Pursuant to Article 90 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska", No.: 4/17, 19/18 and 54/19), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 59/13 and 4/17), and Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17), the Management Board of the Banking Agency of Republika Srpska, at its 32nd session held on June 15, 2021 adopted the following

DECISION
ON
LIQUIDITY RISK MANAGEMENT

1. General provisions

Decision subject
Article 1

(1) This Decision shall stipulate minimum requirements for liquidity risk management in banks, and quantitative requirements for banks related to the Liquidity Coverage Ratio (hereinafter: LCR) and ensuring stable funding sources – Net Stable Funding Ratio (hereinafter: NSFR), as well as the usage of additional mechanisms for monitoring and assessment of liquidity risk.

(2) Apart from quantitative requirements referred to in Paragraph 1 of this Article, the bank shall also meet stipulated requirements related to required reserves and all other regulations and limitations which relate to the bank liquidity and bank obligations, in accordance with regulations for performing payment transactions in country and abroad, and other regulatory requirements related to the bank liquidity.

(3) This Decision shall be applied to the banks seated in Republika Srpska to which the Banking Agency of Republika Srpska (hereinafter: Agency) issued an operating license.

(4) Bank shall be obliged to apply provisions of this Decision on an individual and consolidated basis.

(5) Issues related to the liquidity risk management in banks, which are not regulated by this Decision, but are regulated by the law or other by-laws, provisions of that law or other by-law shall apply.

Terms
Article 2

(1) Terms used in this Decision shall have the following meaning:

1) **Liquidity risk** shall cover the funding source liquidity risk, which stems from the possibility that the bank shall not be able to meet its matured cash obligations due to withdrawal of existing funding sources, i.e. inability to collect new funding sources, and market liquidity risk which stems from the possibility that the bank shall not be able to meet its matured cash obligations due to hindered transfer of assets into liquid funds due to disturbances at the market.

2) **Reporting currency** shall be the convertible mark (KM) in which regulatory reports stipulated by this Decision are being delivered.

3) **Significant currency** shall mean the currency in which items exceeding 5% of total bank obligations (including reporting currency) are denominated, and for which the bank is obliged to separately calculate, monitor and report on LCR and NSFR items.

4) **Professional participant at money market** shall mean a financial institution, pension fund, investment fund, insurance company and company for re-insurance and other legal persons, except banks, which for the purpose of management of own funds participate at the money market in a manner and frequency which are comparable with the activities of banks. This represents a legal person which, on a daily basis or frequently, offers binding quotations, i.e. offers for cash funds in the amounts that are significant if compared to total generated volumes at the money market, and which is determined for each individual market, or that legal person which has an effect on a final forming of fund prices (supply / demand), and by doing so changes the price of a similar transaction which the bank, i.e. foreign bank achieves in its business operations with other clients.

5) **Convertible currencies** shall mean currencies of the G10 member states and currencies of the European Economic Area (hereinafter: EEA) states, which, except the European Union (hereinafter: EU) member states, include Iceland, Liechtenstein, and Norway.

6) **Allocation mechanism** shall mean a mechanism of allocation of costs of liquidity, benefits and risks.

7) **Stress** shall mean a sudden or serious deterioration of capital or liquidity indicators of the bank, due to the changes in market conditions or idiosyncratic factors (those which are characteristic for the bank in certain specific events, such as, for example corporate restructuring, status changes and other), which may lead to a significant risk that the bank will not have the capacity to fulfil obligations which mature in the next 30 calendar days.

8) **Liquidity buffer** shall mean the amount of liquid assets owned by the bank, which is recognized as such if it fulfils general requirements, operating requirements and acceptability criteria for classification of assets of the first and second level, in accordance with Article 21 of this Decision.

9) **Level 1 liquid assets** (Extremely High Quality Liquid Asset, EHQLA) – shall mean assets of extremely high liquidity and credit quality, which is defined in Article 25 of this Decision.

10) **Level 2 liquid assets** (High Quality Liquid Asset, HQLA) shall mean assets of high liquidity and credit quality. Level 2 liquid asset is divided into the liquid assets of level 2a and the liquid assets of level 2b, defined in accordance with Articles 26 and 27 of this Decision.

11) **Net liquidity outflow** shall mean the amount which is obtained by deducting liquidity inflows from liquidity outflows of the bank, in a manner as defined in Article 31 and Attachment 2 of this Decision.

12) **Third countries** shall mean all countries except Bosnia and Herzegovina (hereinafter: BiH) and the European Union (hereinafter: EU) member states.

13) **Asset coverage requirement** shall mean the ratio between assets and obligations, which is, for the purpose of credit improvement determined by national law of the EU member state or the third country in relation to covered bonds.

14) **Covered bonds** shall mean bonds whose issuance is regulated by a separate law of the country in which the issuer is seated, and which meet all following conditions:

1. for the protection of ownership rights, the issuer of covered bonds may be only the bank which is supervised by a regulatory body,

2. funds generated by the sale of covered bonds must be placed in assets which provides sufficient coverage for obligations assumed on the basis of covered bonds in their total amount and

3. covered bonds must be covered by collateral and provide right to the holder of covered bonds, that in case of bankruptcy or liquidation of the issuer, to the priority in collection of principal and interest.

Covered bonds issued in the EU member states must be included in the list of covered bonds, which also includes the list of authorized issuers and the type of collateral, compiled by the European Commission.

15) **Small and medium enterprises** shall be entities which perform business activities in order to generate profit by means of manufacture, turnover or providing service at the market, regardless of their legal form. For the purpose of application of this Decision, small and medium enterprises may be those entities which are as such classified in accordance with the Law on accounting and audit of Republika Srpska, including self-employed entrepreneurs.

16) **Retail deposits** shall mean bank obligations on the basis of deposited deposit by an individual (regardless of the deposit amount), small and medium enterprise, whereby total deposits of such small and medium enterprise and legal persons related to them do not exceed 250,000 KM.

In case total deposits of some small and medium enterprise and legal persons related to them amount below 250,000 KM, but criteria referred to in Article 59 of the Decision on calculating capital in banks for assigning risk weight of 75% to exposures which the bank has towards that small and medium enterprise are not met, deposits of such enterprise and legal persons related to them shall not be deemed as retail deposits in terms of this Decision.

17) **Financial client** shall mean:

1. institution (bank and investment company),

2. financial institution (including microcredit organizations, leasing providers, broker firms),

3. open or closed investment fund,

4. insurance company,

5. re-insurance company,

6. financial holding or mixed financial holding.

For the purpose of application of this definition, the banks under bankruptcy procedure shall not be deemed as financial clients.

18) **Settlement services** shall mean services which enable clients to transfer cash funds or securities via direct participants in internal payment transactions or securities settlement system to final receivers, whereby such services are limited to: transfer, alignment and verification of payment order, daily overdrafts, over-night funding and maintaining funds after the execution of settlement transaction, as well as determining positions during the day and final positions for settlement.

19) **Custody services** shall mean services of holding and keeping of assets, notifying clients, asset management and/or providing operational or administrational services at clients' request related to their transactions with financial assets. Custody services shall be limited to: transactions of settlement with securities, transfer of contracted payments, processing collateral, execution of transactions in foreign currency, holding of cash funds and commission for services of excess cash management, and activities of receipt of dividends and other income, pay-off and collection of

clients’ receivables, contracted distribution of clients’ funds and payment of fees, taxes and other expenses can also be included.

20) **Cash management services** shall mean services of cash management and related services, which relate to those products and services that are being provided to clients for the purpose of managing their cash flows, assets and liabilities and executing necessary financial transactions for purposes of their continuous business operations, as well as to: providing information on management of client’s financial transactions, remittance payment, gathering or compiling documentation related to payrolls, control of fund distribution, automatic payments and other transaction which facilitate performance of financial operations or establishing information systems for that purposes.

21) **Unencumbered assets** shall mean the following assets:

1. that is not a subject of any legal, contractual, regulatory or other restriction which prevents the bank to perform monetization, sale, transfer, cession of such assets or general disposal of the same by direct sale on active market,

2. which was accepted as collateral for the purpose of credit risk mitigation in reverse repo transactions or transactions of securities funding and which the bank has at its disposal.

23) **Required stable funding (RSF)** shall mean the amount of stable funding that needs to be held taking into account the characteristics of liquidity and the remaining maturity of assets and off-balance sheet exposures.

24) Derivative contracts shall mean the derivative contracts listed in Annex 2 of the Decision on calculating capital in banks.

25) **Trade financing** shall mean financing, including guarantees, related to the exchange of goods and services using financial products with a fixed contractual maturity of less than one year, without the possibility of automatic renewal (e.g. letters of credit, loans to finance exports, etc.).

(2) Other terms that are not defined by this Article, and are used in this Decision, shall have meanings in accordance with legal provisions and other bylaws.

2. Minimum requirements for liquidity risk management

General requirements

Article 3

(1) Apart from stipulated general standards for establishment and application of efficient risk management system, the bank shall be obliged to meet minimum requirements for liquidity risk management, which are stipulated in more detail in the provisions of this Article and Articles 4 – 16 of this Decision.

(2) Requirements referred to in Paragraph 1 of this Article shall relate to the bank obligation to establish appropriate strategies, policies, procedures, processes and systems for identification, measurement and monitoring of liquidity risk, and management of that risk within a certain period of time, including management on a daily, i.e. intraday basis, in order to ensure that the bank is maintaining an appropriate level and structure of liquidity buffers and stable funding sources.

(3) The requirements referred to in Paragraph 1 and 2 of this Article, which the bank is obliged to establish and implement, shall be considered appropriate if they meet the following conditions:

1) they are proportional to the complexity and scope of the bank's operations, the bank's risk profile and the bank's risk appetite,

2) ensure continuous and comprehensive liquidity risk management during the appropriate period, including liquidity management on a daily or intraday basis,

3) ensure the maintenance of an appropriate level of liquidity protection,

4) are adjusted to business lines, currencies, the bank's business network, the bank's clients, etc. and

5) adequately include the allocation mechanism in the internal determination of prices of products or services of the bank.

(4) The bank shall determine the liquidity risk exposure tolerance in the form of the level of liquidity risk exposure it is willing to assume and which must enable the bank to manage its liquidity in normal circumstances, so that it is able to withstand the stressful period. It is necessary to timely inform all relevant business lines in the bank about the established tolerance of liquidity risk exposure, ensuring the availability of this notification to employees involved in the process of taking over or managing liquidity risk in the bank.

(5) Taking into account the type, scope and complexity of operations, and objectives set by the business strategy, the bank is obliged to determine the risk profile related to liquidity risk, in order to ensure stable operation of the bank, i.e. appropriate and efficient risk management process as an integral part of comprehensive, reliable and efficient bank management system.

Liquidity risk management rules

Article 4

Bank supervisory board and bank management, in accordance with legally stipulated competences, shall be obliged to establish and implement appropriate and efficient system of liquidity risk management, which shall include the following, as a minimum:

1) acting in accordance with stipulated requirements for liquidity risk management,

2) compliance with defined bank risk appetite, including risk tolerance,

3) ensuring diversification of the funding structure and access to funding sources,

4) measurement and monitoring of concentration of deposits and other funding sources,

5) monitoring of assumptions on trends in assets, obligations and off-balance sheet items, as well as assumptions on other relevant factors and circumstances which are significant for securing their appropriateness to the bank activities and market conditions,

6) procedures for the bank acting in cases of unfavorable stress test results, which include concrete measures and activities of the bank management, senior management, functions and employees in charge of liquidity risk management in the bank,

7) consideration of different possibilities, i.e. instruments of liquidity risk mitigation, including establishing of appropriate limits and liquidity buffers, in order for the bank to be able to withstand a large number of different stress events,

8) establishing an appropriate allocation mechanism and

9) establishing an appropriate process of decision making with regards to the bank liquidity.

Strategies, policies, processes and systems for bank liquidity risk management

Article 5

(1) Strategy for liquidity risk management should be aligned with stipulated regulatory requirements, and comprehensive strategy for assuming and managing risks in bank and should, as a minimum, include defining objectives and principles in liquidity risk assuming and managing of the same.

(2) Policies, procedures and other internal acts of the bank for liquidity risk management, apart from stipulated requirements for risk management, must include as a minimum the following:

1) maintaining stipulated bank liquidity indicators,

2) structure of assets and liabilities, as well assumptions on liquidity and marketability of bank assets,

3) identifying sources of liquidity risk, including liquidity risks that may arise from new products, financial instruments, i.e. new business activities of the bank,

4) system of reporting on liquidity risk,

5) activities in business operations with foreign currencies, including monitoring of currency structure of assets and liabilities, and individual monitoring of currencies which have a significant impact on the total bank liquidity, and the analysis of mutual convertibility of foreign currencies,

6) measuring and monitoring of net cash flows, including intra-day bank liquidity management, as well as projection of cash inflows and outflows,

7) diversification and stability of funding sources, and accessibility to money market,

8) liquidity plans, including plans for funding sources,

9) stress testing and analysis of various scenarios,

10) bank contingency plans in cases of liquidity crisis,

11) informational support for continuous and efficient liquidity risk management,

12) where applicable, liquidity management within a banking group and

13) other elements relevant for the process of liquidity risk management.

(3) Bank shall be obliged to take into consideration limitations in international transfer of excess in liquid funds, if there is such, i.e. cross-border liquidity management, where applicable.

(4) Bank shall be obliged to identify and monitor professional participants at the money market when managing liquidity risk, and include them, in an appropriate manner, in reports on liquidity, where applicable.

(5) In accordance with Paragraph 4 of this Article, the bank shall be obliged to, by means of internal acts, in detail define criteria based on which it shall perform identification of other legal persons which are professional participants at the money market, where applicable.

(6) In addition to previously stated acts, the bank shall be obliged to meet requirements related to the liquidity recovery plan, in accordance with Article 16 of this Decision**.**

Competences and responsibilities of the bank supervisory board in liquidity risk management

Article 6

In liquidity risk management, the bank supervisory board shall be responsible for establishing liquidity risk management systems, i.e. shall be obliged to:

1) adopt appropriate strategy and policies for liquidity risk management and ensure conditions for their efficient implementation in the bank,

2) ensure independent analysis and assessment of strategy, policies, procedures, activities and systems for liquidity risk management in the bank performed by internal and external audit,

3) ensure regular analysis of compliance of strategy, policies, procedures and activities for liquidity risk management with regulations and requirements of the Agency and other supervisory bodies, also with strategy of assuming and managing risks, changes in internal and external environment in accordance with the analysis results, and their revision (at least once a year, when necessary, more frequently),

4) establish organizational structure, determine business operations and the scope of responsibility of the bank management and senior management, functions and employees responsible for liquidity risk management in the bank, and the work of such employees,

5) ensure conditions for establishing efficient system of control and management of liquidity risk,

6) pass a decision on the manner of determining and revising limitations in liquidity risk management,

7) stipulate the content and frequency of reporting on liquidity risk, and ensure comprehensive and reliable system of reporting on liquidity,

8) approve plans of bank acting in cases of liquidity disturbance, i.e. bank liquidity recovery plans, proposed by the bank management and

9) supervise implementation of obligations of the bank management in liquidity risk management.

Competences and responsibilities of the bank management in liquidity risk management

Article 7

(1) Bank management, apart from meeting stipulated requirements for risk management in banks, shall be obliged and responsible to:

1) propose to the supervisory board appropriate strategies and policies for liquidity risk management, and adopt procedures and activities for liquidity risk management,

2) implement adopted strategies, policies, procedures and activities for liquidity risk management,

3) implement adopted organizational structure, determine business operations and the scope of responsibility of senior management, functions, and employees responsible for liquidity risk management in the bank, and the work of such employees,

4) prepare regular analyses with proposals for the revision of strategies, policies, procedures and activities for liquidity risk management (at least once a year, if necessary more frequently),

5) meet stipulated requirements for liquidity management and daily and intra-day bank obligations, as well as resisting stress periods in a manner that the bank maintains adequate additional liquidity reserves in a form of liquidity buffers,

6) have timely, reliable and usable reports on liquidity risk,

7) have adequate and efficient internal controls integrated in the system of liquidity management and liquidity risk management,

8) act according to approved contingency plan in case of liquidity disturbance and bank liquidity recovery plan, and revise them (at least once a year, if necessary more frequently), and in line with aforementioned, adjust internal policies, procedures and activities for liquidity risk management in the bank,

9) monitor acting upon determined limits for liquidity risk management in accordance with defined tolerance for exposure to liquidity risk, as well as limits for authorization of cash flows above specific amounts, and if necessary, to propose their revision,

10) establish appropriate reporting system in case of exceeding the liquidity limits, and procedures in case of exceeding, by precisely determining responsibilities of senior management, functions and employees employed in that system and

11) establish and revise allocation mechanisms (at least once a year, if necessary, more frequently).

(2) Apart from obligations and responsibilities referred to in Paragraph 1 of this Article, the bank management shall be obliged, without delay, to inform in writing the bank supervisory board and the Agency if the fulfilment of requirements for liquidity coverage and net stable funding sources is jeopardized or other requirements related to bank liquidity, and deliver the plan of measures for re-establishing alignment with stipulated requirements related to liquidity requirements.

(3) Until re-establishment of stipulated requirement for liquidity coverage and net stable funding sources is performed, the bank shall be obliged to, on a daily basis, until the end of working hours, report on stipulated requirement for liquidity coverage or net stable funding sources, unless the Agency approves less frequent reporting and longer deadline for delivering reports on those requirements.

Competences and responsibilities of control functions in liquidity risk management

Article 8

(1) Starting from the involvement of control functions in the process of risk management, in accordance with stipulated requirements for risk management in banks, if persons responsible for the operations of control functions in the bank, in the course of performing their duties which are part of their competences, determine violation of regulations or rules on liquidity risk management or determine an increased risk due to which, the bank liquidity is, or might be jeopardized, they are obliged to, without delay (immediately), inform the bank management, the bank supervisory board and the Agency and other competent institutions on the said above.

(2) The program and work plan of the internal audit function shall include the assessment of the adequacy of determining the components of LCR referred to in Article 20 of this Decision and NSFR referred to in Article 50 of this Decision. In doing so, when assessing the components of LCR, it is necessary to specifically include checking the criteria for classifying deposits and applying appropriate outflow rates for the purposes of calculating LCR, at least on an annual basis.

Monitoring and reporting on liquidity risk

Article 9

(1) Apart from stipulated supervisory reporting on liquidity, the bank shall be obliged to, except stipulated requirements for risk management in banks, include in the system of internal reporting on risks, at the minimum the following:

1) monitoring the liquidity position in reporting currency, other significant currencies and other currencies, depending on the currency structure of bank assets and liabilities,

2) monitoring of stress testing results and

3) measurement/assessment and monitoring of net cash flows.

(2) Bank shall be obliged to establish monitoring and reporting on liquidity risk on intra-day, daily, weekly, ten-day, monthly, quarterly, semi-annual and annual basis, which must be aligned with stipulated

regulatory requirements related to supervisory reporting, and for longer periods in accordance with determined bank internal acts, depending on the nature, scope and complexity of bank business operations, scope of cash flows and other relevant factors that influence the bank liquidity risk.

(3) Bank obligations related to supervisory reporting on liquidity, in accordance with the provisions of this Decision, shall be stipulated by separate Agency's by-laws.

(4) Apart from supervisory reports on liquidity referred to in Paragraph 3 of this Article, banks shall be obliged to, upon the Agency's requests, also deliver all information on bank liquidity for the purpose of supervision part of the competences of Agency and other institutions, in accordance with regulations which govern the area of payment system, deposit insurance, monetary policy, systemic risk and other issues which may influence the bank liquidity.

Measurement / assessment and monitoring of net cash flows

Article 10

(1) Bank shall be obliged to establish adequate and efficient system of measurement/assessment of all current and future cash flows (cash inflows and outflows), including the assessment of cash funds required for off-balance sheet items, where it has to be taken into consideration at minimum the following:

1) common standards for clearing and settlement, and timeframe to be applied when determining cash flows for certain dates,

2) regular re-consideration and review of mutual interaction of funding liquidity risk and market liquidity risk, as an effect of mutual interaction of liquidity risk, and other risk to which the bank is exposed, such as: credit risk, operational risk, reputation risk, and strategic risk, leverage excess risk and other risks,

3) liquidity risk management during certain periods, also including intra-day period, in order to ensure maintenance of appropriate level of liquidity reserves, i.e. liquidity buffers,

4) changes in intra-day needs of the bank for liquid funds and ways of funding, short-term and middle- term needs for liquid funds and ways of funding, and long-term (structural) needs for liquid funds and ways of funding, also taking into account potential weaknesses which are related to various events, activities of the bank and its strategy for liquidity risk management,

5) regular verification of accuracy of input data which are used when calculating liquidity indicators, i.e. reliability of such information, that are being used in the system of liquidity risk management,

6) active management of collateral being used for the bank receivables, diversification of pledged assets from unencumbered / free bank assets, monitoring of the level of available collateral used for receivables, monitoring of acceptability of such collateral for the purpose of its timely usage, especially in extraordinary situations, and

7) legal, regulatory, operational and other limitations in the transfer of liquid and unencumbered assets between entities within and outside EEA, BiH, and other.

(2) Liquidity buffers especially include maintaining sufficient level of liquid funds in the form of reserve, extremely high-quality, non-pledged liquid asset which is available to the bank in any given point in time, and which serves as collateral in cases of various stress events (different intensity and duration), including the loss or reduction of unsecured and usually available funding sources. For the usage of said funds, there should be no legal, regulatory, operational, or other obstacles.

Funding sources and market availability

Article 11

(1) Bank shall be obliged to establish methodology for determining, measuring and monitoring of funding positions, and management of the same, which includes current and future materially significant cash flows, which arise from assets, liabilities and off-balance sheet items of the bank, also including potential obligations, and possible impact of reputation risk.

(2) Within the liquidity risk management, the bank shall be obliged to ensure access to funding sources from various sources at the financial market and to manage available market liquidity sources, where by means of liquidity policy, it must include at least the following:

1) the profile of funding sources and their projection, in order to ensure compliance of maturity in long-term timeframes with regards to business model, risk strategy and risk tolerance,

2) procedures by means of which a continuous active management of market funding sources is being ensured,

3) procedures for establishing and maintaining cooperation with funding source providers, including monitoring of frequency of usage of available funding sources,

4) assessment of accessibility to financial markets and available funds under normal and stress conditions,

5) assessment of funding source stability, and risks that influence their stability,

6) monitoring of funding source concentration, with regards to the assessment of liquidity of individual instruments, geographical locations, and funding source providers and

7) identification and procedures of usage of alternative funding sources.

Liquidity plan and funding source plan

Article 12

(1) In accordance with liquidity risk management strategy and stipulated minimum requirements referred to in Article 5, Paragraph 2 of this Decision, the bank shall be obliged to adopt and adequately implement liquidity plan. Liquidity plan also include the funding source plan.

(2) With the aim of adequate management of funding source risk, the bank shall be obliged to establish funding source plans, which are aligned with the bank business operation strategy and on-going business plans, and which have to include the following basic assessment elements:

1) appropriateness of funding sources in relation to the bank business model, business operation strategy, and risk exposure tolerance,

2) stability, i.e. sustainability of funding sources in a sense of identifying factors which may influence the sustainability of funding sources (e.g. structural non-compliance of assets and liabilities, source concentration, market satiety, and similar),

3) availability of markets in a sense of factors that influence or may influence future unavailability of funding sources at the market,

4) expected changes in funding source risk based on the funding source plan,

5) reliance on public funding sources,

6) impact of funding source plans on lending to real sector and

7) sustainability in cases of occurrence of new products or innovative instruments and other relevant assessment elements.

(3) Bank shall be obliged to ensure regular revision, and when necessary, alignment of the liquidity plan, also including funding source plan, in a sense to verify whether they are:

1) sustainable and appropriate for the bank risk profile and whether they support bank business plans and activities,

2) aligned with the strategy for risk appetite and tolerance for exposure to liquidity risk,

3) documented and transferred to appropriate persons involved in the realization of plans and

4) adequately monitored, in a sense of timely identification of deviations from plans and undertaking of appropriate measures for achieving planned values/volumes.

(4) Reporting on funding source plans referred to in Paragraph 1 of this Article, which represents an integral part of supervisory review and evaluation process of liquidity risk, shall be stipulated by separate Agency by-law.

Stress testing

Article 13

(1) Bank shall be obliged to, in liquidity risk management policies, starting from stipulated requirements for risk management in banks, define implementation of stress testing, at least in the following manner:

1) stipulate and establish procedures for implementation and analysis of various stress testing, and frequency of their execution (at least once a year, for the purpose of ICAAP and ILAAP), taking into account scenarios, i.e. factors specific for the bank (internal), market factors (external) and combined alternative scenarios,

2) stipulate implementation of liquidity testing, depending on the circumstances and their intensity, if they are unfavorable: from common (predictable or normal) circumstances to uncommon (extreme) circumstances,

3) stipulate implementation for theft testing and longer periods of stress circumstances,

4) provide the supervisory board, bank management, senior management, function or person in charge in the bank with the analysis of stress test results,

5) stipulate procedures and activities that should be undertaken in cases of certain unfavorable stress test results,

6) determine the sequence of stress testing when making plans for the next year, and ensure reporting to the bank management and supervisory board on the results of planned testing on an annual basis and

7) envisage alternative scenarios for liquidity positions and instruments for mitigating liquidity risk, and at least once in a year review the assumptions which are basis for making decision on funding sources. Such alternative scenarios are especially related to off-balance sheet items and other potential obligations.

(2) When conducting stress testing, the bank shall be obliged to take into account:

1) funding sources which have contractual clause for early withdraw,

2) all positions where there is a possibility of additional requirements for margin calls, thus calculating their impact on liquidity,

3) interchangeability and liquidity of various convertible currencies, and their availability at foreign currency markets and

4) other relevant factors of impact on bank liquidity.

(3) Stress test results represent basis for undertaking corrective measures or activities of the bank management for mitigating bank exposure to liquidity risk, ensuring liquidity buffers and adjusting bank liquidity risk profile to its tolerance to risk.

(4) Bank shall be obliged to utilize stress test results, and especially alternative scenarios referred to in Paragraph 1, Item 7 of this Article, when adjusting strategy for liquidity risk management, adopting policies, setting limits, taking positions and when making efficient contingency plans in cases of liquidity disturbance and bank liquidity recovery plans.

Contingency plan for liquidity

Article 14

(1) Bank shall be obliged to make a contingency plan for liquidity in cases of liquidity disturbance, which shall be an integral part of policy for liquidity risk management.

(2) Activity plan referred to in Paragraph 1 of this Article shall at least include the following elements:

1) early warning indicators, which indicate a possible onset of crisis, and employees responsible for monitoring and reporting on stated indicators (e.g. on violation of internal limits, decrease in deposits, reduction of share prices, higher costs of funding in relation to other banks, change in bank rating, difficulties in collecting funds at the money market, deterioration of asset quality or bank profitability, and similar),

2) duties and responsibilities of individuals in cases of lack of bank liquidity (persons in charge of, for example, relations with clients, public, key market participants, shareholders, the Agency, the Central Bank of BiH, and others),

3) procedures for timely and relevant informing of the bank supervisory board, bank management and senior management for the purpose of making decisions on acting in cases of liquidity disturbance,

4) procedures and activities for collecting lack of current funds and timeframe in which it is necessary to undertake certain activities (e.g. sale of assets, establishing new funding lines and other) in normal and stress circumstances,

5) identification, size and reliability of all funding sources with indicated sequence of utilization in different stress circumstances and

6) circumstances that lead to the application of measures from this plan and their implementation, and data on bank employees responsible for implementation of measures arising from this plan.

(3) Bank obligations related to the plan, referred to in Paragraph 1 of this Article, also include the obligation of preparing special reports for the purpose of internal reporting, as well as reporting to the Agency and other competent institutions on causes of onset of contingencies and planned activities for their elimination, and obligation of testing of that plan at least once in a year, in accordance with the results of conducted stress testing, when necessary its amendment made by the bank competent body.

Allocation mechanism

Article 15

(1) Bank shall be obliged to align allocation mechanism with established system of liquidity risk management and defined bank tolerance for exposure to liquidity risk.

(2) Bank shall be obliged to utilize allocation mechanism in the process of decision making, i.e. in internal determination of product price.

(3) In the allocation mechanism, the following shall be included at least:

1) influence of current market conditions, i.e. direct costs of funding sources (e.g. market cost of collecting funds, base yield curve), also including other direct funding costs (e.g. difference between purchase and sale price of transactions, transaction price, the cost of physical transfer of cash, and similar),

2) situation in which the bank itself is (e.g. loan quality, availability of funding sources, and similar),

3) different characteristics of behavior of certain products from the aspect of liquidity (e.g. cost of the option of early termination, products available via internet banking or products with irregular cash flow),

4) indirect costs of funding sources (e.g. cost of liquid mismatch, cost of liquidity reserves, cost of additional collateral, and similar) and

5) interconnection of methodology for determining internal transfer price (ITP) with liquidity transfer price (LTP).

(4) The bank management shall be obliged to ensure that the allocation mechanism is:

1) regularly updated, taking into account the impact of factors referred to in Paragraph 3 of this Article,

2) regularly controlled and monitored, which represents responsibility of an independent organizational unit in the bank (e.g. organizational unit responsible for risk management, and similar) and

3) made available to all relevant organizational units which must be completely familiar with the allocation mechanism, which they should actively and appropriately use.

Liquidity recovery plan

Article 16

(1) Bank shall be obliged to have in place liquidity recovery plans, in which appropriate strategies and concrete measures for improvement of liquidity in cases of its significant worsening are stated, i.e. solutions for possible lack of liquidity, which the bank is obliged to make, maintain, test at least once in a year and update in accordance with the proportionality principle (in accordance with the size, business model, connectedness with other banks and financial institutions, i.e. financial system as a whole, possible impact on financial markets, funding conditions, and similar).

(2) Liquidity recovery plan, referred to in Paragraph 1 of this Article, is an integral part of comprehensive bank recovery plan, which the bank is obliged to make in accordance with legislation and by-laws governing the content, manner and deadlines for the deliverance of recovery plans.

(3) Liquidity recovery plan, referred to in Paragraph 1 of this Article, shall mandatory include indicators of possible vulnerability, weaknesses or jeopardizing bank business operations in the liquidity segment, and as an integral part of measures for improvement of bank financial positions for situations of serious financial disturbance.

3. Minimum quantitative requirements related to liquidity ratios and reporting to the Agency on liquidity

3.1. Liquidity coverage ratio (LCR)

Liquidity coverage ratio

Article 17

(1) With the aim of ensuring short-term resistance of the bank to liquidity risk, the bank shall be obliged to ensure an adequate level of liquidity buffers, in order to satisfy the needs for liquidity for the liquidity stress scenarios for the period of 30 calendar days.

(2) For the purpose of acting in accordance with Paragraph 1 of this Article, the bank shall be obliged to ensure a minimum LCR, which represents the ratio between the level of liquidity buffer and total net liquid outflows within the stress period in duration of 30 calendar days, whereby it is obliged to continuously maintain LCR in the minimum amount of 100% in accordance with the following formula:

$$\frac{\text{Liquidity buffer}}{\text{total 30-day net liquid outflows (next 30 calendar days)}} \geq 100\%$$

Liquidity coverage ratio application

Article 18

(1) In monitoring and control of liquidity risk, the bank shall be obliged to continuously maintain LCR for all currencies denominated in the reporting currency and calculate and monitor LCR for each significant currency.

(2) The bank shall be obliged to report to the Agency on a monthly basis on LCR in a single reporting template that includes all currencies denominated in the reporting currency and separately for each significant currency, whereby the Agency may require more frequent reporting in case of need or crisis.

(3) If a decrease of LCR below 100% occurs or its decrease below 100% is expected in crisis situation, referred to in Article 32 of this Decision, the bank must, without delay, inform the Agency on abovementioned, stating reasons due to which it cannot meet stipulated LCR, and the Agency may undertake appropriate supervisory measures, and after considering of submitted plan for alignment with minimum requirement, it shall determine deadlines for re-establishing of compliance with stipulated requirements.

(4) The Agency may order bank additional liquidity requirements, in accordance with Article 75 of this Decision.

(5) Manner of reporting on LCR shall be stipulated by a separate Agency's by-law.

Monitoring of liquidity coverage ratio per each significant currency

Article 19

(1) In order to better cover potential foreign currency mismatches, banks should monitor and report on LCR in all significant currencies individually, with the aim to prevent potential problems which may arise in relation to foreign currency mismatch in the stress period, where the amount of total net liquid outflows is expressed without the protection from risk of change in exchange rate (FX risk).

(2) In terms of Paragraph 1 of this Article, the bank shall use LCR against each significant currency in order to continuously monitor potential problems with foreign exchange mismatch, which could occur during periods of stress.

(3) Although meeting LCR in each significant currency does not represent stipulated minimum standard, the Agency may determine minimum thresholds for LCR in significant currency, starting from the specificity of local market and bank business operations, i.e. capacity of the bank to collect funds at the foreign currency markets or transfer excess in liquidity from one currency to another, and in accordance with regulations that govern this area.

Liquidity coverage ratio components

Article 20

(1) Calculation of LCR, referred to in Article 17 of this Decision, is based on determining following components:

(1) liquidity buffer and

(2) total net liquid outflows, which are calculated in accordance with determined scenario parameters in the next 30 calendar days.

(2) Bank shall be obliged to establish and maintain an adequate system for determining LCR components, referred to in Paragraph 1 of this Article.

(3) Assessment of adequacy of established system, referred to in Paragraph 2 of this Article, shall be performed by internal and external audit.

3.1.1. Liquidity buffer

Conditions for inclusion of liquid assets into liquidity buffer

Article 21

(1) In order to be included in liquidity buffer, liquid assets must meet all stated requirements:

1) general requirements, referred to in Article 22 of this Decision,

2) operational requirements, referred to in Article 23 of this Decision,

3) acceptability criteria for classification of asset as asset of first or second level, in accordance with Articles 25, 26 and 27 of this Decision.

(2) Bank shall be obliged to continuously monitor fulfillment of condition referred to in Paragraph 1 of this Article and ensure documenting of such procedure.

(3) Bank may not include specific item of liquid assets in liquidity buffer in case it included the same item as an inflow when calculating net liquid outflows.

General requirements for recognizing liquid assets as a liquidity buffer

Article 22

(1) In order for liquid assets to be recognized as a liquidity buffer, it should meet the following general requirements:

1) asset is a property, right or share which the bank holds and is unencumbered,

2) asset must not be issued by the bank itself, its parent company (unless it is a public sector entity which is not a bank), its subsidiary or other subsidiary of its parent company or an entity in a special relation with the bank,

3) asset must not be issued by a financial client,

4) value of such asset must be possible to determine based on widely spread and easily accessible market prices (market value or, in the lack of market-based prices, easily determinable value, which is possible to simply calculate based on publicly available information) and

5) asset is listed on recognized stock-exchange, is marketable through direct sale on active market or through simple repo transaction on generally acceptable repo market, where such criteria are assessed for each market. Asset listed for trading on organized trade location, which is not recognized stock-exchange in the EU member state, or in BiH or in third country, shall be deemed as liquid only if on that trade location active and significant market for direct asset sale is ensured.

(2) In a sense of Paragraph 1, Item 5 of this Article, the bank shall take into account the following minimum criteria, in order to assess whether active and significant market is ensured on trade location:

1) historical data on width and depth of the market that prove small differences between demanded and offered price, large scope of trading and large and diverse number of participants at the market and

2) existence of robust market infrastructure.

(3) Requirements referred to in Paragraph 1, Items 4 and 5 and Paragraph 2 of this Article, shall not be applied on the following:

1) banknotes and coins, which account for the level 1 liquid asset, in accordance with Article 25 of this Decision,

2) exposures towards central banks, which account for the level 1 and 2a liquid asset, in accordance with Articles 25 and 26 of this Decision.

Operational requirements

Article 23

(1) Bank must have in place policies and limitations in order to ensure that positions of liquid assets, which are included in liquidity buffers, in any moment in time remain adequately diversified. For that purpose, the bank shall take into account the scope of diversification between various categories of liquid assets and within the same category of liquid assets of level 1 and 2, and other relevant factors of diversification, such as: type of issuer, types of counterparties or geographical location of such issuers and counterparties. However, diversification is not required for the following level 1 liquid asset:

1) cash (banknotes and coins),

2) exposures towards central banks, in accordance with Article 25, Paragraph 1, Items 2 and 4 of this Decision,

3) receivables from multilateral development bank or international organization referred to in Article 25, Paragraph 1, Item 6 of this Decision,

4) exposures towards the Council of Ministers and Republika Srpska Government, Federation of BiH Government and Brcko District BiH Government and public sector entities from BiH, referred to in Article 25, Paragraph 1, Item 3, Sub-Items 1, 4 and 6 of this Decision and

5) exposures towards central banks, regional governments and local authorities, and public sector entities from the EU member states or third countries referred to in Article 25, Paragraph 1, Item 3, Sub-Items 3 and 5, and Item 4 of the same Paragraph in their domestic currencies, under the condition that the bank holds such asset for the coverage of net liquid outflows in stress periods in the currency of that member state or the third country.

(2) Bank must have direct access to its liquid asset and be able to monetize it in any point during stress period within 30 calendar days within the framework of direct sale or repo contracts on generally acceptable repo markets. Liquid asset is deemed as directly accessible to the bank if there are no legal or practical obstacles for the bank to timely monetize such assets.

Asset which is held in any country where there are limitations in relation to its free transferability shall be deemed as directly accessible only if the bank uses such asset for the coverage of liquid outflows in that country.

Asset which is held in non-convertible currency shall be deemed as directly accessible only if the bank uses such asset for the coverage of liquid outflows in that currency,

(3) Bank shall be obliged to ensure that liquid asset is under control of an organizational part responsible for liquidity management, and compliance with this requirement is being proven to the Agency in one of the following manners:

1) by placing liquid asset in a separate set under direct management of this organizational part and with exclusive intent that it should be used as funding sources for unexpected outflows, also including in the stress period, whereby it is primary whether the bank may have at its disposal such asset within 30 calendar days, regardless of accounting treatment of the asset,

2) by setting up internal control systems in order to ensure for this organizational part an efficient operational control for monetizing liquid assets in any point of time in the stress period in duration of 30 calendar days and access to funds for unexpected outflows without direct deviations from existing business strategy or strategy for risk management. In a sense of aforementioned, asset must not be included in liquidity buffer in case that, by means of its sale, without substitute in the stress period in duration of 30 calendar days, buffers would be removed, which would cause open risk position that exceeds bank internal limitations and

3) by combination of possibilities stated in Sub-Items 1 and 2 of this Paragraph, under the condition that the Agency deems such combination as acceptable.

(4) Bank regularly, and at least once in a year, monetize sufficiently representative sample of its positions of liquid assets within the framework of direct sale or simple repo contract at generally accepted repo market. In relation to the above stated, the bank shall develop strategies for disposal of liquid asset samples, which are appropriate for:

1) testing of accessibility to market for that asset and its usability,

2) verification of efficiency of the bank process for timely monetization of asset and

3) minimization of risk of sending negative signal to the market due to monetization of bank asset during the stress period.

Requirements related to testing of accessibility to market and usability shall not be applied to the level 1 asset, referred to in Article 25 of this Decision, except to covered bonds of extremely high quality.

(5) Requirements related to direct access to its liquid asset do not prevent the bank to protect itself from market risk related to its liquid asset, under the fulfilment of following conditions:

1) bank has established appropriate internal mechanisms, in accordance with Paragraphs 2 and 3 of this Article, in order to ensure that such asset is still directly accessible and under control of the bank organizational part in charge of liquidity management and

2) net liquid outflows and inflows which would occur in case of early closing of protection have been taken into account when evaluating relevant asset, in accordance with Article 24 of this Decision.

(6) Bank shall ensure foreign exchange mismatch of its liquid asset with currency structure of its net liquid outflows. However, the Agency may, when necessary, request from banks to limit foreign exchange mismatch in a manner that they determine limitations for the share of net liquid outflows in a certain currency, which can be covered during the stress period by holding of liquid asset which is not denominated in that currency. Such limitation shall be applied only to the currency on which request for separate reporting for significant currencies can be applied. When determining the level of certain limitation level of foreign exchange mismatch, that can be applied, the Agency shall take into account at least the following:

1) ability of the bank to undertake one of the following:

1. use liquid asset for generating liquidity in currency and area in which net liquid outflows occur,

2. substitute currencies and collect funds at foreign exchange markets in stressful conditions, in the stress period in duration of 30 calendar days and

3. transfer excess of liquidity from one currency to another and to different countries and legal entities within its group, in stressful conditions, in the stress period in duration of 30 calendar days,

2) influence of unexpected, unfavorable exchange rate trends on existing not aligned positions and efficiency of established foreign exchange protections, where limitations of foreign exchange mismatch, in accordance with this Paragraph, are deemed as special liquidity requirement, defined based on the assessment of liquidity risk to which the bank is or might be exposed within the conducted supervisory review and the assessment made by the Agency.

Liquid asset evaluation

Article 24

(1) For the purpose of calculating LCR, when determining the liquidity buffer, the bank shall use market value of assets.

(2) In a sense of Paragraph 1 of this Article, market value of liquid assets shall be reduced, when necessary, according to corrective factors which are being applied in accordance with the provisions of this Decision and Article 23, Paragraph 5, Item 2 of this Decision.

Level 1 asset

Article 25

(1) Level 1 asset only includes assets that can be classified in one or more of the following categories, and which, in any case, meet stipulated criteria for recognition:

1) cash (banknotes and coins),

2) the following exposures towards central banks:

1. asset which represents receivables from or guaranteed by the Central Bank of BiH (hereinafter: CBBH), the European Central Bank (hereinafter: ECB) or central bank of the EU member state,

2. asset which represents receivables from or guaranteed by central bank from a third country, under the condition that selected External Credit Assessment Institution (hereinafter: ECAI), in accordance with Article 69 of the Decision on calculating capital in banks, assigns to exposures to central bank or its central government credit assessment of 1st degree credit quality (risk weight of 0% in accordance with Article 50, Paragraph 2 of the Decision on calculating capital in banks) and

3. the amount of excess in required reserves the bank holds at the CBBH, under the condition that the bank may, in any point in time, withdraw such reserves in the stress period,

3) asset which represents receivables from the following entities or for which the same entities issue guarantees:

1. Council of Ministers of BiH,

2. central government of the EU member states,

3. central government of the third country, under the condition that selected ECAI has assigned it credit assessment of the 1st degree credit quality, in accordance with Article 69 of the Decision on calculating capital in banks (risk weight of 0%, in accordance with the Decision on calculating capital in banks),

4. Republika Srpska Government, Federation BiH Government and Brcko District BiH Government,

5. regional governments and local authorities in the EU member states, i.e. regional governments and local authorities in third countries, under the condition that they are treated as exposures to central government, in accordance with Article 51 of the Decision on calculating capital in banks and

6. public sector entities, under the condition that they are treated as exposures to the Council of Ministers of BiH or Republika Srpska Government, Federation BiH Government and Brcko District BiH Government, as well as central government of the EU member state or to one of the regional or local authorities in the EU member states, referred to in Item 5 of this Paragraph,

4) asset which represents receivables from or guaranteed by central governments or central bank of the third country, to which ECAI did not assign credit assessment of the 1st degree credit quality, in accordance with Article 69 of the Decision on calculating capital in banks, thereby stating that such asset may be included only up to the amount of net liquid outflows in the currency in which that asset is denominated,

5) asset issued by the bank, which fulfils at least one of the two following conditions:

1. bank was established by the Council of Ministers BiH, Republika Srpska Government, Federation BiH Government and Brcko District BiH Government or central government of the EU member state, or regional government and local authorities from the EU member states, which has a treatment as a central government, in accordance with the Decision on calculating capital in banks, and which, as a founder, has a legal obligation to protect

bank economic base and ensure the continuity of its business operations and every exposure towards that bank shall be treated as exposure towards the founder and

2. primary goal of the bank is to approve promotional loans with the aim of public policy of the founders stated in Item 1 of this Article, whereas such loans are approved under conditions that are not primarily competitive at the market and profitably oriented, and for at least 90% of loans which are being approved by the bank, the bank founders guarantee directly or indirectly.

6) receivables from multilateral development bank or international organization referred to in Article 53, Paragraph 2 or Article 54 of the Decision on calculating capital in banks, or receivables for which the stated entities issue guarantees.

7) exposures in the form of covered bonds of extremely high quality (unless the issuer is not from a third country), which meet all following requirements:

1. bonds meeting the requirements in accordance with Article 63, Paragraph 4 and 5 of the Decision on calculating capital in banks,

2. exposures to institutions in a set for coverage meet conditions referred to Article 63, Paragraph 1, Item 3 of the Decision on calculating capital in banks,

3. bank that invests in covered bonds and issuer meet condition of transparency, referred to in Article 63, Paragraph 6 of the Decision on calculating capital in banks,

4. emission amounts at least 500 million EUR (or counter value in domestic currency),

5. for covered bonds for which there is a credit assessment of selected ECAI, which in accordance with Article 69 of the Decision on calculating capital in banks are being assigned with the 1st degree credit quality (risk weight of 10% in accordance with Article 63, Paragraph 4 of the Decision on calculating capital in banks) or risk weight of 10% is being assigned to those bonds in accordance with Article 63, Paragraph 5, Item 1 of the Decision on calculating capital in banks and

6. a set for coverage in any moment meets the requirement for coverage of asset in the amount of at least 2% higher than the amount necessary for settling receivables related to covered bonds,

8) exposures in the form of stock or share in investment funds, and which are included in level 1 liquid asset only if conditions defined by the Article 28 of this Decision are met.

(2) When determining values of level 1 liquid asset for the purpose of calculating LCR, the following corrective factors shall be applied:

1) for asset referred to in Paragraph 1, Items 1-6 of this Article, corrective factor of 0% shall be applied, i.e. liquid asset is being included in the full amount,

2) for covered bonds of extremely high quality, corrective factor of 7% shall be applied,

3) for stock or share in investment funds, corrective factor shall be determined depending on respective asset in which the fund invests, i.e. depending on the structure of respective asset, the following corrective factors shall be applied:

1. on the portion of respective fund asset which relates to cash and exposures to central banks referred to in Paragraph 1, Items 1 and 2 of this Article, corrective factor of 0% shall be applied,

2. on the portion of respective fund asset which relates to investments in level 1 liquid asset referred to in Paragraph 1, Items 3-6 of this Article, corrective factor of 5% shall be applied,

3. on the portion of respective fund asset which relates to investments in covered bonds of extremely high quality referred to in Paragraph 1, Item 7 of this Article, corrective factor of 12% shall be applied

Level 2a liquid asset

Article 26

(1) Level 2a liquid asset includes only the asset which can be classified in one or more of the following categories, and which in any case meets determined criteria for recognition:

1) receivables from or guaranteed by local authorities or public sector entities from BiH or the EU member state, if the risk weight of 20% is assigned to exposures towards them, in accordance with Articles 51 and 52 of the Decision on calculating capital in banks,

2) receivables from or guaranteed by central government or central bank, regional government or local authorities and public sector entities from a third country, under the condition that the risk weight of 20% has been assigned to them, in accordance with Articles 50 - 52 of the Decision on calculating capital in banks,

3) exposures in the form of covered bonds of high quality (if the issuer is not from a third country), which meet all following requirements:

1. bonds which meet the requirements referred to in Article 63, Paragraph 4 and 5 of the Decision on calculating capital in banks,

2. exposures to institutions in a set for coverage meet conditions referred to in Article 63, Paragraph 1, Item 3 of the Decision on calculating capital in banks,

3. bank that invests in covered bonds and issuer meet the requirement of transparency, referred to in Article 63, Paragraph 6 of the Decision on calculating capital in banks,

4. emission amounts at least 250 million EUR (or counter value in domestic currency),

5. for covered bonds for which there is an assessment by selected ECAI, which are in accordance with Article 69 of the Decision on calculating capital in banks assigned to at least 2nd degree credit quality (the highest risk weight of 20%, in accordance with Article 63, Paragraph 4 of the Decision on calculating capital in banks), or the risk weight of 20% is being assigned to those bonds in accordance with Article 63, Paragraph 5, Item 2 of the Decision on calculating capital in banks,

6. a set for coverage in any moment meets the requirement for coverage of asset in the amount of at least 7% higher than the amount necessary for settling receivables related to covered bonds. However, for covered bonds for which there is an assessment by selected ECAI, which are in accordance with Article 69 of the Decision on calculating capital in banks assigned to the 1st degree credit quality, which do not meet the condition of minimum volume of issuance for covered bonds of extremely high credit quality, in accordance with Article 25, Paragraph 1, Item 7, Sub-Item 4 of this Decision, but meet the requirements for covered bonds of high credit quality from Items 1 – 4 of this Paragraph, a minimum requirement of 2% for asset coverage shall be applied.

4) exposures in the form of covered bonds issued by banks in third countries, which are listed in the list of countries in Attachment 4 of the Decision on calculating capital in banks, if such covered bonds meet all following requirements:

1. covered bonds which are secured by a set of assets of one or more types described in Article 63, Paragraph 1, Item 2 of the Decision on calculating capital in banks,

2. exposures to institutions in a set for coverage meet conditions from Article 63, Paragraph 1, Item 3 of the Decision on calculating capital in banks,

3. bank which invests in covered bonds and issuer meet the condition of transparency referred to in Article 63, Paragraph 6 of the Decision on calculating capital in banks,

4. for covered bonds for which there is an assessment by selected ECAI, which are in accordance with Article 69 of the Decision on calculating capital in banks assigned to 1st degree credit quality (the highest risk weight of 10%, in accordance with Article 63, Paragraph 4 of the Decision on calculating capital in banks), or the risk weight of 10% is being assigned to those bonds in accordance with Article 63, Paragraph 5, Item 1 of the Decision on calculating capital in banks,

5. a set for coverage of asset in any moment meets the requirement for coverage of asset in the amount of at least 7% higher than the amount necessary for settling receivables related to covered bonds. However, if the issuance of covered bonds amounts to 500 million EUR (or counter value in domestic currency) a minimum requirement for asset coverage of 2% shall be applied to them,

5) debt securities from companies (if the issuer is not from a third country) which meet all following requirements:

1. for them there is an assessment by selected ECAI, which are in accordance with Article 69 of the Decision on calculating capital in banks assigned to at least 1st degree credit quality (the highest risk weight of 20%, in accordance with Article 58 or 64 of the Decision on calculating capital in banks),

2. issuance of securities amounts at least 250 million EUR (or counter value in domestic currency) and

3. maximum maturity period of securities in the moment of issuance amounts to 10 years.

6) exposures in the form of stock or share in investment funds, and which are included in level 2a liquid asset only if conditions defined in Article 28 of this Decision are met.

(2) When determining values of level 2a liquid asset for the purpose of calculating LCR, the following corrective factors shall be applied:

1) to asset referred to in Paragraph 1, Item 1-5 of this Article, the corrective factor of 15% shall be applied,

2) for stock or share in investment funds, the corrective factor shall be determined depending on respective asset in which the fund invests, i.e. to portion of respective fund asset relating to investments in level 2a liquid asset, referred to in Paragraph 1, Item 1-5 of this Article, the corrective factor of 20% shall be applied.

Level 2b liquid asset

Article 27

(1) Level 2b liquid asset includes only the asset which can be classified in one or more of the following categories, and which in any case meets determined criteria for recognition:

1) debt securities from companies which meet all following requirements:

1. for them there is an assessment by selected ECAI, which are in accordance with Article 69 of the Decision on calculating capital in banks assigned to at least 3rd degree credit quality (the highest risk weight of 100%, in accordance with Article 58 or 64 of the Decision on calculating capital in banks),

2. issuance of securities amounts at least 250 million EUR (or counter value in domestic currency) and

3. maximum maturity period of securities in the moment of issuance amounts to 10 years.

2) shares, under condition that they meet all following requirements:

1. are part of the main stock-exchange index in Republika Srpska (BLSE), Federation of BiH (SASE), EU member state or third country, and for the purpose of this Item a competent body of Republika Srpska, Federation of BiH, EU member state or third country has been determined as such,

2. are expressed in KM or, if they are expressed in another currency, they are deemed as level 2b asset only up to the amount for coverage of net liquid outflows in the stress period in that currency and

3. have proven as reliable source of liquidity in any moment, including the stress period. It is deemed that the requirement is met if the level of decrease of stock exchange price of share does not exceed 40% or increase of its corrective factor does not exceed 40 percentage points in the duration of 30 calendar days during the stress period at the market,

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

1. bonds which meet requirements in accordance with Article 63, Paragraph 4 and 5 of the Decision on calculating capital in banks,

2. bank that invests in covered bonds meets the requirement related to transparency, referred to in Article 63, Paragraph 6 of the Decision on calculating capital in banks,

3. issuer of covered bonds makes information referred to in Article 63, Paragraph 6, Item 1 of the Decision on calculating capital in banks available to the investors, at least on a 3-month basis,

4. issuance amounts at least 250 million EUR (or counter value in domestic currency),

5. covered bonds are exclusively secured by asset from Article 63, Paragraph 1, Item 1 of the Decision on calculating capital in banks, to which in accordance with the provisions of that Decision a risk weight lower than 35% may be assigned,

6. a set for coverage of asset in any moment meets the requirement for coverage of asset in the amount of at least 10% higher than the amount necessary for settling receivables related to covered bonds, and

7. bank issuer must publicly disclose monthly that the set of exposure meets the requirement for asset coverage in the amount of 10%,

4) exposures in the form of stock or share in investment funds, and which are included in level 2b liquid asset only if conditions defined in Article 28 of this Decision are met.

(2) When determining the value of level 2b liquid asset for the purpose of calculating LCR, the following corrective factors shall be applied:

1) to debt securities referred to in Paragraph 1, Item 1 of this Article, the corrective factor of 50% shall be applied,

2) to asset referred to in Paragraph 1, Item 2 of this Article, the corrective factor of 50% shall be applied,

3) to covered bonds referred to in Paragraph 1, Item 3 of this Article, the corrective factor of 30% shall be applied,

4) for stock or share in investment funds, the corrective factor shall be determined depending on respective asset in which the fund invests, i.e. to portion of respective fund asset relating to investments in level 2b liquid asset, referred to in Paragraph 1, Item 1 and 2 of this Article, the corrective factor of 55% shall be applied, and on the portion of relevant fund asset relating to investment in level 2b liquid asset referred to in Paragraph 1, Item 3 of this Article, the corrective factor of 35% shall be applied.

Shares or stocks in investment funds

Article 28

(1) Shares or stocks in investment funds in which the bank invested are recognized as liquid assets of the same degree as liquid respective asset of the fund in question up to a maximum amount of 250 million EUR (or counter value in domestic currency), if the following conditions are met:

1) investment fund is managed by a company which is under supervision of competent authorities in Republika Srpska, Federation of BiH or EU, and in case when the investment fund is from a third country, it is under supervision of a competent authority that performs supervision in accordance with regulation which correspond to the EU regulation, and the Agency must have established appropriate cooperation with that authority,

2) investment fund invests only in liquid asset, and in derivates from Attachment 2 of the Decision on calculating capital in banks, only to an extent necessary to mitigate interest rate, FX or credit risk in portfolio,

3) investment policy and prospect, i.e. other appropriate act of the investment fund contains data on forms of asset in which that fund may invest funds and on individual limits of such fund investments, as well as the manner of calculating such limits,

4) investment fund at least once a year publishes the report on its business operations which facilitates the assessment of its assets, liabilities, income and activities within the reporting period.

(2) When determining respective liquid asset of the investment fund and corrective factors which are necessary to be applied to it, the bank shall apply the following approach:

1) if it is familiar with the structure of exposure per investment fund investments, the bank shall treat such exposures as direct exposures towards respective exposures and shall reduce them by appropriate corrective factors in accordance with Article 25-27 of this Decision,

2) if it is not familiar with the structure of exposure per investment fund investments, the bank must assume that this fund invests up to a maximum allowed amount in accordance with its investment policy in liquid asset, starting from level 2b liquid asset of higher quality and moving towards the asset of higher quality, until the maximum allowed amount of investing is reached.

(3) Bank shall develop efficient methodologies and procedures for calculating and expressing market values and corrective factors for shares or stocks in investment funds. If the total exposure of the bank per investing in investment funds is not sufficiently materially significant (less than 10% of eligible bank capital) for the bank to develop its own methodologies, the bank shall be allowed to, when calculating and expressing market values and corrective factors for shares or stocks in investment funds, rely on third parties, i.e.:

1) investment fund depository, under the condition that the investment fund invests exclusively in securities, and deposit all those securities at stated depository, in accordance with applicable regulation and

2) for other investment funds, investment fund management companies, under the condition that the investment fund management company meets criteria related to the supervision in the EU member state or in case of a third country that is under supervision which is regulated in the same manner as the supervision under EU regulation and that appropriate cooperation between supervision competent authorities is ensured.

Bank shall be obliged to prove to the Agency circumstances stemming from this Paragraph.

(4) In relation to the application of Paragraph 3 of this Article, it is necessary to ensure that the correctness of calculating investment fund depository or investment fund management company is confirmed by an external auditor, in accordance with applicable regulations.

(5) If the bank fails to act according to the requirements referred to in Paragraph 3 of this Article, in relation to shares or stocks in investment funds, it shall cease to recognize them as liquid asset for the purpose of this Decision.

Structure of liquidity buffer according to asset levels

Article 29

(1) Bank shall in any moment adhere to the following limitations related to the structure of liquidity buffer:

1) at least 60% of liquidity buffer accounts to level 1 liquid asset,

2) at least 30% of liquidity buffer accounts to level 1 liquid asset, without covered bonds of extremely high quality and

3) at most 40% of liquidity buffer accounts to level 2 liquid asset and

4) at most 15% of liquidity buffer accounts to level 2b liquid asset.

(2) Limitations referred to in Paragraph 1 of this Article shall be calculated after adjustments of bank liquidity buffer by the impact of repo and reverse repo transactions, transactions of issuing or receiving securities or commodity as borrowings, transactions of funding securities trading and swop contracts which imply exchange of collateral which is not cash (collateral exchange) in which liquid asset is being used and which mature in the following 30 calendar days from the day of indicator calculation and after the application of appropriate corrective factor.

(3) Banks shall determine the structure of liquidity buffer in accordance with formula defined in Attachment 1 of this Decision.

Violation of requirements for recognition of assets in liquidity buffers

Article 30

(1) If liquid asset is no longer in line with applicable general requirements referred to in Article 22, operational requirements referred to in Article 23 of this Decision or applicable criteria of recognition of the asset of level 1, 2a and 2b, the bank shall cease to recognize it as liquid asset not later than 30 calendar days from the date when the violation of requirement occurred.

(2) Paragraph 1 of this Article shall be applied to shares or stocks in investment funds which no longer fulfil recognition requirements, only if they do not exceed 10% of total investment fund assets.

3.1.2. Net liquid outflows

Determining net liquid outflows

Article 31

(1) Net liquid outflows shall be calculated as a sum of liquid fund outflows from sub-section 3.1.2.1 of this Decision reduced by the sum of liquid fund inflows from sub-section 3.1.2.2 of this Decision and cannot have a negative value.

(2) Bank may not include a certain item of liquid asset as an inflow when calculating net liquid outflows if it included the same item into liquidity buffer.

(3) Liquid fund inflows and outflows shall be estimated within the period of 30 calendar days in the stress period in accordance with Article 32 of this Decision.

(4) Liquid fund outflows referred to in Paragraph 1 of this Article shall be calculated in accordance with the formula defined in Attachment 2 of this Decision.

Stress test scenarios for the purpose of determining liquidity coverage ratio

Article 32

For the purpose of meeting the requirements for liquidity coverage, indicators based on which it can be assumed that the bank is exposed to stress are as follows:

1) withdrawal of significant portion of retail deposits,

2) partial or complete loss of unsecured funding sources of large clients, including deposits of large legal persons and other sources of potential funding, such as received revocable or irrevocable credit lines or liquidity lines or

3) partial or complete loss of secured, short-term funding sources,

4) additional liquid outflows due to deterioration of the bank creditworthiness, i.e. reduced credit rating up to 3 levels,

5) increased volatility of the market that influences the value of collateral or its quality or leads to additional collateral needs,

6) unplanned withdrawal of credit lines or liquidity lines and

7) possible obligation of repurchase of a debt or fulfillment of non-contracted obligations (e.g. in order to avoid reputation risk).

3.1.2.1. Liquid outflows

Liquid outflows

Article 33

(1) For the purpose of calculating net liquid outflows, in accordance with Article 31 of this Decision, liquid outflows are being calculated by multiplying remaining balances of different categories or types of obligations and off-balance sheet liabilities by rates under which it is expected that they will expire or be withdrawn in the next 30 calendar days.

(2) Liquid outflows, referred to in Paragraph 1 of this Article, which are being multiplied by applicable outflow rate, include the following:

1) remaining portion of stable retail deposits and other retail deposits on reporting date,

2) amount of operating deposits of legal persons and other deposits of legal persons on reporting date,

3) current remaining amounts for other obligations which mature, whose payment may be requested by an issuer or provider of funding sources, or which imply expectation of the issuer or provider of funding sources that the bank will repay obligation in the next 30 calendar day,

4) additional outflows which relate to collateral per contracts on derivates stated in Attachment 2 of the Decision on calculating capital in banks,

5) maximum amount which clients may withdraw during the next 30 calendar days from unused contracted credit and liquidity lines and

6) assessed additional liquid outflows per other products and services.

(3) With prior approval of the Agency, the bank may conduct netting of liquid outflows with related liquid inflows if the following conditions are met:

1) inflow is directly related to the outflow and is not taken into account when calculating liquid inflows from sub-section 3.1.2.2 of this Decision,

2) obligation under which related inflow is required is not determined by regulation, measure issued in accordance with regulation or contract,

3) inflow occurs before outflow with which it is related or shall occur within 10 days from the day of outflow occurrence in case that the obligation of generating inflows is guaranteed by the Council of Ministers BiH, Republika Srpska Government, Federation of BiH Government, Brcko District of BiH Government or central bank of the EU member state.

(4) Along with submitting the request for issuance of prior approval referred to in Paragraph 3 of this Article, the bank shall deliver to the Agency all documentation required for the assessment of fulfilment of conditions stated in that Paragraph, and the Decision on request for netting of liquid outflows with related liquid inflows the Agency shall issue within 30 days from the day of receiving the request with complete documentation.

Retail deposit outflow

Article 34

(1) For the amount of termed retail deposits, for which a request for escrow was submitted, and termination period is shorter than 30 calendar days, i.e. for the amount of deposits for which the obligation of pay out in the next 30 calendar days has occurred, the outflow rate of 100% shall be applied.

(2) When calculating liquid outflows, the bank may exclude the amount or part of the amount of termed retail deposits which meet the following condition that in the period of 30 calendar days the deponent is not allowed to withdraw the deposit (e.g. it is deemed that this condition is met also if there is a clearly defined contractual clause under which the client may withdraw the deposit only under condition that the termination deadline is longer than 30 calendar days, and that in no case there is a possibility that the bank performs pay out before expiration of a defined deadline.

(3) Notwithstanding Paragraph 2 of this Article, the bank may exclude the amount or part of the amount of termed retail deposits when calculating liquidity outflows if, in accordance with the contract, early termination is allowed in individually justified cases, when the depositor is in a difficult situation. The bank is obliged to define by internal acts situations when the client is considered to be in a difficult situation (e.g. death of a family member, illness of a client or family member, loss of job, complete or partial destruction of the client's residential property, etc.), clearly state such situations in the contract and adequately inform the client about the same in the negotiation phase.

(4) Retail deposit which represents purpose deposit used to secure exposure (except exposures classified in credit risk level 3) shall be excluded when calculating liquid outflows, if the exposure does not mature in the next 30 calendar days and by means of pledge contract it is defined that the deposit may not be withdrawn before such exposure matures.

(5) Retail sight and term deposits which are not terminated and which do not meet conditions referred to in Paragraph 2 and 3 of this Article, and term deposits which do not meet conditions referred to in Paragraph 4 of this Article shall be classified into stable retail deposits to which outflow rate of 5% shall be applied, if conditions referred to in Article 35 of this Decision are met and other retail deposits to which outflow rate of 10-20% is being applied depending on the fulfilment of conditions referred to in Article 36 of this Decision.

Outflow of stable retail deposits

Article 35

(1) For stable retail deposits that meet the conditions referred to in Paragraph 2 of this Article, outflow rate of 5% shall be applied by the bank.

(2) A stable retail deposit shall represent a retail deposit which does not meet conditions for higher outflow rates referred to in Article 36, Paragraph 1-3 of this Decision and amounts up to KM 50,000, i.e. up to the amount which is secured in accordance with the provisions of the Law on deposit insurance BiH, if one of the stated conditions is met:

1) deponent has an established relation with the bank, which mitigates the possibility of liquid outflow or

2) deposit is held at client transaction account.

(3) It is deemed that a deponent has established relation with the bank referred to in Paragraph 2, Item 1 of this Article if at least one of the following criteria is met:

1) has an active contractual business relation with the bank in the duration of the at least 12 months, whereby the condition cannot be considered fulfilled if the bank has only the relevant deposit in the bank,

2) has a credit relationship with the bank based on mortgage loan or other long-term loan,

3) apart from relevant deposit, has at least one more contracted active product with the bank which is not stated in Item 2 of this Paragraph (e.g. credit card, overdraft, short-term loan and similar).

(4) Deposits deposited at transaction account for the purpose of Paragraph 2, Item 2 of this Article shall mean deposits which are linked to regular income, such as salary and other regular income.

Outflow of other retail deposits

Article 36

(1) For other retail deposits which do not meet the conditions referred to in Paragraph 2 of this Article, the bank shall apply outflow rate of 10%, also including for the portion of retail deposits referred to in Article 35 of this Decision above KM 50,000.

(2) For other retail deposits, higher outflow rates shall be applied, in a manner defined in Paragraph 3 of this Article, depending on fulfilment of the following conditions:

1) total amount of all client deposits in the bank or in a group to which the bank belongs exceeds KM 125,000,

2) interest rate contracted based on the deposit meets any of the following criteria:

1. is significantly higher that the interest rate offered by other banks for similar categories of retail deposits, whereas the degree of significance of difference in interest rates the bank defines by means of its internal act,

2. its yield is determined based on the yield on market index or more market indexes,

3. its yield is determined based on a variable element at the market, which is not a variable interest rate,

3) deposit is initially contracted with fixed maturity period which expires in the following 30 calendar days or termination deadline shorter than 30 calendar days is defined by the contract,

4) deponent is non-resident or deposit is not denominated in convertible mark, convertible mark with FX clause in EUR or in EUR for the duration of currency board mandate.

(3) Based on the conditions referred to in Paragraph 2 of this Article, the bank shall apply outflow rates in the following manner:

1) if retail deposits meet the criteria referred to in Paragraph 2, Item 1 of this Article or two criteria referred to in Paragraph 2, Items 2-4 of this Article, outflow rate of 15% shall be applied,

2) if retail deposits meet the criteria referred to in Paragraph 2, Item 1 of this Article and at least one more criterion referred to in Paragraph 2, Item 2 – 4 of this Article or at least three criteria referred to in Paragraph 2 of this Article, outflow rate of 20% shall be applied.

(4) The Agency may request application of a higher outflow rate than the rate determined in accordance with Paragraph 3 of this Article in individual cases, if based on specific circumstances in individual bank it assesses as necessary.

Outflow of legal person deposits

Article 37

(1) For the amount of termed legal person deposits for which application for withdrawal was submitted, and termination period is shorter than 30 calendar days, i.e. for the amount of deposits where obligation of pay out in the following 30 calendar days occurred, outflow rate of 100% shall be applied.

(2) The bank may, when calculating liquid outflows, exclude the amount or part of the amount of termed legal person deposits (including deposits of financial clients) which meets the condition that in the period of 30 calendar days deponent is forbidden to withdraw the deposit (e.g. it is deemed that this condition is met also if contractual clause is clearly defined according to which the client may withdraw deposit only if there is a termination deadline which is longer than 30 calendar days, and that in no case there is a possibility that the bank performs pay out before expiration of defined deadline).

(3) Legal person deposit which represents earmarked deposit as exposure collateral (except exposures classified in the level 3 credit risk) shall be excluded when calculating liquid outflows, if the exposure does not mature in the following 30 calendar days, and by means of pledge contract it is defined that the deposit may not be withdrawn before the maturity of that exposure.

(4) Outflow rate of 5% to 25% shall be applied to operational deposits depending on fulfilment of conditions referred to in Article 38 of this Decision.

(5) For other deposits of legal persons which are not financial clients, outflow rate of 20% to 40% shall be applied, depending on fulfilment of conditions referred to in Article 39 of this Decision.

(6) For deposits stemming from correspondent banking (e.g. funds from other banks at the bank accounts) or providing services of chief broker, outflow rate of 100% shall be applied since the same are not deemed as operational deposits.

(7) For other deposits of financial clients which do not meet conditions for operational deposits, outflow rate of 100% shall be applied, unless the condition from Items 2 and 3 of this Article is met.

Outflow per operational deposits of legal persons

Article 38

(1) The bank shall apply outflow rate of 25% for the amount of following types of operational deposits which serve for purpose of client's operational business:

1) deposit which the deponent must hold in order to receive from the bank settlement services, custody services, cash management services or other similar services which are necessary for client's business performance within established business relation with the bank,

2) deposit of the client which is not a financial client which must be kept for other purposes within established business relation with the bank, except the one stated in Item 1 of this Paragraph.

(2) Notwithstanding Paragraph 1 of this Article, the bank shall apply outflow rate of 5% for the part of deposits referred to in Paragraph 1, Item 1 of this Article, which is included in the deposit insurance scheme, according to the provisions of the Law on Deposit Insurance BiH.

(3) Deposits referred to in Paragraph 1 of this Article must have significant legal or operational limitations due to which significant withdrawals in the period of 30 calendar days are not probable.

(4) Part of funds at depository accounts at the bank which serves for the purpose of client's operational business shall be deemed as operational, while the amount above that level is deemed as non-operational deposit. i.e. the amount of deposits the client may withdraw, which leaves a sufficient amount of funds at the account in order for the client to use, without any disruption, clearing services, custody services, cash management services or other similar services, shall not be deemed as operational deposit.

(5) In order to determine deposits referred to in Paragraph 1, Item 2 of this Article, the bank shall deem that there is an established business relation with a non-financial client, excluding termed deposits, saving deposits and deposits per brokerage services, if all following criteria are met:

1) interest rate paid for the funds at this account is at least lower by five base points than the usual rate for deposits of large legal persons of similar characteristics, but does not have to be a negative one,

2) deposit is deposited at special accounts and such conditions are determined which do not create economic incentives by means of which deponent is urged to hold at this account more funds than it is necessary for operational relation,

3) significant transactions are regularly performed at this account,

4) one of the following criteria is met:

1. contractual relation with the deponent exists at least 24 months,

2. deposit is used at least for two active services, whereas such services may include direct or indirect access to domestic and international payment transaction services, trading of securities, depository services and similar.

(6) Only the amount of deposit necessary for the usage of services for which it was deposited shall be included in deposits referred to in Paragraph 5 of this Article, while the remaining amount of these deposits shall be treated as non-operational deposit.

Outflow per other legal person deposits

Article 39

(1) The bank shall apply outflow rate of 40% for the amount of deposits of legal persons which are not financial clients (excluding deposits of companies which met the condition for retail deposits), including deposits of central government, regional government and local authorities, central bank, multilateral development bank, public sector entity, under the condition that they are not deemed as operational deposits referred to in Article 38 of this Decision.

(2) If the deposits referred to in Paragraph 1 of this Article are included in the deposit insurance scheme according to the provisions of the Law on Deposit Insurance BiH, outflow rate of 20% shall be applied. Whereby, outflow rate of 20% shall be applied only if the whole amount of deposit is insured, i.e. if the deposit amounts up to KM 50,000, and if the amount of deposit is higher than KM 50,000 outflow rate of 40% shall be applied for the whole deposit amount.

Outflow per other liabilities

Article 40

(1) The bank shall apply outflow rate of 0% for the amount of liabilities stemming from the bank's operational costs.

(2) For the liabilities stemming from transactions secured by collateral and transactions dependent on the capital market trends which mature within 30 calendar days, the bank shall apply the following outflow rates:

> 1) 0% if secured by asset which would be treated as level 1 asset in accordance with Article 25, Paragraph 1 of this Decision, except covered bonds of extremely high quality or if the creditor is a central bank,
>
> 2) 7% if secured by asset in the form of covered bonds of extremely high quality in accordance with Article 25, Paragraph 1, Item 7 of this Decision,
>
> 3) 15% if secured by asset which would be treated as level 2a asset in accordance with Article 26 of this Decision,
>
> 4) 30% if secured by asset in the form of covered bonds of high quality in accordance with Article 27, Paragraph 1, Item 3 of this Decision,
>
> 5) 50% if secured by:
>
> > 1. debt securities of companies which would be treated as level 2b asset in accordance with Article 27, Paragraph 1, Item 1 of this Decision,
> >
> > 2. shares which would be treated as level 2b asset in accordance with Article 27, Paragraph 1, Item 2 of this Decision,
>
> 6) 100% if secured by asset which would not be treated as liquid asset in accordance with Articles 21-30 of this Decision, unless the creditor is central bank when outflow rate of 0% is being applied or central government, regional government and local authorities or public sector entity to which, according to the Decision on calculating capital in banks, risk weight of maximum 20% is being assigned or multilateral development bank when outflow rate of 25% is being applied.

(3) Liquid fund outflows in case of swop contracts which imply exchange of collateral that is not cash (collateral exchange) and mature in the following 30 calendar days shall be calculated as a positive balance between liquid value of received assets and liquid value of provided assets, unless in case that the counterparty is a central bank, when outflow rate of 0% is being applied.

(4) The bank shall apply outflow rate of 100% for all liabilities per issued bonds and other debt securities.

Additional outflows

Article 41

(1) For the amount of collateral the bank provided based on contract on derivates from the Attachment 2 of the Decision on calculating capital in banks, except cash and other liquid asset of level 1 referred to in Article 25 of this Decision, additional outflow rate of 20% shall be applied.

(2) For the amount of collateral the bank provided based on contract on derivates from the Attachment 2 of the Decision on calculating capital in banks in the form of covered bonds of extremely high quality referred to in Article 25, Paragraph 1, Item 7 of this Decision, additional outflow rate of 10% shall be applied.

(3) If the bank concluded contract in accordance with which there is a possibility that in case of deterioration of the bank's creditworthiness, i.e. decrease in its credit rating up to three levels in the period of 30 calendar days, additional liquid outflows occur or there is an onset of obligation for the bank to provide collateral for such outflow amount, i.e. requirement for additional collateral, the bank shall apply outflow rate of 100%.

(4) The bank shall be obliged to determine and include in total liquid outflows additional outflow in the amount corresponding to the requirements for providing additional collateral in stress situations at the market per transactions with derivates, transactions of financing securities or other contracts, if such transactions are materially significant.

(5) Transactions referred to in Paragraph 4 of this Article shall be deemed as materially significant if their nominal value is higher than 10% of the bank's liquid outflows in any given point in the previous two years.

(6) For the purpose of calculating additional liquid outflows referred to in Paragraph 4 of this Article, the bank shall be obliged to gather data on fair value of provided collateral for all contracts on derivates for each day in the last two years and to determine additional outflow as the highest balance in the amount of provided collateral which occurred between two consecutive periods of 30 calendar days in the last two years.

(7) Inflows and outflows of liquid funds that are expected in the following 30 calendar days per contracts on derivates from the Attachment 2 of the Decision on calculating capital in banks shall be calculated on a net basis, given that when calculating of net amount requirements for additional outflows referred to in Paragraphs 1-4 of this Article shall not be taken into account. If net liquid outflow per contract on derivates is determined in such manner, outflow rate of 100% shall be applied to the amount calculated in such manner.

(8) The bank shall determine and include in total liquid outflows additional outflow of liquid funds which is calculated by applying outflow rate of 100% to market value of securities or other asset which the bank sold on the basis of short sale and must return in the following 30 calendar days.

(9) Additional outflow referred to in Paragraph 8 of this Article shall not be calculated if the bank already possesses securities which it must return or which it borrowed based on contract in accordance to which it is in no obligation to return the same in the following 30 calendar days, and if such securities are not included in the calculation of liquidity buffer. If the short sale is covered by existing secured securities financing transaction, it shall be deemed that the obligation of returning securities which were sold on the basis of short sale does not mature in the following 30 calendar days and outflow rate of 0% shall be applied.

(10) The bank shall apply additional outflow of 100% on:

1) the amount of excess of collateral held by the bank, and which the counterparty, based on the contract, may request in any moment within the following 30 calendar days,

2) the amount of collateral which should be offered to the counterparty within the following 30 calendar days,

3) the amount of collateral corresponding to the asset which would be treated as liquid assets for the purpose of liquidity buffer, and which could be replaced by the asset corresponding to the asset which would not be treated as liquid assets for the purpose of liquidity buffer without the bank's approval.

(11) The bank shall be obliged to assume the outflow of 100% for loss stemming from financing of securities secured by asset, stemming from covered bonds and other similar instruments which mature within 30 calendar days, if it issued such instruments.

(12) If there are cases that the bank borrowed unsecured asset which matures within 30 calendar days, it shall be assumed that the same matures in the full amount, which results in 100% of outflow of liquid asset, except in case when the bank owns securities and they do not represent the bank's liquidity buffer.

(13) If there are cases when the bank provides service of a chief broker and if it is financing the asset of one client with its internal netting with short sales of another client, outflow rate of 50% for potential obligation would have been applied to such transactions, for in the case of withdrawal of the client, the bank may be under obligation to provide additional funding sources in order to cover those positions.

Outflow per credit and liquidity lines

Article 42

(1) For the purpose of this sub-section, liquidity lines imply all irrevocable and conditionally revocable contracted non-drawn lines which provide refinancing of client's debt in situations when such client is in no position to gather regular funding sources at the financial market. Their amount shall be determined as the amount of the client's current debt which matures in the next 30 calendar days, and which is covered by such liquidity line, whereas portion of liquidity line which serves as a coverage for the amount of debt that does not mature in the said period shall not be taken into account when determining the amount of liquidity line.

(2) All lines, i.e. portion of liquidity lines which have a different purpose from the purpose defined in Paragraph 1 of this Item shall be deemed as credit lines. Usual lines for working capital extended to companies shall be deemed as credit lines.

(3) The bank shall calculate outflow per irrevocable and conditionally revocable credit and liquidity lines by multiplying the amount of such line with an appropriate outflow rate referred to in Paragraphs 5-8 of this Article. For the purposes of this sub-section, credit lines are all contracted non-withdrawn credit lines, including credit cards, current account overdrafts, revolving loans and similar.

(4) Line amount referred to in Paragraph 3 of this Article shall be the highest unused amount which can be drawn on the basis of all lines in the next 30 calendar days, reduced by the amount of additional outflows per off-balance sheet products related to trade financing from Article 43, Paragraph 1, Item 8 of this Decision, if the client contracted such product with the bank, and by the amount of collateral which the client provided to the bank per such line, whose value is calculated in accordance with Article 24 of this Decision and which meet the following conditions:

1) collateral may be re-used or pledged by the bank,

2) collateral meets the conditions for inclusion in liquidity buffer, if not included,

3) collateral does not represent asset issued by the user of credit or liquidity line or persons related to it.

If required information are available to the bank, the highest amount that can be drawn in terms of credit and liquidity lines shall be determined as the highest amount that can be drawn taking into account counterparty obligations or a pre-defined withdrawal schedule which matures within 30 calendar days.

(5) The amount of irrevocable and conditionally revocable credit and liquidity lines referred to in Paragraph 4 of this Article shall by multiplied with the outflow rate of 5%, if such lines are extended to a private individual and small or medium enterprise which is deemed as retail in accordance with the definition from Article 2, Paragraph 1, Item 16 of this Decision.

(6) The amount of irrevocable and conditionally revocable credit lines referred to in Paragraph 3 of this Article shall by multiplied with the outflow rate of 10%, if such lines meet the following conditions:

1) counterparty is not a private individual or small and medium enterprise referred to in Paragraph 5 of this Article.

2) are extended to legal persons which are not financial clients, and are defined in Article 39, Paragraph 1 of this Decision,

3) are not extended for the purpose of replacement of client's funding sources in situations when the client is in no position to gather funding sources at the financial market.

(7) The amount of irrevocable and conditionally revocable liquidity lines referred to in Paragraph 3 of this Article shall by multiplied with the outflow rate of 30%, if such lines only meet the conditions referred to in Paragraph 6, Item 1 and 2 of this Article.

(8) The amount of irrevocable and conditionally revocable liquidity lines referred to in Paragraph 3 of this Article shall by multiplied by the following outflow rates:

1) 40% for credit and liquidity lines extended to banks, as well as for credit lines extended to other financial clients whose business operations are regulated by appropriate regulation and a competent body is performing supervision over such entity,

2) 100% for credit and liquidity lines extended to financial clients not stated in Item 1 of this Paragraph.

Additional outflows per other products and services

Article 43

(1) The bank shall adopt internal methodology for determining additional outflow rates for other products and services referred to in Paragraph 2 of this Article which must be adequately documented, and the bank must be in any moment in position to prove to the Agency the adequacy of rates determined by the internal methodology.

(2) If the bank failed to determine outflow rates in accordance with Paragraph 1 of this Article, it shall be obliged to apply the following rates:

1) 5% for the amount of guarantees and other guarantee forms,

2) 5% for unused amount of approved credit lines of legal persons which the bank may unconditionally and without prior notice cancel, and 3% in case of private individuals and small and medium enterprises,

3) 5% for unused amount of limits per credit cards of legal persons, if they can be deemed as unconditionally revocable, and 3% in case of private individuals and small and medium enterprises,

4) 5% for unused amount of overdraft per current accounts, if they can be deemed as unconditionally revocable, and 3% in case of private individuals and small and medium enterprises,

5) 100% for the amount of contracted loans secured by mortgage which has still not been drawn,

6) 100% for the amount of planned outflows per placements of new loans or renewal of existing loans to retail and large clients,

7) 100% for the amount of planned payments per derivates, whereas planned outflow shall be assessed in assumed stress conditions in accordance with Article 32 of this Decision in the period of 30 calendar days,

8) 5% for the amount of off-balance sheet products related to trade financing.

(3) The bank shall apply outflow rate of 100% to all liquid outflows per obligations which mature in the next 30 calendar days, and which are not stated in Articles 34-42 of this Decision and Paragraphs 1 and 2 of this Article.

3.1.2.2. Liquid fund inflow (liquid inflow)

Liquid inflow

Article 44

(1) Bank shall assess liquid inflows during the period of 30 calendar days, covering only inflows which stem from exposures that did not mature, and for which the bank has no reason to expect non-fulfilment of obligation in the period of 30 calendar days.

In relation to above stated, the bank should, e.g. include only contracted liquid inflows from loans which are serviced regularly, which implies that it will record only inflows per loans for which it is not expected non-fulfilment of obligation by the client in the period of 30 calendar days.

(2) Inflows per bank asset which is included in liquidity buffer shall not be included in liquid inflows for purpose of LCR calculation, except expected inflows per such asset which have not been taken into account when calculating market value of such asset in the bank's liquidity buffer (e.g. interest accrued).

(3) Inflows per new bank's obligations shall not be included in liquid inflows for purpose of LCR calculation, whereas new obligation implies receivables per contract not concluded on the reporting date, but the signing of the same is expected in the next 30 calendar days.

(4) Inflows per receivables which originate from third countries, where there are limitations in relation to free transfer of funds or which are expressed and serviced in non-convertible currency, shall be taken into account when calculating LCR only to the extent which serves as an outflow coverage in that country or currency.

(5) Inflows which are in accordance with Article 33, Paragraph 3 of this Decision already netted with related outflows shall not be included in liquid inflows for purpose of LCR calculation.

(6) Inflows per undrawn credit or liquidity lines approved to the bank shall not be included in liquid inflows for purpose of LCR calculation.

(7) Notwithstanding Paragraph 6 of this Article, the Agency may provide approval to the bank for application of higher inflow rate for the amount of undrawn credit or liquidity lines approved to the bank, if all following conditions are met:

1) it is reasonable to expect a higher inflow per those lines even in conditions of market stress or stress in terms of provider of credit or liquidity line,

2) counterparty is a parent company, subsidiary or subsidiary of the bank parent company,

3) if the inflow rate, for whose application the bank requests the Agency's approval, is higher than 40% and the counterparty is applying the same outflow rate for the amount of obligations per such line,

4) counterparty is founded in Republika Srpska.

When submitting application for the Agency's approval, the bank is obliged to submit documentation proving fulfilment of previously stated conditions.

(8) In case of transactions secured by collateral and transactions dependent on capital market trends, the following rules shall be applied in terms of inflows:

1) shall not be taken into account up to the amount of value of liquid asset which is included in liquidity buffer after reduction by appropriate corrective factor,

2) shall be taken into account in full amount for remaining value or if secured by asset which is not treated as liquid asset to be included in liquidity buffer,

3) inflow shall not be taken into account if the collateral is used for coverage of short position in accordance with Article 41, Paragraph 8 of this Decision.

(9) Inflows per transactions with a future date of settlement may be included as liquid inflow for purpose of LCR calculation only for inflows per transactions which are contracted on the reporting date and whose settlement date is within 30 calendar days, and maturity date after 30 calendar days, i.e. for which the first part of transaction results in inflow.

(10) For receivables referred to in Paragraph 1 of this Article, inflow rates shall be applied in manner as defined by Article 45 of this Decision.

Application of corresponding inflow rates

Article 45

(1) Inflow rate of 100% shall be applied to inflows, except when stated otherwise in this Article, and particularly to the following inflows:

1) cash receivables from central banks and financial clients which relate to receivables per securities which mature within 30 calendar days and short-term transactions of trade financing which are automatically closed, and which relate to exchange of goods and services and mature in the next 30 calendar days,

2) cash receivables per positions of equity instruments included in main stock indexes and which mature in the next 30 calendar days, under the condition that they are not already included in liquid asset (e.g. dividend and receivables per sold equity instruments in transactions which are still not settled).

(2) Notwithstanding Paragraph 1 of this Article:

1) cash receivables from clients which are not financial clients for the purpose of paying the principle shall be reduced by 50% of their value or by contractual obligation of financing those clients, depending on which amount is higher,

For the purpose of this Item, clients which are not financial clients include private individuals, companies, central governments, multilateral development banks, regional governments and local authorities and public sector entities.

2) for cash receivables per contracted margin loans where collateral represents asset that does not meet conditions for inclusion in liquidity buffer, the bank may apply inflow rate of 50%. Such inflows may be taken into account only if the bank did not use collateral provided on the basis of those loans for the coverage of short position.

3) for cash receivables from other bank which such bank treats as outflows per operational deposits, inflow rate shall be applied which corresponds to the outflow rate the counterparty

implies for the amount of obligations it has per such basis. If the bank cannot determine such rate, inflow rate of 5% shall be applied,

4) swop contracts which imply exchange of collateral that is not cash (collateral exchange) and mature in the next 30 calendar days lead to inflow of liquid funds in the amount of positive balance between liquid value of provided asset and liquid value of received asset,

5) if the collateral received by reverse repo contract, contract on securities borrowing or exchange of collateral, which matures in the next 30 calendar days, is being re-used as mortgage or used for coverage of short positions which may be extended even after 30 calendar days, the bank shall assume that such reverse repo transaction operations or securities borrowing will renew and in such way reflect its need for further coverage of short position or repurchase of relevant securities. Short positions include both cases, full short sale of securities by the bank as a part of trading or protection strategy, as well as cases in which the bank has short position in securities in the trading book for repo transactions, and it borrowed securities for a definite period of time and lend the same for a longer period.

6) cash receivables per securities issued by the bank itself or persons related to the bank shall be taken into account on a net basis with the inflow rate that is applied on the basis of inflow rate applicable to underlying asset,

7) for the amount of receivables per asset with undefined contracted maturity date, when the bank based on contract may withdraw the funds, i.e. request pay out of funds in the next 30 calendar days, inflow rate of 20% shall be applied.

(3) Paragraph 2, Item 1 of this Article shall not be applied to cash receivables per transactions secured by collateral and transactions dependent on capital market trends, as defined in Articles 84 and 85 of the Decision on calculation of capital in banks, which are secured by liquid asset. Inflows from the release of amounts held at special accounts in accordance with the regulatory requirements for the protection of traded clients' assets shall be taken into account in full, provided that these special amounts are retained in liquid assets.

(4) Outflows and inflows envisaged by contracts from the Attachment 2 of the Decision on calculation of capital in banks, whose realization is expected in the period of 30 calendar days, shall be calculated on a net basis, i.e. reduced by collateral which shall be received under the condition that the same is recognized as liquid asset, and multiplied by 100% in case of net inflow.

Application of limitation in recognition of total liquid inflows

Article 46

(1) For the purpose of LCR calculation, the bank may include liquid inflows maximum up to 75% of total liquid outflows, unless the bank was approved by the Agency to apply exemption from Paragraph 2 of this Article.

(2) The bank may, with prior approval issued by the Agency, fully or partially exempt from the application of limitations referred to in Paragraph 1 of this Article the following types of inflows:

1) inflows where funding source provider is a parent company, subsidiary or subsidiary of the bank's parent company,

2) inflows per bank deposit deposited at another bank which is the member of the same banking group, if the following conditions are met:

1. the bank and the counterparty are subject of consolidation, which is performed by the method of full consolidation,

2. the same manner of assessment, measurement and risk control is applied to the bank and the counterparty,

3. the bank and the counterparty are founded in Republika Srpska,

4. there are no limitations in terms of withdrawal of deposited bank funds.

(3) When submitting request for the Agency's approval, the bank shall be obliged to submit documentation on the type of inflow for which the exemption from the application of limitations referred to in Paragraph 1 of this Article is requested, to the counterparty in such transactions, i.e. funding source provider, as well as documentation proving the fulfillment of conditions referred to in Paragraph 2 of this Article.

3.2. Requirements related to stable funding

Net stable funding ratio

Article 47

(1) The bank is obliged to provide adequate financing of the bank's long-term assets with stable funding sources, i.e. appropriate items of liabilities and capital in normal and stressful conditions.

(2) For the purpose of acting in accordance with Paragraph 1 of this Article, the bank shall provide a minimum NSFR, which is the ratio between the available stable funding (ASF) and the required stable funding (RSF), while continuously maintaining NSFR in an amount of at least 100% in accordance with the following formula:

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$

Application of net stable funding ratio

Article 48

(1) In monitoring and controlling liquidity risk, the bank shall continuously calculate, monitor and maintain NSFR for all currencies denominated in the reporting currency, and calculate and monitor NSFR for each significant currency.

(2) The bank shall report to the Agency on a quarterly basis on NSFR in a single reporting template that includes all currencies denominated in the reporting currency and separately for each significant currency, whereby the Agency may require more frequent reporting in case of need or crisis situations.

(3) If NSFR falls below 100% or is expected to fall below 100%, the bank shall act in accordance with Article 7, Paragraph 2 and 3 of this Decision, i.e. must without delay inform the Agency about the occurred situation, stating the reasons why it cannot meet stipulated NSFR, and the Agency may take appropriate supervisory measures and, after considering the submitted plan for compliance with the minimum requirement, determine deadlines for establishing re-compliance with stipulated requirements.

(4) The Agency may determine additional requirements for the bank for stable funding in accordance with Article 75 of this Decision.

(5) The manner of reporting on NSFR shall be stipulated by a special bylaw of the Agency.

Monitoring of net stable funding ratio in significant currency

Article 49

(1) The bank should monitor and report on NSFR and for all individually significant currencies, in order to prevent potential problems that may arise in connection with foreign exchange mismatch.

(2) The bank shall ensure that the currency structure of its funding corresponds to the greatest extent to the currency structure of its assets. The Agency may require the bank to limit a currency mismatch by setting limits on the portion of the required stable funding in a particular currency, which may be covered by an available stable funding that is not denominated in that currency. This limitation shall be applied only to the currency to which the separate reporting requirement for significant currencies can be applied.

(3) When determining the additional limitation referred to in Paragraph 2 of this Article, the Agency shall take into account at least the following:

1) whether the bank is able to transfer available stable funding from one currency to another and to different countries and legal entities within its group, and to exchange currencies and collect funds on foreign exchange markets in a period of one year,

2) the impact of unfavorable exchange rate trends on existing mismatched positions and on the efficiency of established currency hedges.

Components of net stable funding ratio

Article 50

(1) The calculation of NSFR referred to in Article 47 of this Decision is based on the determination of the following components:

1) the available stable funding and

2) the required stable funding.

(2) The bank shall establish and maintain an adequate system for determining the components of NSFR referred to in Paragraph 1 of this Article.

(3) The assessment of the adequacy of the established system referred to in Paragraph 2 of this Article shall be performed by internal and external audit.

3.2.1. Available stable funding

Calculation of available stable funding

Article 51

(1) The available stable funding is the sum of weighted amounts calculated in such a way that the gross carrying amount of liabilities and items of regulatory capital is multiplied by the corresponding weights of available stable funding defined in Subsection 3.2.1.1. this Decision, except in the case of derivatives and securities financing transactions.

(2) The bank may not include a certain item when calculating the available stable funding if it has included the same item when calculating the required stable funding (e.g. in the case of repo and reverse repo transactions).

(3) In the case where NSFR is calculated on a consolidated basis, on liabilities and items of regulatory capital of a subsidiary seated in a third country, to which the weights of available stable funding are applied and which are determined by the regulations of that third country, are lower than those specified in this Subsection, in the case of consolidation, lower weights determined by the regulations of that third country shall be applied.

Remaining maturity of liabilities or items of regulatory capital

Article 52

(1) The bank shall take into account the remaining contractual maturity of its liabilities and regulatory capital items in order to allocate the appropriate weights of available stable funding referred to in Subsection 3.2.1.1. of this Decision.

(2) The bank shall take into account existing options for determining the remaining maturity of a liability or regulatory capital item, assuming that the counterparty will exercise the options for settling the liability at the earliest possible date. For options exercised at the bank's discretion, the bank and the Agency shall take into account reputational factors that limit the bank's ability not to exercise the option, and in particular market expectations that the bank will settle certain obligations before their maturity.

(3) The bank shall treat deposits with an agreed fixed notice period in accordance with their notice period, and time deposits without an agreed possibility of early withdrawal in accordance with their remaining maturity.

(4) The bank shall treat each part of liabilities with a remaining maturity of one year and longer that matures in less than six months as if it had a remaining maturity of less than six months, and each part of those liabilities that matures within six months to a year as if it had a remaining maturity of between six months and one year.

3.2.1.1. Available stable funding weights

Available stable funding weight of 0%

Article 53

(1) The bank shall apply a weight of available stable funding of 0% to all liabilities without a contractually defined maturity, except in the following cases:

1) deferred tax liabilities to which the weight of available stable funding is assigned, depending on the first possible date when these liabilities can be executed and that date is considered the maturity date, i.e.:

1. 0% when the remaining maturity of the deferred tax liability is shorter than six months,

2. 50% when the remaining maturity of the deferred tax liability is at least six months but less than one year or

3. 100% when the remaining maturity of the deferred tax liability is one year or longer.

2) items that meet the conditions for the application of a higher weight in accordance with Articles 54-57 of this Decision.

(2) The bank applies a weight of available stable funding of 0% to the following liabilities:

1) liabilities arising from the purchase and sale of financial instruments, foreign currencies and commodities that are expected to be settled in the period usual for that type of transaction (e.g. maximum two working days in the case of purchase and sale of foreign currencies, maximum five working days in case of purchase and sale of securities, etc.) or liabilities that have not been settled, but are expected to be settled;

2) liabilities on the basis of credit and liquidity lines that are considered as an interdependent item, only with the previously obtained approval of the Agency, if all following conditions are met:

1. the bank is exclusively an intermediary for the placement of financial assets from the obligation in the appropriate interdependent assets,

2. individual interdependent assets and liabilities can be clearly identified and have the same amount of principal,

3. the asset and the interdependent liability have approximate maturities, with the largest possible difference between the maturity of the asset and the maturity of the liability being 20 calendar days,

4. an interdependent obligation is requested in accordance with a legal, regulatory or contractual obligation and is not used to finance other assets,

5. the principal payment flows from the assets are not used for purposes other than the repayment of the interdependent obligation,

6. the counterparties for each pair of interdependent assets and liabilities are not the same (e.g. the same person who is the credit line provider is not the loan beneficiary).

The condition that the liability is considered an interdependent item is considered fulfilled if the bank is exclusively an intermediary and does not bear any financing risk;

3) liabilities with a remaining maturity of less than six months towards:

1. Central Bank of BiH,

2. the European Central Bank or the central bank of the EU Member State,

3. the central bank of a third country,

4. financial clients;

4) any other liabilities or capital instruments with a remaining maturity of less than six months that have not met the condition for assigning a weight of 50% to 100% in accordance with Articles 54–57 of this Decision.

(3) In the case of derivatives, the bank shall apply the weight of available stable funding of 0% to the amount of the difference (only if the difference is negative) between the sum of the fair values of all netting sets with positive fair value and the sum of fair values of all netting sets with negative fair value.

(4) The fair value of the netting set referred to in Paragraph 3 of this Article is the sum of the fair value of all transactions included in the netting set. In this case, contracts for derivatives such as cross-currency interest rate swaps, foreign exchange forwards, foreign exchange futures and foreign exchange options that involve a full exchange of principal on the same date are calculated on a net basis by currencies even if those transactions are not covered by the same netting set.

Available stable funding weight of 50%

Article 54

The bank shall apply a weight of available stable funding of 50% to the following liabilities:

1) received deposits that meet the requirements for operational deposits referred to in Article 38 of this Decision,

2) liabilities with a remaining maturity of less than one year towards:

1. Council of Ministers of BiH, the central government of the EU member state or a third country,

2. Government of Republika Srpska, Government of the Federation of BiH and Government of Brčko District of BiH, regional governments or local authorities from BiH, the EU Member State or a third country,

3. public sector entities from BiH, EU Member States or third countries,

4. multilateral development banks and international organizations,

5. legal entities that are not financial clients,

3) liabilities with a remaining maturity of at least six months, but shorter than one year towards:

1. Central Bank of BiH,
2. the European Central Bank or the central bank of the EU Member State,
3. the central bank of a third country,
4. financial clients,

4) any other liabilities with a remaining maturity of at least six months, but shorter than one year when the condition for assigning a weight of available stable funding of 90% to 100% in accordance with Articles 55–57 of this Decision is not met.

Available stable funding weight of 90%

Article 55

The bank shall apply a weight of available stable funding of 90% to sight retail deposits, retail deposits with a fixed notice period of less than one year and time retail deposits with a remaining maturity of less than one year, which meet the requirements for other retail deposits from Article 36 of this Decision.

Available stable funding weight of 95%

Article 56

The bank shall apply a weight of available stable funding of 95% to retail deposits that meet the requirements for stable retail deposits referred to in Article 35 of this Decision.

Available stable funding weight of 100%

Article 57

The bank shall apply a weight of available stable funding of 100% to the following liabilities, and items and capital instruments:

1) items of the bank's CET1 capital before deduction for adjustments and regulatory adjustments defined by the Decision on calculating capital in banks,

2) items of the bank’s AT1 capital before deduction for regulatory adjustments defined by the Decision on calculating capital in banks, excluding all instruments with explicit or embedded options which, in case of execution, would reduce the remaining maturity to less than one year,

3) bank Tier 2 capital items before deduction for regulatory adjustments defined by the Decision on calculating capital in banks, with a remaining maturity of one year or longer, excluding all instruments with explicit or embedded options that would, in case of execution, reduce the remaining maturity to less than one year,

4) any other capital instruments of the bank with a remaining maturity of one year or longer, excluding all instruments with explicit or embedded options that would, in the event of execution, reduce the remaining maturity to less than one year,

5) any other secured and unsecured loans and liabilities with a remaining maturity of one year or longer, including time deposits, if the conditions for assigning a weight of 0% to 95% in accordance with Articles 53–56 of this Decision are not met.

3.2.2. Required stable funding

Calculation of required stable funding

Article 58

(1) The required stable funding is the sum of weighted amounts calculated in such a way that the gross carrying amount of assets or off-balance sheet items is multiplied by the corresponding weights of required stable funding defined in Subsection 3.2.2.1. of this Decision, except in the case of derivatives and securities financing transactions.

(2) If a certain item can be allocated to more than one category of required stable funding, it shall be allocated to the category of required stable funding to which the highest weight of required stable funding shall be assigned.

(3) The bank may not include a certain item when calculating the required stable funding if it has already included it when calculating the available stable funding.

(4) Assets borrowed by the bank, including securities financing transactions, shall be excluded when calculating the required stable funding if those assets are listed in the bank's balance sheet and the bank is not entitled to use those assets. Assets borrowed by the bank, including securities financing transactions, are subject to the weights of required stable funding if those assets are not listed in the bank's balance sheet, but the bank has the right to use those assets.

(5) Assets lent by the bank, including securities financing transactions, while retaining the right to use those assets, shall be considered encumbered assets for the purposes of this section and shall be subject to the weights of required stable funding even if the bank does not list these assets in its balance sheet. Otherwise, these assets are excluded when calculating the required stable funding.

(6) If the bank reuses or pledges assets it has borrowed, including assets that are the subject of a pledge in securities financing transactions, and if those assets are recorded in off-balance sheet, the transaction in respect of which the borrowed assets are treated is encumbered with assets provided that the transaction cannot mature if the bank does not repay the assets it has borrowed.

(7) Assets encumbered (pledged) for a remaining maturity of six months or longer shall be subject to either the weight of the required stable funding, which would be applied to those assets as if unencumbered, or the weight of the required stable funding, which would otherwise apply on that encumbered asset, depending on which weight is higher. The same rule applies if the remaining maturity of the encumbered assets is shorter than the remaining maturity of the transaction secured by the encumbered assets.

(8) Assets with the remaining encumbrance period of less than six months shall be subject to the weights of the required stable funding, which would be applied to those assets in accordance with Subsection 3.2.2.1. of this decision as if they are unencumbered.

(9) When calculating the required stable funding, the bank shall include financial instruments, foreign currencies and commodities with which the purchase order has been executed. In doing so, the bank excludes financial instruments, foreign currencies and commodities for which a sale order has been executed, provided that these transactions are not disclosed as derivatives or collateralized financing in the bank's balance sheet or are disclosed in the bank's balance sheet after settlement.

(10) In the case of calculating NSFR on a consolidated basis, on the assets and off-balance sheet items of a subsidiary established in a third country, to which the weights of required stable funding determined by the regulations of that third country which are higher than those specified in this subsection are being applied, in consolidation, the higher weights established by the regulations of that third country are being applied. Also, the assets of a subsidiary seated in a third country are not recognized as liquid assets for consolidation purposes if they are not recognized as liquid assets in accordance with the regulations of that third country which determines the requirement for liquidity coverage.

Remaining maturity of assets

Article 59

(1) The bank shall take into account the remaining contractual maturity of its balance sheet assets and off-balance sheet items in order to assign appropriate weights of the required stable funding applicable to its assets and off-balance sheet items in accordance with Subsection 3.2.2.1. of this Decision.

(2) When calculating the remaining maturity of the asset, the bank shall take into account the options based on the assumption that the issuer or the contracting party will exercise any option that may extend the maturity of the asset. For options exercised at the discretion of the bank, the bank and the Agency take into account reputational factors that may limit the bank's ability not to exercise the option, and in particular market expectations and client expectations that the bank should extend the maturity of certain assets at the moment of its maturity.

(3) In order to determine the weights of the required stable funding applicable to repayment loans with a remaining contractual maturity of one year and longer, the bank shall treat each portion maturing in less than six months as having a remaining maturity of less than six months and each portion maturing within six months to one year as if it had a remaining maturity between six months and one year.

3.2.2.1. Required stable funding weights

Required stable funding weight of 0%

Article 60

(1) The bank shall apply the required stable funding weight of 0% to the following assets:

1) all reserves held by the bank with the Central Bank of BiH, including the amount of required reserves and the excess over required reserves,

2) all other receivables from the Central Bank of BiH, the European Central Bank, the central bank of the EU Member State and the central bank of a third country with a remaining maturity of less than six months,

3) unencumbered shares or stocks in investment funds to which a correction factor of 0% is applied when calculating LCR in accordance with Article 25, Paragraph 2, Item 3, Sub-item 1 of this Decision, regardless of whether the operational requirements are met from Article 23 of this Decision and requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision,

4) unencumbered other assets recognized as liquid assets of level 1 to which a correction factor of 0% is applied in accordance with Article 25, Paragraph 2, Item 1 of this Decision, excluding covered bonds of extremely high quality, regardless of whether the operational requirements referred to in Article 23 of this Decision are met,

5) receivables arising from the purchase and sale of financial instruments, foreign currencies and commodities that are expected to be settled in the period usual for that type of transaction (e.g. maximum two working days in the case of purchase and sale of foreign currencies, maximum five working days in case of purchase and sale of securities, etc.) or receivables that are expected to be settled,

6) receivables that are considered an interdependent item, only with the previously obtained approval of the Agency, if all conditions defined in Article 53, Paragraph 2, Item 2 of this Decision are met,

7) cash receivables from securities financing transactions with financial clients, if those transactions have a remaining maturity of less than six months, if these cash receivables are

secured by assets recognized as level 1 liquid assets, excluding covered bonds of extremely high quality, and if the bank would have a legal right and be able to re-use those assets operationally for the duration of the transaction.

(2) For the purposes of applying Paragraph 1, Item 7 of this Article, assets and liabilities resulting from securities financing transactions with the same counterparty shall be calculated on a net basis if those assets and liabilities meet all of the following netting conditions:

1) transactions have the same exclusive final settlement date,

2) the right to offset the amount owed to the contracting party with the amount owed by the contracting party is legally enforceable both during normal business and in case of non-fulfillment of obligations, liquidation or bankruptcy,

3) the counterparties intend to perform settlement on a net basis or to perform simultaneous settlement or transactions are subject to a settlement mechanism that is realized as a functional equivalent of net settlement.

Required stable funding weight of 5%

Article 61

(1) The bank shall apply the required stable funding weight of 5% to the following assets:

1) unencumbered shares or stocks in investment funds to which a correction factor of 5% is applied when calculating LCR in accordance with Article 25, Paragraph 2, Item 3, Sub-item 2 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met,

2) cash receivables on the basis of securities financing transactions with financial clients, if those transactions have a remaining maturity of less than six months, except for those specified in Article 60, Paragraph 1, Item 7 of this Decision,

3) unused part of irrevocable and conditionally revocable credit and liquidity lines,

4) off-balance sheet products related to trade financing (e.g. guarantees, letters of credit, etc.), with a remaining maturity of less than six months,

5) guarantees and other forms of sureties, except for those mentioned in Item 4 of this Paragraph,

6) unused amount of credit card limits, if they can be considered unconditionally revocable,

7) unused amount of approved framework loans that the bank may cancel unconditionally and without prior notice,

8) unused amount of overdraft on current accounts if they can be considered unconditionally revocable.

(2) For the purposes of applying Paragraph 1, Item 2 of this Article, assets and liabilities resulting from securities financing transactions with the same counterparty shall be calculated on a net basis if those assets and liabilities meet all following netting requirements referred to in Article 60, Paragraph 2 of this Decision.

(3) For all sets for netting derivative contracts, the bank shall apply the required stable funding weight of 5% to the absolute value of the fair value of these sets for netting derivative contracts, without deduction for any given collateral, if these netting sets have a negative fair value. For the purposes of this Paragraph, the bank shall determine fair value without deduction for any collateral provided or payments received and given in connection with changes in the market value of such contracts.

Required stable funding weight of 7%

Article 62

The bank shall apply the required stable funding weight of 7% to unencumbered assets in the form of covered bonds of extremely high quality referred to in Article 25, Paragraph 1, Item 7 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 7.5%

Article 63

The bank shall apply the required stable funding weight of 7.5% to off-balance sheet products related to trade financing (e.g. letters of credit), with a remaining maturity of at least six months but less than one year.

Required stable funding weight of 10%

Article 64

The bank shall apply the required stable funding weight of 10% to the following assets:

1) off-balance sheet products related to trade financing (e.g. guarantees, letters of credit, etc.), with a remaining maturity of one year and longer,

2) balance sheet products related to trade financing (e.g. export financing loans), with a remaining maturity of less than six months,

3) cash receivables based on transactions with financial clients with a remaining maturity of less than six months, except for those specified in Articles 60 and 61 of the Decision.

Required stable funding weight of 12%

Article 65

The bank shall apply the required stable funding weight of 12% to unencumbered shares or stocks in investment funds to which a correction factor of 12% is applied when calculating LCR in accordance with Article 25, Paragraph 2, Item 3, Sub-item 3 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 15%

Article 66

The bank shall apply the required stable funding weight of 15% to unencumbered assets recognized as level 2a liquid assets in accordance with Article 26 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 20%

Article 67

The bank shall apply the required stable funding weight of 20% to unencumbered shares or stocks in investment funds to which a correction factor of 20% is applied when calculating LCR in accordance with Article 26, Paragraph 2, Item 2 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 30%

Article 68

The bank shall apply the required stable funding weight of 30% to unencumbered assets in the form of covered bonds of high quality referred to in Article 27, Paragraph 1, Item 3 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 35%

Article 69

The bank shall apply the required stable funding of 35% to shares or stocks in investment funds to which a correction factor of 35% is applied when calculating LCR in accordance with Article 27, Paragraph 2, Item 4 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 50%

Article 70

The bank shall apply the required stable funding of 50% to the following assets:

1) unencumbered assets that are recognized as level 2b liquid assets referred to in Article 27 of this Decision, excluding covered bonds of high quality, regardless of whether the operational requirements referred to in Article 23 of this Decision are met,

2) deposits given to other banks, if they meet the requirements for operational deposits in accordance with Article 38 of this Decision,

3) receivables from transactions with a remaining maturity of less than one year from:

   1. The Council of Ministers of BiH, the central government of the EU member state or a third country,

   2. Government of Republika Srpska, Government of the Federation of BiH and Government of the Brčko District of BiH, regional governments or local authorities from BiH, EU Member States or third countries,

   3. public sector entities from BiH, EU member states or third countries,

   4. multilateral development banks and international organizations,

   5. legal entities that are not financial clients,

4) receivables from transactions with a remaining maturity of at least six months, but shorter than one year from:

1. Central Bank of BiH,
2. The European Central Bank or central bank of the EU Member State,
3. central bank of a third country,
4. financial clients,

5) encumbered assets with a remaining maturity of at least six months, but shorter than one year, unless those assets would be assigned a higher weight of the required stable funding in accordance with the provisions of Articles 71–74 of this Decision that it is unencumbered when this higher weight of the required stable funding is applied,

6) balance sheet products related to trade financing (e.g. export financing loans), with a remaining maturity of at least six months, but less than one year,

7) any other assets with a remaining maturity of less than one year, unless a lower weight has been assigned to that assets in accordance with the provisions of Articles 60–69 of this Decision.

Required stable funding weight of 55%

Article 71

The bank shall apply the required stable funding of 55% to unencumbered shares or stocks in investment funds to which a correction factor of 55% is applied when calculating LCR in accordance with Article 27, Paragraph 2, Item 4 of this Decision, regardless of whether the operational requirements referred to in Article 23 of this Decision and the requirements regarding the structure of the liquidity buffer referred to in Article 29 of this Decision are met.

Required stable funding weight of 65%

Article 72

The bank shall apply the required stable funding of 65% to the following assets:

1) unencumbered housing loans fully guaranteed by a recognized credit protection provider, with a remaining maturity of one year or longer, provided that these loans are assigned a risk weight of less than 50% in accordance with the provisions of the Decision on calculating capital in banks,

2) unencumbered loans with a remaining maturity of one year or more, excluding loans to financial clients and loans with the required stable funding weight of 0%, 10% or 50% in accordance with the provisions of this Decision, provided that these loans are assigned a risk weight less than 50% in accordance with the provisions of the Decision on calculating capital in banks.

Required stable funding weight of 85%

Article 73

The bank shall apply the required stable funding of 85% to the following assets:

1) unencumbered loans with a remaining maturity of one year or longer, excluding loans to financial clients and loans with a risk weight of 0% to 65% in accordance with Articles 60–72 of this Decision, provided that they have not matured for more than 90 days and that these loans have been assigned a risk weight equal to or greater than 50% in accordance with the provisions of the Decision on calculating capital in banks.

2) unencumbered securities with a remaining maturity of one year or longer that are not in the default status and which are not recognized as liquid assets,

3) unencumbered equity investments in listed companies, where they are not recognized as assets of level 2b,

4) commodities that are physically exchanged, including gold, but excluding commodity derivatives,

5) balance sheet products related to trade financing (e.g. export financing loans), with a remaining maturity of more than one year.

Required stable funding weight of 100%

Article 74

(1) The bank shall apply the required stable funding weight of 100% to the following assets:

1) any encumbered asset with a remaining maturity of one year or more, other than that to which a lower weight has been assigned in accordance with the provisions of this Subsection,

2) any assets, other than those assigned a lower weight in accordance with the provisions of this Subsection, including loans to financial clients with a remaining maturity of one year or more, exposures in default status, items that reduce regulatory capital, fixed assets, equity investments in unlisted companies, insurance assets, securities in default status.

(2) The bank shall apply the required stable funding weight of 100% to the difference, if positive, between the sum of the fair values of all netting sets with positive fair value and the sum of the fair values of all netting sets with negative fair value.

3.3. Special requirements for liquidity coverage and stable funding

Determining of a special requirement for liquidity coverage and stable funding

Article 75

(1) For the purpose of determining an appropriate level of requirement for bank liquidity, and based on conducted procedure of supervisory review and assessment of liquidity risk to which the bank is or may be exposed, the Agency may determine special requirements for bank liquidity, taking into account the following:

1) bank risk profile and business model,

2) systems, processes and mechanisms of the bank for determining, measuring, monitoring and reporting on liquidity risk, and liquidity risk management in a course of certain time period, also including intra-day liquidity management, in order to ensure the maintenance of appropriate level of liquidity buffers and stable funding, and

3) the results of supervisory assessment and evaluation of bank liquidity risk, risks the bank represents for stability of RS banking sector, bank risks which are detected by conducting stress testing, in accordance with type, scope and complexity of bank business operations.

(2) In relation to Paragraph 1 of this Article, in the process of review of ICAAP and ILAAP, the Agency shall conclude whether the systems, processes and mechanisms the bank conducts ensure adequate liquidity level, good management and coverage of bank liquidity risk, and in accordance with that may request from the bank a special requirement for liquidity coverage and stable funding.

4. Additional mechanisms for continuous monitoring of exposure to liquidity risk

Additional mechanism for continuous monitoring of exposure to liquidity risk

Article 76

For measuring liquidity risk profile, apart from minimum stipulated LCR, the bank shall be obliged to consistently use additional tools and measurements of quantitative assessment of liquidity risk, which includes at least the following:

1) identification of maturity mismatch between contracted inflows and outflows in determined time intervals per all balance and off-balance sheet items,

2) identification of concentration in funding sources,

3) availability of unencumbered asset which can be monetized as collateral at secondary markets, i.e. is acceptable for placements of central banks or other competent institutions, and

4) market tools for monitoring of liquidity in a sense of early warning indicators for potential problems in bank liquidity.

Identification of maturity mismatch of contracted inflows and contracted outflows

Article 77

(1) The bank shall be obliged to identify mismatches between contracted inflows and contracted outflows for determined time intervals.

(2) Instruments which do not have defined maturity (non-defined or open maturity) should be recorded separately, with detailed data on those instruments, and without assumptions on maturity date.

(3) Information on possible cash flows, arising from derivates should also be included to the extent in which their contracted maturities are relevant for understanding cash flows.

(4) Apart from stipulated monitoring of contracted inflows and contracted outflows according to remaining contract maturity, banks should perform their own analyses on maturity mismatch, in accordance with behavioral assumptions, created based on observation throughout a longer period, on fund inflows and outflows in usual and stress situations.

(5) Analyses from Paragraph 4 of this Article should be based on strategic and business plans of the bank.

(6) In case the bank plans to significantly change the business model, it must include the impact of such changes in the mismatch projections.

(7) The bank should, in an appropriate manner, document explanations how does it plan to overcome eventual determined internal mismatches, as well as reasoning why used assumptions differ from the contract conditions.

(8) The bank must meet the requirements regarding the maturity adjustment of the remaining maturities to the contracted maturities of the instruments of financial assets and liabilities, whereby it must:

1. at least 65% of funding sources with maturity date up to 30 days engage in placements (asset instruments) with the maturity date up to 30 days,

2. at least 60% of funding sources with maturity date up to 90 days engage in placements (asset instruments) with the maturity date up to 90 days,

3. at least 55% of funding sources with maturity date up to 180 days engage in placements (asset instruments) with the maturity date up to 180 days.

Funding source concentration

Article 78

(1) The bank shall be obliged to set up appropriate mechanisms for identification of funding sources which are significant to that extent that their withdrawal could cause problem with bank liquidity, and in that sense should diversify funding sources.

(2) For the purpose of acting in line with Paragraph 1 of this Article, the bank shall be obliged to identify and monitor funding sources arising from each significant counterparty, determined as a percentage (%) in total liabilities, and also continuously monitor absolute and relevant share of exposure towards significant counterparties, as well as significant increases of concentration in funding sources.

(3) In this sense, the significant counterparty shall be defined as an individual counterparty or a group of related counterparties to which, on an individual or consolidated basis, more than 1% of the bank's total obligations account for. Apart from stated quantitative criteria, other descriptive (qualitative) characteristics may be used for their identification, based on the bank financial profile.

(4) In a sense of provisions of this Article, when identifying a group of related contractual parties, the manner of acting is the same as when determining large risk exposures. In case of identification of deposits within a group and deposits of persons related to the bank, the bank shall apply the same principles as for the purpose of reporting on consolidated basis, in accordance with laws and other regulations which govern the supervision on consolidated basis, taking into account potential limitations related to intra-group, i.e. cross-border transactions in the stress period.

(5) Identifying and monitoring of concentration in funding sources shall be performed for each individual significant financial instrument, i.e. product, as well as a group of similar instruments, i.e. bank products.

(6) For the purpose of Paragraph 5 of this Article, a significant instrument/product shall be defined as one instrument/product or a group of similar instruments/products which collectively account to more than 1% of the bank's total obligations.

(7) Identifying and monitoring of concentration in funding sources shall be performed for significant currencies.

(8) Stated identifying and monitoring of concentration in funding sources implies their recording in time intervals of one month, 1 -3 months, 3 – 6 months, 6 – 12 months and for intervals longer than 12 months.

(9) The bank shall be obliged to ensure prudent and consistent approach in relation to regular revision of the list of significant counterparties, also taking into account the existence of transactions of bilateral funding between counterparties and impacts on net cash outflows, also including off-balance sheet items, and especially in the crisis periods, i.e. stress at the market or stress specific for a certain bank, due to which negative pressure to bank liquidity or aggravate funding may occur.

Availability of unencumbered asset monetized as collateral at secondary markets

Article 79

(1) The bank shall be obliged to set up appropriate and efficient procedures and activities of management of available unencumbered asset monetized as collateral at secondary markets, which include:

1) regular reporting on the amount, type, structure and location of available unencumbered asset which may serve as collateral for secured borrowing at secondary market, with corresponding corrective factors and at reasonable price, also including operational procedures for monetizing collateral, whereby the bank should separately report on received collaterals from clients, which it can again pledge, as well as on total available amounts categorized per significant currencies,

2) regular monitoring and reporting on assessed corrective factors which the secondary market would request for each asset, for appropriate currency of funding, as well as on expected realized collateral value, and

3) reporting on locations where such asset is kept/deposited, i.e. on the manner of approach to such asset and business lines and similar.

(2) The application of procedures and activities referred to in Paragraph 1 of this Article shall be used for reviewing the bank potential to create an additional source of liquidity buffer or secured funding, and in that sense it represents the measure in which LCR can be quickly supplemented after liquidity shock, but for the purpose of liquidity risk management it must be supplemented by additional tools of monitoring maturity mismatch and other relevant data from the bank balance sheet.

(3) Procedures and activities referred to in Paragraphs 1 and 2 of this Article shall be also related to collaterals which are eligible for placements of competent institutions, in accordance with regulations governing this area.

Market tools for monitoring liquidity in a sense of early warning indicators

Article 80

(1) Highly frequent market data updated on a daily basis or in shorter time intervals may be used by banks as early warning indicators for potential problems with bank liquidity.

(2) Data from Paragraph 1 of this Article can be monitored at the following levels:

1) data from the whole market (reviewing of information at general level and directions at key markets and their possible impact on financial sector and a certain bank), which include: capital prices (e.g. indexes from recognized stock-exchanges, sub-indexes at certain markets relevant for bank activities and similar), prices at debt securities market, foreign exchange markets, derivate markets, commodities markets, indexes which relate to certain structural instruments and other,

2) data at the financial sector level (monitoring of wider trends relevant for financial sector in general, as well as certain groups of participants at financial market and reviewing of impact of the same on a certain bank) and

3) data on a certain bank or a group of peer banks (monitoring of prices of shares and instruments which are being issued by a certain bank or a group of peer banks, prices for trading at money market, condition related to re-contracting and prices of different funding period, bank subordinated debts, loan prices and other, and considering the impact of same changes to bank liquidity, also including the reaction of other participants at the market).

5. Transitional and final provisions

Coming into force and implementation

Article 81

(1) This Decision shall come into force eight days after its issuance in the "Official Gazette of Republika Srpska".

(2) The bank shall be obliged to align its business operations with the provisions of Sub-section 3.2. of this Decision no later than 31 December 2022, from when the obligation to comply with the restrictions from Article 47 of this Decision commences and start reporting to the Agency on NSFR starting from the reporting date as of 31 December 2021.

(3) On the day of application of the requirement for maintaining stable funding from Section 3.2. of this Decision, the request for fulfillment of the maturity mismatch referred to in Article 77, Paragraph 8 of this Decision shall cease to be valid.

(4) By coming into force of this Decision, the Decision on liquidity risk management ("Official Gazette of Republika Srpska", No.: 79/20) shall become null and void.

Number: UO-234/21

Date: 15 June 2021

PRESIDENT OF THE
MANAGEMENT BOARD
Bratoljub Radulović

Attachment 1

Formulas for determining the structure of liquidity buffer

(1) The bank shall apply formulas from this Attachment in order to determine the structure of liquidity buffer, in accordance with Article 29 of the Decision.

(2) Calculating liquidity buffer: from the date of calculation, the bank liquidity buffer is equal to:

1) the amount of asset level 1, increased by

2) the amount of asset level 2a, increased by

3) the amount of asset level 2b,

reduced by the lower of the following values:

4) sum of Items 1), 2) and 3), or

5) “the amount liquid asset excess”, calculated in accordance with Paragraphs 3 and 4 of this Attachment.

(3) The amount of “liquid asset excess” includes the following components:

1) adjusted amount of asset level 1 in the form of uncovered bonds which is equal to the value of total liquid asset of level 1, excluding covered bonds of level 1, which the bank would hold after the realization of transaction of secured funding, transaction secured by collateral, exchange of asset or transaction secured by derivate that matures within 30 calendar days from the date of calculation, and if the bank and counterparty exchange liquid asset at least on one part of the transaction,

2) adjusted amount of covered bonds of level 1, which is equal to the value of all covered bonds of level 1 after corrective factor, which the bank would hold after the realization of transaction of secured funding, transaction secured by collateral, exchange of asset or transaction secured by derivate that matures within 30 calendar days from the date of calculation, and if the bank and counterparty exchange liquid asset at least on one part of the transaction,

3) adjusted amount of asset level 2a, which is equal to the value of all asset of level 2a after corrective factor, which the bank would hold after the realization of transaction of secured funding, transaction secured by collateral, exchange of asset or transaction secured by derivate that matures within 30 calendar days from the date of calculation, and if the bank and counterparty exchange liquid asset at least on one part of the transaction and

4) adjusted amount of asset level 2b, which is equal to the value of all asset of level 2b after corrective factor, which the bank would hold after the realization of transaction of secured funding, transaction secured by collateral, exchange of asset or transaction secured by derivate that matures within 30 calendar days from the date of calculation, and if the bank and counterparty exchange liquid asset at least on one part of the transaction.

(4) Calculation of “the amount of liquid asset excess” is equal to the following:

1) adjusted amount of asset level 1 in the form of uncovered bonds, increased by

2) adjusted amount of covered bonds of level 1, increased by

3) adjusted amount of asset level 2a, increased by

4) adjusted amount of asset level 2b,

reduced by the lowest of following values:

5) the sum of Items 1), 2), 3) and 4) or

6) 100/30 times Item 1) or

7) 100/60 times the sum of Items 1) and 2) or

8) 100/85 times the sum of Items 1), 2) and 3).

(5) The system of liquidity buffer, after it is taken into account the realization of transaction of secured funding, transaction secured by collateral, exchange of asset or transaction secured by derivate and application of previously stated top caps, in accordance with Article 29 of this Decision, shall be determined as follows:

a’ (adjusted amount of asset level 1 in the form of uncovered bonds, after the application of cap)

= a (adjusted amount of asset level 1 in the form of uncovered bonds, before the application of cap)

b’ (adjusted amount of covered bonds of level 1, after the application of cap)

= MIN (b, a*70/30), whereas b is (adjusted amount of covered bonds of level 1, before the application of cap)

c’ (adjusted amount of asset level 2a, after the application of cap)

= MIN (c, (a+b)*40/60, MAX (a*70/30 – b', 0)), whereas c is (adjusted amount of asset level 2a, before the application of cap)

d’ (adjusted amount of asset level 2b, after the application of cap)

= MIN (d, (a+b’+c’)*15/85, MAX ((a+b’)*40/60 – c’,0), MAX(a*70/30-b’-c’,0)) whereas d is (adjusted amount of asset level 2b, before the application of cap)

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Attachment 2

Formula for calculating net liquid outflows

NLO	= net liquidity outflow
TO	= total outflows
TI	= total inflows
FEI	= fully exempted inflows
IC	= inflows subject to cap of 75%

Net liquid outflows are equal to total outflows deducted by reduction of fully exempted inflows, deducted by reduction of inflows to which cap of 75% is being applied.

$$NLO = TO - MIN\ (FEI, TO) - MIN\ (IC, 0{,}75 * MAX\ (TO - FEI, 0))$$

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