio shall be understood as such bank’s second-degree liquid receivables.

12. For the purposes of this Decision, bank's liabilities payable on demand and with no agreed maturity shall constitute a part of the bank’s liabilities. They shall be as follows:

– 40% of demand deposits by banks,
– 20% of demand deposits by other depositors,
– 10% of savings deposits,
– 5% of guarantees and other sureties, and

– 20% of undisbursed irrevocable credit facilities.

For the purposes hereof, other liabilities of a bank falling due within a month after the calculation of liquidity ratio shall be understood as such bank's liabilities with agreed maturity.

13. Bank's liquid receivables shall be calculated at market value; and if such value cannot be determined, they shall be calculated at book value.

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

In cases where receivables or liabilities referred to in Sections 11 and 12 hereof are subject to repayment in annuities, calculation of the liquidity ratio shall include annuities under such receivables or liabilities due within a month from the date of the calculation.

For the purposes of calculation of the liquidity ratio, demand deposits of a bank and one-day notice deposits shall be understood to mean one-day term deposits.

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

14. The Decision on Liquidity Risk Management is hereby repealed (RS Official Gazette, No 129/2007).

15. This Decision shall be published in the RS Official Gazette and shall enter into force on 31 March 2011.

NBS Executive Board No 20

14 March 2011
Belgrade

Chairman of the

NBS Executive Board
Governor
National Bank of Serbia

dr Dejan Šoškić, signature