Pursuant to Article 64, paragraph 1, item 22 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003, 40/2004, 61/2005 and 129/2006) and Article 68, paragraph 1, item 3 of the Banking Law ("Official Gazette of RM" No. 67/2007), the National Bank of the Republic of Macedonia Council adopted the following

D E C I S I O N
on managing banks' liquidity risk
("Official Gazette of the Republic of Macedonia" No. 163/2008)

I. GENERAL PROVISIONS

1. This Decision lays down the methodology for managing the bank's liquidity risk, which includes:

- system of liquidity risk management;
- maintaining an adequate liquidity level;
- method and contents of the reporting to the National Bank of the Republic of Macedonia (hereinafter referred to as: the National Bank).

2. Liquidity risk management, in light of this Decision, shall denote management of assets and liabilities in a manner that shall ensure timely and regular settlement of the liabilities, in the normal or extraordinary course of bank's operations.

3. Liquidity risk, in light of this Decision, shall be the risk of the bank failing to provide sufficient funds for settlement of its short-term liabilities at the moment those liabilities fall due, or to provide the funds needed at much higher costs.

II. SYSTEM OF LIQUIDITY RISK MANAGEMENT

4. The bank shall establish a liquidity risk management system compatible with the nature, the scope and the complexity of the financial activities it performs.

The system from paragraph 1 of this item shall encompass at least the following components:

1) Organizational structure for liquidity risk management;
2) Steps and procedures for internal control and audit;
3) Information system;
4) Stress-testing and
5) Plan for liquidity risk management in extraordinary conditions.

5. The bank shall design written policy and procedures defining the setup and/or the implementation of the components from item 4, paragraph 2 of this Decision.

In case when, in accordance with the Banking Law, the bank is subject to consolidated supervision, the liquidity risk management policy also covers the management of liquidity risk at the level of the banking group.

In case when the bank is part of a group whose parent entity has head office outside the Republic of Macedonia, the liquidity risk management policy should also take into consideration the restrictions in the international transfer of liquid funds, if there are any.

II.1 Organizational structure for liquidity risk management

6. Appropriate organizational structure for liquidity risk management means clearly defined competencies and responsibilities of the bank's bodies, as well as definition of the tasks and responsibilities of the respective organizational parts in the bank authorized for monitoring the bank's liquidity and managing the liquidity risk.

7. From the viewpoint of the liquidity risk management, the bank's Supervisory Board shall:

- approve a liquidity risk management policy and monitor its implementation, including approval and monitoring of the Plan for liquidity risk management in extraordinary conditions;
- review the appropriateness of the adopted policy, at least on annual basis;
- review the reports on liquidity risk;
- approve the liquidity risk exposure limits;
- monitor the efficiency of the internal control, as an integral part of the liquidity risk management system.

8. The Risk Management Board shall be responsible for:

- establishing and monitoring the liquidity risk management policy and giving proposals for its revision;
- assessing the liquidity risk management system;
- analyzing the reports on the bank's exposure to liquidity risk and monitoring the activities undertaken towards the management of this risk;
- determining and regularly revising the internal liquidity indicators and liquidity risk exposure limits;
- defining possible exceptions with respect to the defined limits and assigning responsibility for deciding on the application of such exceptions;
- establishing of the procedures and the manner of performing stress-testing;
- other activities that the Board is obliged to perform according to the Banking Law and the liquidity risk management policy.

9. Beside the Risk Management Board, the bank may have a special body authorized for liquidity risk management (hereinafter referred to as: the Special Body) responsible for operational implementation of the liquidity risk management policy, by daily monitoring and control of the liquidity risk.

10. In accordance with the Banking Law and the liquidity risk management policy, the Managing Board and/or the bank's Special Body shall perform at least the following activities:

- establish and implement adequate liquidity risk management procedures;
- establish and maintain the efficiency of the system for measuring, monitoring, controlling of and reporting on the liquidity by individual currencies which

significantly influence bank's overall liquidity and monitor the maturity structure of the assets and liabilities in Denars and in foreign currency;
- provide conditions for monitoring the liquidity risk management policy;
- establish an adequate system of reporting to the Supervisory Board and Risk Management Board related to the possible exceeding of the prescribed limits on the exposure to liquidity risk;
- define the financial instruments for liquidity risk management;
- establish procedures for determining and monitoring the stability of deposits;
- establish a procedure for assessment of the influence of the new products on the exposure to liquidity risk;
- monitor the potential liabilities and the exposure on the basis of the bank's off-balance sheet operations.

II.2 Steps and procedures for internal control and audit

11. The bank shall be obliged to have appropriate internal control procedures which will ensure integration of the process of liquidity risk management within the overall risk management process. Internal control of liquidity risk management is an integral part of the overall internal control system, established at the level of the bank.

For the needs of the system of internal control of the exposure to liquidity risk, the bank shall be obliged to establish:

- limits on the approval of the cash flows over a certain amount and monitoring of the compliance with the prescribed limits;
- reporting on the possible exceeding of the limits from line 1 of this paragraph;
- regular check of data and information used when determining bank's liquidity.

12. The internal audit of the liquidity risk management and of the system of internal control of the exposure to liquidity risk is an integral part of the annual plan of the Internal Audit Department.

II.3 Information system

13. The bank shall establish an information system which will ensure timely and constant measurement, monitoring, control and reporting in the decision-making process when managing the liquidity risk.

14. The information system should provide at least the following:

- measuring and monitoring bank's liquidity and liquidity risk on a daily basis and in precisely defined time periods;
- measuring and monitoring the bank's liquidity for a particular foreign currency which significantly influences the overall bank's liquidity, on individual and on aggregate basis;
- monitoring of the compliance with the established limits on the exposure to liquidity risk;
- providing data for the purpose of determining liquidity indicators and preparing reporting forms for the needs of the bank bodies and all other persons involved in the process of liquidity risk management;
- analysis of the developments in the deposit base and determining and monitoring the stability of deposits;
- carrying out stress-testing.

II.4 Liquidity stress-testing

15. The bank shall be obliged to test the liquidity in various conditions - stress-scenarios, at least once a year, in order to determine their influence on the bank's liquidity, to prepare the bank for operations in extraordinary conditions, to assess the possibilities for bank's growth, or to determine the best source of financing the new activities/products.

16. Stress-testing is a risk management technique used for assessing the potential influence of one or more internal or external risk factors on the financial standing and/or liquidity of the bank.

17. Stress-testing includes scenarios that are specific for the bank (internal factors) and scenarios arising from the market conditions in which the bank operates (external factors).

18. The scenarios specific for the bank should include at least the following: the significant decline in the deposit base, the reduced creditworthiness of the bank, deterioration of its credit portfolio quality, the significant settlement of the bank's potential liabilities, when the influence of all positions where there is an option for early withdrawal or repayment, is also taken into consideration.

The scenarios arising from the market conditions pertain to the changes in the macroeconomic environment and/or to disruptions in the functioning of the market(s) in which the bank operates: the changes in the interest rates or other market prices, the changes in the inflation rate, the general restriction on the access to particular types of markets and/or sources of funds, including the complete lack of access to the particular sources of funds which are especially important for the bank's liquidity.

Besides stress-testing of individual scenarios, the bank shall be obliged to test the liquidity by applying a combination of the scenarios from paragraphs 1 and 2 of this item.

19. The bank shall be obliged to define the manner of conducting the stress-testing, as well as the assumptions on which such stress-testing will be based, which includes:

- implementation and analysis of the different stress-scenarios and frequency of their implementation;
- stress-testing in regular (normal) working conditions and stress-testing in extraordinary working conditions;
- activities which should be undertaken by the Special Body or the Managing Board depending on the results obtained from the testing;
- manner of reporting to the Supervisory Board and the Risk Management Board on the results from the testing.

The bank shall be obliged to document and revise the assumptions used in the stress-testing, to document the results obtained, and to document the activities that the appropriate bodies undertook on the basis of those results.

II.5 Plan for liquidity risk management in extraordinary conditions

20. The bank shall be obliged to develop a Plan for liquidity risk management in extraordinary conditions (hereinafter referred to as: the Plan).

21. The Plan shall contain:

- clear segregation of tasks, competences, responsibilities and decision-making regarding the application of the Plan;

- early warning indicators used as signs for the occurrence of extraordinary conditions, as well as designation of the persons within the bank responsible for monitoring and reporting with respect to such indicators;
- definition of the extraordinary conditions for which the Plan shall be applied;
- definition of the activities that should be undertaken and identification of the possible sources of funds, their size and priority in utilization under different circumstances, as well as definition of the time frame within which the defined activities should be undertaken;
- determining the method of communication with the main depositors, business partners, other clients and the public, in extraordinary conditions;
- contact data on the persons responsible for implementation of the Plan.

22. The Bank shall be obliged to revise the Plan periodically, in order to take into consideration the changes in the internal and external conditions of bank's operations.

III. ADEQUATE LIQUIDITY

23. In order to maintain an appropriate level of liquidity, the bank shall be obliged to do at least the following:

1) To plan and monitor the inflows and outflows of funds;
2) To establish and maintain adequate maturity structure of its assets (claims) and liabilities;
3) To monitor the sources of funds and their concentration;
4) To maintain the liquidity ratios prescribed by this Decision and
5) To determine and monitor the internal liquidity indicators.

III. 1 Planning and monitoring the inflows and outflows of funds

24. The bank shall be obliged to plan and monitor the inflows and outflows of funds. Planning should include all types of current and future (expected) inflows and outflows of funds, including the inflows and outflows on the basis of the bank's off-balance sheet items.

25. Inflows of funds considered as expected shall be the inflows on the basis of all types of deposits, collection of credits, sale of securities, use of interbank borrowings, inflows on the basis of off-balance sheet items, inflows on the basis of financial derivatives, and all other inflows with high level of certainty.

26. Outflows of funds considered as expected shall be the outflows on the basis of approved credits, purchased securities, extending interbank loans, payment of deposits, outflows on the basis of off-balance sheet items, outflows on the basis of financial derivatives, and all other outflows expected to occur in that period.

III. 2 Establishing and maintaining adequate maturity structure

27. The bank shall be obliged to monitor the maturity structure of assets and liabilities, from the viewpoint of matching of the assets and liabilities items according to their contractual residual maturity.

For monitoring the maturity match, the bank shall allocate the inflows and outflows from individual assets and liabilities items in adequate time frames, as follows: up to seven days, from seven days to one month, from one to three months, from three to six months and from six to twelve months. The maturity structure includes both the inflows and outflows of the bank on the basis of the off-balance sheet items and financial derivatives.

According to this Decision, contractual residual maturity of the individual claims and liabilities shall denote the remaining period until their actual contractual maturity.

28. Besides monitoring the maturity structure through the contractual residual maturity, the bank shall be obliged to determine the maturity of the claims and liabilities also through determining and monitoring their expected residual maturity.

The bank shall determine the expected residual maturity by using the adequate assumptions (hereinafter referred to as: the assumptions) about the size of the cash inflows and outflows in particular time periods which take into consideration the probability of episodes of a certain cash inflow or outflow (e.g. probability of collection of the bank's claims within the due dates, probability regarding the amount of deposits that will not be withdrawn within their maturity, etc.)

29. In order to determine the expected residual maturity adequately, the bank shall be obliged to fulfill at least the following conditions:

- prescribe the use of the assumptions in the liquidity risk management policy;
- have at its disposal an adequate data base about the movement and the amount of the individual types of cash inflows and outflows, on the basis of which the respective assumptions were determined;
- the data base about the movement and the amount of the cash inflows, i.e. outflows must contain time series of at least five years. As an exception, a bank which was established and has been operating for less than five years shall be obliged to have a data base which covers the whole period of its operations;
- the assumptions shall take into account the cyclical and the seasonal character of the individual types of inflows, i.e. outflows;
- make regular revisions of the determined assumptions for the purpose of their adjustment to the current internal and external conditions.

For the purpose of this Decision, the bank may group the individual types of cash inflows or outflows by client category, maturity, currency, sector to which the client belongs, etc.

The bank shall be obliged to determine the method of grouping the individual types of cash inflows and outflows, in the liquidity risk management policy.

30. The bank shall be obliged to submit to the National Bank the assumptions on the basis of which it determines the expected residual maturity, and to submit a proof of fulfilling the conditions envisaged in item 29 of this Decision.

31. Depending on the liquidity risk management system and the liquidity level, and in order to determine the expected residual maturity adequately, the National Bank may require from the bank to apply different assumptions or to prescribe corrective factors which the bank shall be obliged to act upon in the development and monitoring of the maturity structure of assets and liabilities.

III. 3 Monitoring the sources of funds and their concentration

32. Monitoring of the sources of funds and their concentration should include the following:

- establishing and maintaining regular contacts with the largest depositors, correspondent banks and other important clients and business partners;

- determining the stability level of the individual types of deposits, having in mind the characteristics of both the depositor and the deposit;
- monitoring the diversification of the sources of funds;
- determining and monitoring the movements in the other sources of funds.

33. In order to establish an appropriate system for monitoring its own sources of funds the bank shall be required to monitor the share of the deposits of the largest depositors and the entities related thereto, in its total deposits, individually in Denars and in foreign currency.

Largest depositors are considered to be the twenty bank's depositors having the largest share of the individual amount of their deposits, in the average amount of the bank's total deposits.

For the purposes of this Decision, the bank shall be obliged to determine and monitor the concentration level on transaction accounts and sight deposits in Denars and in foreign currency. The concentration level represents the ratio of the average amount of the sight deposits and the transaction accounts of the bank's twenty depositors with the largest share in the average amount of total sight deposits and transaction accounts, to the total average amount of the bank's sight deposits and transaction accounts.

III.4 Liquidity ratios

34. In order to maintain an appropriate level of liquidity, the bank shall be obliged to calculate and maintain the following liquidity ratios:

- Ratio of liquidity of up to 30 days as a ratio of the assets in Denars and in foreign currency to the liabilities in Denars and in foreign currency falling due in the forthcoming 30 days;
- Ratio of liquidity of up to 180 days as a ratio of the assets in Denars and in foreign currency to the liabilities in Denars and in foreign currency falling due in the forthcoming 180 days;

The liquidity ratios from paragraph 1 of this item shall be equal at least to 1 (hereinafter referred to as: minimum level), and they are calculated and maintained separately for the assets and liabilities in Denars and the assets and liabilities in foreign currency.

35. In case the bank fails to maintain the minimum level, together with the report from item 43, paragraph 1 of this Decision, it shall be obliged to submit to the National Bank a written explanation of the reasons that led to exceeding the limit, as well as to list the measures for getting in line with the minimum level.

The National Bank may impose relevant measures for compliance within a certain period of time to a bank failing to maintain the minimum level.

36. In the calculation of the ratio of liquidity up to 30 days, the bank shall include the following items:

a) Items on the assets side:
- balances with the National Bank, including the portion of the reserve requirement with the National Bank that the bank may use,
- debt instruments issued by the National Bank,
- other cash and cash equivalents,
- securities or assets that the National Bank accepts as collateral in conducting the monetary operations,

- credits, interests, fees, and other claims on households and non-financial institutions that represent exposure to credit risk classified in risk categories "A" and "B", which fall due in the forthcoming 30 days. This item does not include exposures to credit risk classified in risk categories "A" and "B", whose maturity is prolonged twice or more,
- claims on other domestic and foreign banks with maturity of up to 30 days,
- securities held for trading, including the financial assets measured at fair value through the profit and loss, identified as such at the initial recognition (excluding the derivatives held for trading, embedded derivatives and derivatives held for risk management),
- debt instruments held to maturity or available for sale in the forthcoming 30 days,
- guarantees, letters of credit, and forward transactions that represent potential inflow for the bank and fall due within the forthcoming 30 days, except for off-balance sheet items connected with certain items on the assets side of the balance sheet;

b) Items on the liabilities side:
- transaction accounts and sight deposits in the amount determined according to item 38 of this Decision,
- financial liabilities at fair value through the profit and loss (excluding the derivatives held for trading, embedded derivatives and derivatives held for risk management),
- time deposits that mature within the forthcoming 30 days,
- all other items on the liabilities side of the balance sheet that mature within the forthcoming 30 days,
- 15% of the approved overdrafts on transaction accounts and credit cards,
- all forward transactions, opened uncovered letters of credit, irrevocable lines of credit, guarantees and other off-balance sheet items classified in risk categories "C', "D", and "E", which mature within the forthcoming 30 days. Covered guarantees and letters of credit, unconditionally revocable lines of credit and the items covered in the previous item, are not considered as other off-balance sheet items.

As an exception to paragraph 1 of this item, the bank may not take into account the items on the assets side that are not freely at bank's disposal (e.g. items used as pledge upon obligations of other parties, items used as coverage upon obligation undertaken by the bank, when the item subject to the pledge and the item serving as pledge are with different maturity, items for which court dispute is underway, etc.).

37. In the calculation of the ratio of liquidity up to 180 days, the bank shall include the following items:

a) Items on the assets side:
- balances with the National Bank, including the portion of the reserve requirement with the National Bank that the bank may use,
- debt instruments issued by the National Bank,
- other cash and cash equivalents,
- securities or assets that the National Bank accepts as collateral in conducting the monetary operations,
- credits, interests, fees, and other claims on households and non-financial institutions that represent exposure to credit risk classified in risk categories "A" and "B", which fall due in the forthcoming 180 days. This item does not include exposures to credit risk classified in risk categories "A" and "B", whose maturity is prolonged twice or more,
- claims on other domestic and foreign banks with maturity of up to 180 days,
- securities held for trading, including the financial assets measured at fair value through the profit and loss, identified as such at the initial recognition (excluding the derivatives held for trading, embedded derivatives and derivatives held for risk management),

- debt instruments held to maturity or available for sale in the forthcoming 180 days,
- guarantees, letters of credit, and forward transactions that represent potential inflow for the bank and fall due within the forthcoming 180 days, except for off-balance sheet items connected with certain items on the assets side of the balance sheet;

b) Items on the liabilities side:

- transaction accounts and sight deposits in the amount determined according to item 39 of this Decision,
- financial liabilities at fair value through the profit and loss (excluding the derivatives held for trading, embedded derivatives and derivatives held for risk management),
- time deposits that mature within the forthcoming 180 days,
- all other items on the liabilities side of the balance sheet that mature within the forthcoming 180 days,
- 20% of the approved overdrafts on transaction accounts and credit cards,
- all forward transactions, opened uncovered letters of credit, irrevocable lines of credit, guarantees and other off-balance sheet items classified in risk categories "C', "D", and "E", which mature within the forthcoming 180 days. Covered guarantees and letters of credit, unconditionally revocable lines of credit and the items covered in the previous item, are not considered as other off-balance sheet items.

As an exception to paragraph 1 of this item, the bank may not take into account the items on the assets side that are not freely at bank's disposal (e.g. items used as pledge upon obligations of other parties, items used as coverage upon obligation undertaken by the bank, when the item subject to the pledge and the item serving as pledge are with different maturity, items for which court dispute is underway, etc.).

38. When determining the liquidity ratio up to 30 days in Denars and in foreign currency, the bank shall include the transaction accounts and sight deposits in the amount of:

- 30%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision is not higher than 30%;
- 35%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision exceeds 30%, but is not higher than 50%;
- 40%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision exceeds 50%.

39. When determining the liquidity ratio up to 180 days in Denars and in foreign currency, the bank shall include the transaction accounts and sight deposits in the amount of:

- 40%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision is not higher than 30%;
- 45%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision exceeds 30%, but is not higher than 50%;
- 50%, if the concentration level in Denars, i.e. in foreign currency, determined in accordance with item 33, paragraph 3 of this Decision exceeds 50%

40. In case the National Bank finds that the bank has not established or does not implement an adequate liquidity risk management system, in accordance with this Decision it may prescribe weights of inclusion of the individual items in the calculation of the liquidity ratios different from those prescribed in items 36 and 37 of this Decision.

41. The liquidity ratios from item 34 of this Decision shall be determined at the end of each month as an average of the daily balances of the items included in their calculation, for each working day in the month.

III.5 Determining and monitoring the internal liquidity indicators

42. Besides the liquidity ratios from chapter III.4 of this Decision, the bank shall be required, depending on the nature and the characteristics of the financial activities it performs, within the frames of its policy, to prescribe one or more internal liquidity indicators for monitoring the liquidity level and the exposure to liquidity risk, as well as to set appropriate ranges within which those indicators may fluctuate.

The bank shall be obliged to define the method of measuring and monitoring the internal liquidity indicators and to determine time periods in which those indicators will be complied with (on a daily, weekly, or monthly basis). The time period of compliance with the liquidity indicators should correspond with the characteristics of each individual indicator.

Depending on the liquidity risk management system and the liquidity level, the National Bank may determine different limits and time periods for monitoring the internal liquidity indicators, as well as to determine additional liquidity indicators for each individual bank with ranges of their fluctuation and calculation periods.

IV. METHOD AND CONTENTS OF THE REPORTING TO THE NATIONAL BANK

43. The bank shall be obliged to prepare the following reports on a monthly basis:

- Reports on the maturity structure of assets and liabilities in Denars, in foreign currency and on aggregate level;
- Report on the largest depositors and the concentration level;
- Report on the liquidity ratios up to 30 and 180 days;
- Report on the internal liquidity indicators.

The bank shall be required to submit the reports from paragraph 1 of this item to the National Bank within fifteen days after the expiration of the month the reporting refers to.

The Governor of the National Bank shall prescribe with Instructions, the form and the contents of the reports from paragraph 1 of this item and the manner of reporting.

44. Upon special request of the National Bank, the bank shall be obliged to prepare the reports from item 43 paragraph 1 of this Decision, as of another date and within another deadline, different from the balance and the deadline stated in item 43 paragraph 2 of this Decision.

V. TRANSITIONAL AND FINAL PROVISIONS

45. The bank shall be obliged to prepare and submit the first reports from item 43 of this Decision to the National Bank, as of January 31, 2009, within the deadline from item 43 paragraph 2 of this Decision.

As an exception to paragraph 1 of this item, the bank shall be obliged to prepare and submit to the National Bank the first Report on the liquidity ratios up to 30 and 180 days (item 43 paragraph 1 line 3 of this Decision) as of February 28, 2009, within the deadline prescribed in item 43 paragraph 2 of this Decision.

46. In case in the first report on the liquidity ratios up to 30 and 180 days the bank shows liquidity ratios (initial liquidity ratios) lower than the minimum level, it shall be required to increase the liquidity ratios, until the minimum level is met.

The bank shall increase the liquidity ratios on a monthly basis, starting from March 31, 2009, according to the following compliance dynamics, for the period March 31, 2009 to June 30, 2009:

- 1/24 of the difference determined as of February 28, 2009 between the minimum level and the initial amount of the liquidity ratio up to 30 days;
- 1/60 of the difference determined as of February 28, 2009 between the minimum level and the initial amount of the liquidity ratio up to 180 days.

Periodically, the National Bank shall determine the compliance dynamics from paragraph 2 of this item. It shall announce the compliance dynamics for the following period at least one month prior to the expiration of the last announced compliance dynamics.

The bank which reaches the minimum level shall not reduce the liquidity ratios below that level. For each further deviation from the minimum level, the bank shall be required to act pursuant to item 35 of this Decision.

47. The provisions of this Decision shall pertain also to the savings houses in the Republic of Macedonia.

48. This Decision shall enter into force on the day of its publishing in the "Official Gazette of the Republic of Macedonia", and shall start being applied on January 1, 2009.

As an exception to paragraph 1 of this item, Section III.4 of this Decision shall start being applied on February 1, 2009.

49. Once this Decision starts being applied, the Decision on liquidity risk management ("Official Gazette of RM" No. 31/2008) shall become void.

D. no. 02-15/XII - 3/2008
December 25, 2008
Skopje

Petar Goshev, MSc.
Governor

President
of the National Bank of the Republic of Macedonia
Council