



## **NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**

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Pursuant to Article 47 paragraph 1 item 6 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15, 6/16 and 83/18) and Article 68 paragraph 1 item 5 of the Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15, 190/16, 7/19 and Official Gazette of the Republic of North Macedonia No. 101/19), the National Bank of the Republic of North Macedonia Council adopted the following

### **DECISION on the methodology for liquidity risk management (Official Gazette of the Republic of North Macedonia No. 146/20)**

#### **I. GENERAL PROVISIONS**

1. This Decision sets forth the methodology for liquidity risk management, prescribing the scope and elements of liquidity risk management.

#### **II. DEFINITIONS**

2. The terms used in this Decision shall denote the following:

2.1. "Liquidity risk" shall denote the risk of loss due to bank's inability to provide enough funds for settlement of its liabilities at their maturity, or it can provide the necessary funds at very higher costs.

2.2. "High quality liquid assets (HQLA)" means the sum of level 1 and 2 assets set forth in Section VI of this Decision, which the bank can use to cover net cash outflows in a stress period within the next 30 calendar days.

2.3. "Level 1 assets" means balance sheet assets of extremely high liquidity and credit quality.

2.4. "Level 2 assets" means balance sheet assets of high liquidity and credit quality, further subdivided into sublevels 2A and 2B liquid assets.

2.5. "Stress" means a sudden or severe deterioration in the solvency or liquidity position of the bank due to internal and external factors, as a result of which there is a significant risk that the bank becomes unable to meet its commitments as they fall due within the next 30 days. The following assumptions may be regarded as indicators of circumstances in which a bank may be considered as being subject to stress:

- run-off of a significant proportion of its retail deposits;
- a partial or total loss of unsecured wholesale funding capacity, including wholesale deposits and other sources of funding such as credit and liquidity facilities from other financial entities;
- a partial or total loss of secured short-term funding;
- liquidity outflows as a result of a significant deterioration of the credit quality/credit rating downgrade;

- market volatilities (e.g.: change in market returns, real estate price, currency depreciation) affecting the value of collateral or its quality or creating additional collateral needs;
- unscheduled draws on unconditional committed credit or liquidity facilities;
- potential obligation to buy-back debt or honor other obligations.

2.6. "Unencumbered asset" shall be an asset that is not subject to any legal, contractual, regulatory or other restriction preventing the bank from selling, transferring, assigning or generally disposing of such asset via outright sale or repurchase agreement.

2.7. "Outflow rate" means probability of cash outflow from a balance sheet liability of the bank in the next 30 days.

2.8. "Utilization rate" means probability that an off-balance sheet asset will have to be borne by the bank, i.e. repaid or drawn in the next 30 days.

2.9. "Inflow rate" means probability of cash inflow from a balance sheet claim of the bank in the next 30 days.

2.10. "Haircut" means the percentage of reduction of the current market value of an item that is part of high quality liquid assets.

2.11. "Retail deposits" means a deposits to a natural persons and deposits to sole proprietors, natural persons who are not considered traders under the Law on Trade Companies and traders considered to be small and micro-traders under the Law on Trade Companies (hereinafter: small companies), if the total amount of liabilities to the small company and the connected parties does not exceed denar equivalent of Euro 300 000. Small companies are also considered foreign entities who meet the respective criteria of the Law on Trade Companies for sole proprietors, natural persons who are not considered traders and small and micro enterprises.

2.12. "Financial customer" means financial sector entity as defined in the National Bank regulation on the methodology for determining capital adequacy, as well as:

- special purpose vehicle (SPE) established for the purpose of performing one or more securitization transactions;
- financial holding companies, and
- mixed-financial holding companies.

2.13. "Non-financial entity" means legal persons, including small companies, natural persons, central governments, multilateral development banks and public sector entities, with the exception of financial customers and central banks.

2.14. "Committed liquidity facility" means an undrawn portion of an assumed off-balance sheet liability of a bank that would be utilized to finance debt obligations of a customer that mature in the next 30 days, where such a customer is unable to rollover the debt on the financial markets. The amount of undrawn portion that can be utilized to finance debt obligations of a customer due after the next 30 days is not considered a committed liquidity facility.

2.15. "Committed credit facility" means an undrawn portion of a committed off-balance sheet liability of a bank that can be utilized to finance debt obligations of a customer that mature after the next 30 days, including the undrawn portion of the committed facility of the bank for financing the working capital of the customer.

2.16. "Trade finance off-balance sheet items" means a committed liability to finance trade in goods and services.

2.17. "Regulated market" means a multilateral system operated by a market operator, which brings together or facilitates the bringing together of interests of multiple contracting parties in buying and selling of financial instruments, within the system itself, and in accordance with its non-discretionary rules, in a way that leads to a contract regarding the financial instruments admitted for trading, in accordance with its rules and/or systems, and which has received an operating license from the Securities and Exchange Commission or a competent authority of another country, but also operates regularly in accordance with law.

2.18. "Covered bond" means a debt instrument secured by exposures that are part of the bank's assets. The investors/buyers of covered bonds have a preferential claim in the event of default of the bond issuer.

2.19. "Asset coverage requirement" means the percentage by which the total amount of the underlying exposures of the issued covered bonds exceeds the amount of liabilities arising from the covered bonds.

2.20. "Securitization" means a transaction in which the credit risk associated with a particular exposure or a pool (portfolio) of underlying exposures is tranching in such a manner that the payments depend on the collection of underlying exposure, i.e. the pool of underlying exposures, where there is subordination of the tranches in covering losses incurred from underlying exposure/pool of underlying exposures during the life of the transaction.

2.21. "Derivative" means a financial derivative defined under the National Bank regulation on the methodology for determining the capital adequacy, as well as credit derivatives.

2.22. "Short position" means a seller's commitment to deliver to a buyer a financial instrument that the seller does not hold, and therefore, the seller must borrow it from another counterparty.

2.23. "Repurchase agreement" means an agreement on temporary sale of securities or goods, with an obligation for the seller to repurchase or purchase similar securities or goods on a future date at a pre-agreed price, where the agreement provides for transfer of ownership of the securities or goods and does not allow the securities or goods to be transferred or pledged to several counterparties at the same time. The contracting party that purchases the securities concludes a "reverse repo transaction" (reverse repo).

2.24. "Securities or commodities lending transaction" means an agreement by which a party transfers (lends) securities or commodities to the counterparty holding an obligation to sell back the same or similar securities or commodities at a future date or when so requested by the party who has lent the securities or commodities.

The counterparty that borrowed the securities or commodities concludes a "securities or commodities borrowing transaction".

2.25. "Margin loan" means secured loan extended to customers solely for the purpose of buying, selling or trading securities.

2.26. "Capital market-driven transactions" means for extending secured loan (secured lending) whose contracts contain a provision conferring upon the bank receives a margin at least on a daily basis.

2.27. "Securities financing transactions" means transactions that enable a party to use securities or other assets they own for obtaining funding for their activities (secured funding). These transactions include repurchase agreements, securities or commodities lending, securities or commodities borrowing, and margin loans.

2.28. "Residual maturity" means the remaining period to the actual contractual maturity of individual claims and liabilities.

2.29. "Significant currency" means any currency whose share in the total balance sheet liabilities of the bank is 5% or more.

2.30. "Other bank" means banks and savings houses established in the Republic of North Macedonia, banks from the European Union member states (hereinafter: EU) and foreign banks defined under the Banking Law.

Terms not defined in this Decision shall take the definitions in the Banking Law and the bylaws derived from this law.

### **III. SCOPE AND ELEMENTS OF LIQUIDITY RISK MANAGEMENT**

3. Liquidity risk management is a part of the overall bank's risk management system and meets the risk management requirements defined in the Banking Law and the National Bank's risk management methodology regulation.

Liquidity risk management should correspond to the nature, type and scope of the financial activities performed by the bank.

Liquidity risk management should also take into account:

- determining and maintaining an appropriate liquidity level, in accordance with Section IV of this Decision, and
- the establishment and regular revision of the liquidity risk management contingency plan, in accordance with Section XV of this Decision.

4. The bank shall establish and apply liquidity risk management policy and other internal acts for identifying, measuring, controlling or mitigating and monitoring liquidity risk (rules, procedures, etc.) including at least:

4.1. Procedure and rules for determining and monitoring the liquidity coverage ratio from Section V of this Decision, which include at least:

- manner of monitoring the fulfillment of the general and operational requirements under items 17 and 18 of this Decision, including definition of

limits to diversify the positions included in the high quality liquid assets in accordance with item 18 sub-item 18.1 of this Decision,

- manner of determining the representative sample for the purposes of item 18 sub-item 18.4 of this Decision,
- manner of determining investments in CIU that are not significant for the bank, for the purposes of item 25 paragraph 5 of this Decision,
- procedure and rules for monitoring the fulfillment of the stable retail deposit criteria referred to in item 30 of this Decision,
- manner of monitoring, assessment of outflow probability and defining the criteria for determining the outflow rate of other retail deposits referred to in item 31 of this Decision,
- manner of determining time deposits subject to 0% outflow rate, in accordance with item 32 of this Decision, taking into account stability level of certain types of deposits, historical data on deposits withdrawal subject to fine that corresponds to the penalty under item 32 paragraph 1 indent 2 of this Decision, as well as the possible impact on the bank's reputation if it does not allow early withdrawal of deposits,
- manner of determination and list of activities relevant for the customer, i.e. that have a significant impact on their operations for the purposes of determining the fulfillment of the prescribed criteria for operating deposits referred to in item 34 of this Decision,
- manner of determining the maximum amount of committed liquidity facility and committed credit facility under item 41 of this Decision,
- manner of determining a significant deterioration of the credit quality of bank for the purposes of determining additional cash outflow or additional amount of collateral, in accordance with item 44 of this Decision, as well as a procedure for reporting to the National Bank,
- manner of assessing the probability and the amount of cash outflows that may occur in the next 30 days from other products and services referred to in item 49 of this Decision and procedure for reporting to the National Bank,
- manner of monitoring the fulfillment of the caps on cash inflows and the allowed excess above the caps under item 55 of this Decision, and
- manner of determining and monitoring liquidity coverage ratios by each significant currency;

4.2. Procedure and rules for determining internal liquidity ratios under Section XIV of this Decision, including their thresholds, early warning thresholds and internal limits on liquidity risk exposure, as well as the time periods for their observance (daily, weekly or monthly), having in mind the National Bank regulation on risk management methodology;

4.3. Procedure and rules for monitoring funding sources and their concentration, in accordance with Section XII of this Decision, which includes establishing and maintaining regular contacts with major depositors, correspondent banks and other relevant customers and business partners, taking into account the features of the depositor and the deposit, monitoring the funding sources diversification, determining and monitoring the movements in the other funding sources, etc.;

4.4. Procedure and rules for establishing and maintaining an appropriate maturity structure, in accordance with Section XI of this Decision, defining the

assumptions underlying the definition of expected maturity and their revision to adapt to current internal and external conditions, as well as the manner of grouping of cash inflows or outflows by customer category, maturity, currency, customer's sector etc. The assumptions should take into account the cyclical and seasonal nature of each type of inflows, i.e. outflows;

4.5. Procedure and manner of determining and monitoring the available unencumbered assets, in accordance with Section XIII of this Decision, including monitoring their structure and determining any limits on their use;

4.6. Defining the internal liquidity adequacy assessment process (ILAAP) in accordance with the National Bank regulation on risk management methodology, which includes at least:

- defining a clear division of competencies within the bank's organizational structure,
- determining the documentation for implementing the process,
- identification of any material risks that affect the bank's liquidity,
- methodology for measuring or assessing any risks that affect the bank's liquidity, including stress testing,
- establishing an appropriate level of liquid assets and stable funding sources,
- evaluation of ILAAP;

4.7. Defining techniques, methods and assumptions used in stress testing, including reverse stress testing, competencies of the bodies, organizational units or persons involved in the conduct of stress testing and in the decision making, implementing and monitoring activities underlying the stress testing, as well as determining the manner of reporting on stress testing results, taking into account item 7 of this Decision and the stress testing requirements defined in the National Bank regulation on risk management methodology;

4.8. Defining emergency conditions in which Contingency Liquidity Risk Management Plan will be applied (hereinafter: Plan), early warning indicators as signs of emergency, designation of bank's employees responsible for monitoring and reporting on such indicators and manners of monitoring and implementing the Plan;

4.9. Manner of using funds from the National Bank, including the manner of monitoring the value of the instruments that the National Bank accepts as collateral for the credit of last resort.

5. When the bank is part of a group whose parent entity is based outside the Republic of North Macedonia, the liquidity risk management policy shall also take into consideration the restrictions, if any, to the international transfer of liquid funds.

6. For the purposes of liquidity risk management, the bank's reporting system shall provide reports on at least:

- liquidity coverage ratios, on aggregate level and by significant currency;
- established internal liquidity ratios and the observance of the established thresholds and internal limits on liquidity risk exposure, as well as monitoring the observance of the allowed exceptions;
- deposit stability level, especially deposits subject to 0% outflow rate, in accordance with item 32 of this Decision;

- the amount of deposits withdrawn before the maturity date, regardless of whether or not there is a fine for withdrawal;
- the structure of high quality liquid assets and cash inflows and outflows included in determining the net cash outflow;
- maturity structure of assets and liabilities at aggregate level and by significant currency;
- the trend and the amount of the types of cash inflows and outflows that underlie the assumptions for the expected maturity structure in a longer period of time;
- funding sources and their concentration by depositor and by type of instruments, i.e. product and by significant currency;
- price of funding sources and their maturity;
- possibility for sale of certain types of assets using a market prices database;
- available unencumbered assets, at aggregate level and by significant currency;
- results from the stress-testing.

7. The bank shall test the liquidity under various conditions - stress-scenarios to determine their influence on the bank's liquidity, to prepare the bank for operations in emergency or to assess the possibilities for bank's growth.

Tailor-made scenarios for the bank shall at least include:

- significant reduction of the deposit base, including partial or complete withdrawal of unsecured sources of funds from legal entities;
- deterioration of the credit quality of the bank (credit rating downgrade);
- increased market volatility of the collateral value or its quality, requiring additional collateral;
- reduction of inflows and increase of outflows by significant currency;
- worsening of the quality of banks' loan portfolio;
- significant execution of potential liabilities of the bank, including their execution in order to avoid any reputational risk, taking into account the effect of all positions that allow early withdrawal or repayment.

Market specific scenarios take into account changes to the macroeconomic environment and/or disruptions in the functioning of market(s) where the bank operates, such as: changes to interest rates or other market prices, changes to inflation rate, general restriction on the access to particular types of markets and/or sources of funds, including utter unavailability of sources of funds which are especially important to the bank's liquidity.

#### **IV. ADEQUATE LIQUIDITY LEVEL**

8. The bank is required to determine, monitor and/or maintain at least the liquidity ratios referred to in item 9 of this Decision and to monitor the liquidity level taking into account Section X of this Decision.

9. The bank shall:

- calculate, monitor and maintain the liquidity coverage ratio as specified in Section V of this Decision, and
- calculate and monitor liquidity coverage ratios by significant currency, as a ratio between high quality liquid assets in the respective significant

currency, as defined in Section VI of this Decision and the net cash outflow in the respective significant currency, as defined in Section VII of this Decision.

For the purposes of calculating the ratios referred to in paragraph 1 of this item, the positions in denars with a FX clause shall be treated as denar positions.

## **V. LIQUIDITY COVERAGE RATIO**

10. The bank shall determine, monitor and maintain liquidity coverage ratio which is the ratio between the high quality liquid assets, as defined in Section VI of this Decision and the net cash outflow, as defined in Section VII of this Decision.

The liquidity coverage ratio from paragraph 1 of this item must not be lower than 100% (hereinafter: minimum requirement).

Any bank subject to consolidated supervision shall determine, monitor and maintain liquidity coverage ratio from this item on an individual and consolidated basis.

11. By way of derogation from item 10 paragraph 2 of this Decision, in a stress period, liquidity coverage ratio may fall below the minimum requirement, if the bank uses positions that are part of the high quality liquid assets for covering net cash outflows.

12. The positions eligible to for the high quality liquid assets from Section VI of this Decision are not included in the amount of the expected cash inflows from Section IX of this Decision.

13. Positions that do not meet the requirements of this Section and sections VI and VII of this Decision may not be included in the calculation of the liquidity coverage ratio.

If a position no longer meets the requirements for inclusion in the calculation of the liquidity coverage ratio, as specified in this Section and Sections VI and VII of this Decision, the bank shall exclude that position from the calculation of the liquidity coverage ratio, no later than 30 days after the termination of the fulfillment of the requirements.

If the National Bank determines that the position that the bank has included in the calculation of the liquidity coverage ratio does not meet the requirements of this Section and Sections VI and VII of this Decision, the National Bank Governor shall order the bank to exclude that position from the calculation of the liquidity coverage ratio, no later than 30 days after the determined non-compliance.

14. The National Bank Governor may prescribe haircuts, outflow rates, inflow rates and utilization rates different from those prescribed in Sections VI, VIII and IX of this Decision, if it is determined that they are more appropriate for the bank risk profile.

15. The liquidity coverage ratio from item 10 of this Decision is determined at the end of each month.

## **VI. HIGH QUALITY LIQUID ASSETS**

16. High quality liquid assets (hereinafter: HQLA) consist of positions that meet:

- the general requirements from item 17 of this Decision;
- the operational requirements from item 18 of this Decision;
- the special criteria and haircuts to be included in level 1 assets, as determined in items 19 and 20 of this Decision;
- the special criteria and haircuts to be included in level 2 assets, as determined in items 21, 22, 23 and 24 of this Decision, and
- the special criteria and haircuts for the investments in units of open-end funds to be included in the respective level of HQLA, in accordance with item 25 of this Decision.

HQLA includes the positions referred to in paragraph 1 of this item by their current market value, less the respective haircuts.

The bank shall determine the structure of the positions referred to in paragraph 1 of this item that are included in the HQLA, observing the rules set out in Annex 1, which is an integral part of this Decision, the requirements from item 26 of this Decision and the adjustments from item 27 of this Decision.

17. The general requirements that must be met by assets to become part of the HQLA include:

17.1. To be free from any encumbrance over the next 30 days. The following assets shall be deemed to be unencumbered:

- assets that are available for immediate use as collateral to obtain additional funding under committed but undrawn credit lines available to the bank or loans it may receive from the National Bank,
- assets that the bank has received as collateral in reverse repo or securities financing transactions that the bank may dispose of;

17.2. Not to be owned or issued by the bank itself, its parent, bank subsidiary, other subsidiary of the bank's parent or special purpose entity that performs one or more securitization activities which has close links with the bank;

By way of derogation from paragraph 1 of this sub-item, the positions may be issued by the bank's parent, if that entity is public sector entity that is not a bank;

17.3. Not to be assets of or issued by:

- another bank, unless they are assets of or issued by another bank which is a public sector entity that meets the requirements of item 19 sub-item 19.4 and item 22 sub-item 22.1 of this Decision, if it is a covered bond that meets the requirements of item 19 sub-item 19.8, item 22 sub-items 22.2 and 22.3 and item 23 sub-item 23.2 of this Decision or if it is a position from item 19 sub-items 19.6 and 19.7 of this Decision,
- brokerage house, i.e. investment firm,
- insurance undertaking,
- reinsurance undertaking,
- financial holding company,

- mixed-financial holding company, and
- other financial entities, except the securitization special purpose vehicle that performs one or more securitization activities;

17.4. The value of the positions shall be determined by the market participants and can be easily monitored in the market or the value can be determined on the basis of a simple calculation that uses publicly available inputs and is dependent upon realistic assumptions;

17.5. To be listed on a regulated market or traded via outright sale or via repo transaction. Positions traded on an organized market which is not a regulated market can be included in the HQLA if it is an active and large market for outright sales. The market is considered active and large if:

- historical evidence show low bid-ask spreads, high trading volume and a large and diverse number of market participants,
- there is a robust trading infrastructure.

The requirements laid down in sub-items 17.4 and 17.5 of this item shall not apply to:

- banknotes and coins referred to in item 19 sub-item 19.1 of this Decision,
- exposures to central governments referred to in item 19 of this Decision,
- exposures to central banks referred to in item 19 sub-item 19.2, 19.3 and 19.5 of this Decision and in item 22 sub-item 22.1 of this Decision,
- restricted liquidity support facility referred to in item 23 sub-item 23.5 of this Decision.

18. The operational requirements that should be met by the positions to become part of the HQLA include:

18.1. The bank shall have internal acts in place to ensure diversification of positions, between the various levels and sub-levels of liquid assets, within the same level and sub-level of liquid assets referred to in items 19, 22, 23 and 25 of this Decision, as well as by type of issuer, counterparty or their geographical location. The diversification requirements referred to in this sub-item do not refer to the positions under item 19 sub-items 19.1, 19.2, 19.3, 19.4, 19.5, 19.6 and 19.9 and item 23 sub-item 23.5 of this Decision;

18.2. The bank shall have ready access to the positions and be able to monetize them at any time during the next 30 days via outright sale or repurchase agreement. Positions used to provide credit enhancement in securitization transactions or to cover operational costs of the bank shall not be deemed as readily accessible to the bank. Positions held in a other country where there are restrictions to their free transferability shall be included in the calculation of HQLA only insofar as the bank uses them to meet liquidity outflows in that other country. Positions held in non-convertible currency shall be included in the calculation of HQLA only insofar as the bank uses them to meet liquidity outflows in that currency;

18.3. The bank's liquidity risk officer and/or organizational unit may monetize the position at any point in the next 30 days, in accordance with the bank's business policy and/or the Risk Acceptance Statement;

18.4. The bank shall at least once a year monetize a sufficient representative sample of HQLA via outright sale or repurchase agreement that tests the access to

the respective market, determines the efficiency of bank's processes in place for timely monetization of positions and limits the risk of sending a negative signal to the market as a result of monetization of the HQLA in a stress period.

The requirements referred to in paragraph 1 of this sub-item shall not apply to positions under item 19 of this Decision, with the exception of positions under item 19 sub-item 19.8 of this Decision and positions under item 23 sub-item 23.5 of this Decision;

18.5. When the bank hedges the market risk associated to the positions in HQLA, it shall ensure that the following conditions are met:

- the requirements set out in sub-items 18.2 and 18.3 of this item, are fulfilled
- the net liquidity outflows or inflows that would result in the event of early close-out of the hedge are taken into account in the valuation of the relevant positions, in accordance with item 16 paragraphs 2 and 3 of this Decision;

18.6. The currency denomination of the HQLA positions is consistent with the distribution by currency of their net liquidity outflows.

### **Level 1 assets**

19. Level 1 assets shall include the following positions:

19.1. Coins and banknotes;

19.2. Exposure to or exposure guaranteed by the National Bank and bank's funds with the National Bank if the bank is permitted to withdraw such assets at any under stress;

19.3. Positions that represent:

- exposure to or exposure guaranteed by the European Central Bank (hereinafter: the ECB),
- exposure to or exposure guaranteed by the central bank of other country, provided that exposures to the central bank or its central government are assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining the capital adequacy, or
- funds of the bank held in the ECB and in the central bank referred to in indent 2 of this sub-item, provided that the bank is permitted to withdraw such assets at any time during stress periods specified in an agreement or on the basis of generally accepted rules applicable in the country where the smooth funds withdrawal should take place;

19.4. Exposure to or exposure guaranteed by:

- the central government of the Republic of North Macedonia,
- the central government of other country provided that it is assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining the capital adequacy,
- regional governments, local authorities or public sector entity in the Republic of North Macedonia, provided that they are treated as

exposure to the central government, in accordance with the National Bank regulation on the methodology for determining the capital adequacy, or

- regional government or local authorities in other country provided that they are treated as exposure to the central government of the other country, where it is assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining adequacy of capital;

19.5. Positions representing:

- exposure to or exposure guaranteed by the central government or the central bank of other country that is not assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining the capital adequacy,
- funds held in the central bank referred to in indent 1 of this sub-item, provided that the bank is permitted to withdraw such funds at any time during stress periods specified in an agreement or on the basis of generally accepted rules applicable in the country where a smooth withdrawal should take place.

Positions from paragraph 1 of this sub-item denominated in the currency of the other country, shall be included in level 1 assets only up to the amount of the bank's net liquidity outflows in that currency. Positions referred to in paragraph 1 of this sub-item denominated in the currency other than the currency of the other country, are included in level 1 only up to the amount that covers the net cash outflows of the bank in the other currency arising from its operations in the country where liquidity risk is taken;

19.6. Exposure to the Development Bank of North Macedonia;

19.7. Positions issued by other banks that meet one of the following criteria:

- the other bank is incorporated by the central government, regional government or local authority in an EU member state, where the exposure to the regional government or local authority is treated as an exposure to the central government of the member state, in accordance with the relevant capital adequacy regulations and if the founder of the other bank is under the legal obligation to protect the economic basis of the bank and its financial viability throughout its life-time, or
- the other bank is a promotional lender on a non-competitive, not for profit basis for the purposes of implementing the EU or EU member states policies, provided that at least 90% of the loans are directly or indirectly guaranteed by the central or regional government or local authority of an EU member state, and that any exposure to this regional government or local authority is treated as an exposure to the central government of the member state, in accordance with the relevant capital adequacy regulations;

19.8. Extremely high quality covered bonds which shall comply with all of the following requirements:

- covered bonds are issued by a bank in the Republic of North Macedonia or by a bank in an EU member state in which the issuer and the covered

bonds are subject to supervision which aims to protect bond-holders in accordance with law or in which the covered bonds meet the criteria for obtaining more favorable treatment in accordance with the capital adequacy regulation of the member state,

- the covered bonds are issued on the basis of one or more exposure categories referred to in paragraph 2 of this sub-item,
- the bank investing in the covered bonds receives data from the issuer of the covered bonds at least semi-annually on: (1) the value of underlying assets and the issued covered bonds, (2) division by exposure type and size, interest rate, currency and geographical area, (3) the structure of the underlying exposures by residual maturity and (4) the share of exposures due more than 90 days in the total amount of underlying exposures,
- the issue size of the covered bonds abroad is at least Euro 500 million or denar equivalent of at least Euro 50 million for the covered bonds issued in the Republic of North Macedonia,
- a recognized ECAI has assigned a credit rating corresponding to credit quality step 1 or in the absence of a credit rating, the unsecured part of the claims of the issuer of the covered bonds is assigned a 20% risk weight, in accordance with the National Bank regulation on the methodology for determining capital adequacy, and
- at all times, the asset coverage requirement is at least 2%;

For the purposes of paragraph 1 indent 2 of this sub-item, covered bonds should be issued on the basis of one or more of the following exposure categories:

- exposures to or exposures guaranteed by the National Bank, the central government of the Republic of North Macedonia, the regional government, the local authority or a public sector entity in the Republic of North Macedonia,
- exposures to or exposures guaranteed by the central government or central bank of other country, multilateral development banks or international organizations which are assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining capital adequacy,
- exposures to or exposures guaranteed by regional governments, local authorities or public sector entities in other country treated as central government and which are assigned credit quality step 1, in accordance with the National Bank regulation on the methodology for determining capital adequacy,
- exposures to or exposures guaranteed by the entities referred to in indents 2 and 3 of this paragraph that were assigned a credit quality step 2, in accordance with the National Bank regulation on the methodology for determining capital adequacy, but only if the total amount of these exposures does not exceed 20% of the nominal value of the issued covered bonds,
- exposures to other banks which were assigned a credit quality step 1, in accordance with the National Bank regulation on the methodology for determining capital adequacy. The total amount of these exposures should not exceed 15% of the nominal value of the issued covered bonds. Exposures to other banks with a residual maturity up to 100 days are not considered to meet the requirements of this sub-item,

- exposures collateralized by residential properties, where the total amount of all exposures does not exceed 80% of the market value of the residential properties,
- exposures collateralized by commercial real estate, where the total amount of all exposures does not exceed 60% of the market value of the commercial real estate,
- exposures collateralized by ships, where the total amount of all exposures does not exceed 60% of the market value of the ships;

19.9. Exposures to or exposures guaranteed by multilateral development banks and international organizations assigned a 0% risk weight, in accordance with the National Bank regulation on the methodology for determining capital adequacy.

For the purposes of sub-item 19.3 indent 3 and sub-item 19.5 indent 2 of this item, if the assets belong to a bank's subsidiary or branch in another country, the conditions for withdrawal of funds should be provided in an agreement with the central bank of that country or based on generally accepted rules applicable in the country where the smooth withdrawal of funds is to take place.

20. The positions referred to item 19 sub-item 19.8 of this Decision are included in HQLA with a haircut of at least 7%.

## **Level 2 assets**

21. Level 2 assets consist of two levels: level 2A assets and level 2B assets. A haircut of at least 15% applies to positions that can be included in the level 2A assets.

The positions that may be included in 2B assets shall be subject to:

- the haircut specified in item 24 of this Decision;
- 30% haircut to the positions referred to in item 23 sub-item 23.2 of this Decision;
- 50% haircut to the positions referred to in item 23 sub-items 23.3 and 23.4 of this Decision.

22. The bank shall include the following positions in level 2A assets:

22.1. Exposure to or exposure guaranteed by central governments, central banks, regional governments, local authorities or public sector entities, provided that they are assigned a 20% risk weight, in accordance with the National Bank regulation on the methodology for determining capital adequacy;

22.2. High quality covered bonds that meet the following requirements:

- the covered bonds meet the requirements under item 19 sub-item 19.8 indents 1, 2 and 3 of this Decision,
- the size of covered bonds issued abroad is at least Euro 250 million or at least denar equivalent of Euro 25 million for covered bonds issued in the Republic of North Macedonia,
- the covered bonds are assigned a credit assessment by nominated ECAI which is at least credit quality step 2 or in the absence of a credit assessment, they are assigned a 50% risk weight in accordance with the National Bank regulation on the capital adequacy methodology, and

- at all times the coverage ratio meets the 7% requirement. The covered bonds that are assigned a credit assessment by nominated ECAI which is at least credit quality step 1, which do not meet the minimum requirement referred to in item 19 sub-item 19.8 indent 4 of this Decision, but meet the requirements under this sub-item, may be included in level 2A assets as high quality covered bonds, where the coverage ratio can be at least 2%;

22.3. Covered bonds issued by banks in other countries which shall comply with all the following requirements:

- they are covered bonds which are defined by law as debt securities issued by a bank, or by a wholly owned subsidiary of a bank which guarantees the issue of covered bonds, in respect of which bondholder shall have direct recourse for the repayment on a priority basis in the event of the issuer's default,
- the issuer and the covered bonds are subject by the law to supervision designed to protect the bondholders and the supervisory, and regulatory arrangements applied in the other country must be at least equal to those applied in the EU,
- are issued on the basis of one or more exposure categories under item 19 sub-item 19.8 paragraph 2 indents 2, 3, 4, 5, 6, 7 and 8 of this Decision,
- the covered bonds meet the conditions under item 19 sub-item 19.8 indents 3 and 5 of this Decision, and
- at all times the asset coverage requirement is at least 7%. Where the issue size of the covered bonds is at least Euro 500 million, the coverage requirement may be at least 2%;

22.4. Corporate debt securities which meet all the following requirements:

- they are assigned a credit assessment by a nominated ECAI which corresponds to a credit quality step 1,
- corporate debt securities issue size abroad is at least Euro 250 million or denar equivalent of at least Euro 25 million for corporate debt securities issued in the Republic of North Macedonia, and
- the maximum time to maturity of the securities at the time of issuance is 10 years.

23. Level 2B assets shall include the following assets:

23.1. Exposures in the form of asset-backed securities (securitization investments) if it is a simple securitization structure that provides for easy-to-identify and monitor the underlying assets and provided that the requirements laid down in item 24 of this Decision are met;

23.2. Exposures in the form of high quality covered bonds which shall comply with all of the following requirements:

- they are bonds as referred to in item 19 sub-item 19.8 indent 1 of this Decision,
- the issuer of the covered bonds makes the information referred to in item 19 sub-item 19.8 indent 3 available to investors on at least a quarterly basis;

- their issue size is at least Euro 250 million or at least denar equivalent of Euro 25 million for the covered bonds issued in the Republic of North Macedonia,
- the covered bonds are collateralized exclusively by the assets referred to in item 19 sub-item 19.8 paragraph 2 indents 1 and 6 of this Decision,
- the underlying exposures which qualify for a 35% or lower risk weight under the National Bank regulation on the methodology for determining capital adequacy, and
- at all times an asset coverage requirement is at least 10% and the issuing bank needs to publicly disclose on a monthly basis the meeting of this requirement.

23.3. Corporate debt securities which meet all of the following requirements:

- they have received a credit assessment by a nominated ECAI which is at least credit quality step 3,
- the securities issue size is at least Euro 250 million or denar equivalent of Euro 25 million for corporate debt securities issued in the Republic of North Macedonia and
- the maximum time to maturity of the securities at the time of issuance is 10 years;

23.4. Shares, provided that they meet all of the following requirements:

- they form part of the Macedonian stock index (hereinafter: MBI10) or are identified as a major stock index by a competent authority in another country. In the absence of any decision from the competent authority in the other country in relation to major stock indexes, it shall be the stock index composed of shares of leading companies in the relevant jurisdiction;
- they are denominated in denars, or where denominated in a different currency, they count as level 2B liquid asset, only up to the amount to cover net liquidity outflows of the bank in that currency or in the jurisdiction where the liquidity risk is taken, and
- they have a proven record as a reliable source of liquidity at all times, including during stress periods. This requirement shall be deemed met where the level of decline in the share's stock price or increase in its haircut during a 30 calendar day market stress period did not exceed 40% or 40 percentage points respectively;

23.5. Restricted-use committed liquidity facilities that may be provided by a central bank provided that the following requirements are met:

- the commitment fee on the total committed amount which is at least the greater of 75 basis points per annum or at least 25 basis points per annum above the difference in yield on the assets used to back the facility and the yield on a representative portfolio of liquid assets, after adjusting for any material differences in credit risk;
- the facility is backed by unencumbered assets of a type specified by the issuing central bank and in the form which facilitates their prompt transfer to the central bank, their value post-haircut as applied by the central bank is sufficient to cover the total amount of the facility and they are not calculated in the HQLA of the bank;

- there is a formal policy published by the central bank stating its decision to grant restricted-use committed liquidity facilities, defining the requirements for granting and for the use of those facilities and
- the facility is not revoked by the central bank prior to its contractual maturity which exceeds 30 calendar day.

24. Exposures in the form of asset-backed securities shall qualify as level 2B securitizations where they meet the following criteria:

- they have been assigned a credit assessment by a nominated ECAI which is at least credit quality step 1;
- the position is in the most senior tranche or tranches of the securitization and possesses the highest level of seniority at all times during the ongoing life of the transaction i.e. all other tranches of the securitization are subordinated to the invested position in respect of receiving principal and interest payments;
- the underlying assets are portfolios of exposures which consist of one of the categories of exposures referred to in paragraph 2 of this item;
- the underlying exposures shall not have been originated by the bank itself, its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or any other undertaking closely linked with that bank;
- the issue size of the tranche shall be at least Euro 100 million if issued abroad or denar equivalent of at least Euro 10 million if issued in the Republic of North Macedonia;
- the remaining weighted average life of the tranche shall be 5 years or less, taking into account the prepayment rate of the underlying exposures of at least 20%;
- the exposures have been approved by another bank or by a financial undertaking.

For the purposes of paragraph 1 indent 3 of this item, the underlying exposure belongs to the following categories:

- residential loans secured with a first-ranking mortgage granted to individuals for the acquisition of their main residence, provided that the loan-to-value (LTV) requirement is 80% or less or the loan-to-income (LTI) requirement does not exceed 45%;
- loans to undertakings in the Republic of North Macedonia provided that at least 80% of the borrowers with exposures that are part of the portfolio balance are small enterprises and none of the borrowers is another bank;
- auto loans and leases to borrowers in the Republic of North Macedonia. All loans in the pool shall be secured with a first-ranking charge or security in favor of the SSPE, such as retention of title provision;
- exposures to individuals resident in the Republic of North Macedonia for consumption purposes.

The following minimum haircuts shall apply to the positions of this item:

- 25% for securitizations referred to in paragraph 2 indents 1 and 3 of this item;
- 35% for securitizations referred to in paragraph 2 indents 2 and 4 of this item.

## **Investment in units in CIUs**

25. The investments in units of CIUs shall qualify as HQLA depending on the features of the invested property up to the absolute denar equivalent of Euro 100 million and provided that:

- the CIU management company is based in the Republic of North Macedonia, or in another country where the company is subject to supervision by a competent supervisory authority in a manner and according to regulations that are at least equal to the regulations in the Republic of North Macedonia, whereby the Securities and Exchange Commission of the Republic of North Macedonia has established cooperation with such supervisory authority;
- the prospectus or other relevant CIU's regulation contains data on the type of invested property, and in the case of defined limits on investments, it also contains data on the amount and the method of calculation;
- at least once a year the bank has information on the CIU operations in terms of property, liabilities, income and activities during the reporting period;
- the CIUs invest only in HQLA positions or in derivatives, where the investments in derivatives are made only for protection against interest rate risk, currency risk or credit risk in the CIU's portfolio.

The bank shall apply the following minimum haircuts to the value of their units in CIUs, depending on the category of invested property:

- 0% for coins and banknotes and exposures to central banks referred to in item 19 sub-item 19.2 and 19.3 of this Decision;
- 5% for level 1 assets other than extremely high quality covered bonds;
- 12% for extremely high quality covered bonds referred to in item 19 sub-item 19.8 of this Decision;
- 20% for level 2A assets;
- 30% for level 2B securitizations backed by the subcategories of assets referred to in item 24 paragraph 2 indents 1 and 3 of this Decision;
- 35% for level 2B covered bonds referred to in item 23 sub-item 23.2 of this Decision;
- 40% for level 2B securitizations backed by the subcategories of assets referred to in item 24 paragraph 2 indents 2 and 4 of this Decision; and
- 55% for level 2B corporate debt securities and shares referred to in item 23 sub-item 23.3 and 23.4 of this Decision.

The approach referred to in paragraph 2 of this item shall be applied by the bank as follows:

- where the bank is aware of the exposures underlying the CIU, it may assign each HQLA position the appropriate haircut in accordance with paragraph 2 of this item;
- where the bank is not aware of the exposures underlying the CIU, it must assume that the CIU invests in positions under paragraph 1 of this item, in ascending order, starting with those referred to in paragraph 2 indent 8 to indent 1 up to the maximum amount of investment allowed under the prospectus or another internal regulation of CIU and until the maximum total investment limit in CIU units is reached as referred to in paragraph 1 of this item, which the bank may include in HQLA.

Banks shall develop robust methodologies to calculate the market value and haircuts for units in CIUs.

Where the investment in units in CIUs is not sufficiently material for a bank, the bank may transfer the calculation of the market value and the haircuts to:

- the depository bank of the CIU, provided that the CIU invests exclusively in securities and deposits all such securities at this depository bank; or
- the CIU management company, provided that the CIU management company meets the requirements laid down in paragraph 1 of this item.

The bank may use the derogation from paragraph 5 of this item, only if the calculation of the market value and the haircuts performed by the depository bank or the CIU management company from paragraph 5 of this item, is verified and confirmed by a certified auditor, at least on an annual basis.

Where a bank fails or ceases to comply with the requirements laid down in paragraphs 5 and 6 of this item, it shall cease to recognize the investment in units in CIU as HQLA in accordance with item 13 paragraph 2 of this Decision.

By way of derogation from paragraph 7 of this item, the bank may not cease to recognize the investment in the units in CIU from the HQLA, only where they do not exceed 10% of the CIU's overall assets.

### **Requirements, adjustments and calculation of the composition of HQLA**

26. Banks shall comply at all times with the following requirements on the composition of their HQLA:

- a minimum of 60% of the HQLA is to be composed of level 1 assets;
- a minimum of 30% of the HQLA is to be composed of level 1 assets excluding extremely high quality covered bonds referred to in item 19 sub-item 19.8 of this Decision;
- a maximum of 15% of the HQLA may be held in level 2B assets.

The requirements set out in paragraph 1 of this item shall be applied after deducting any applicable haircuts laid down in this Decision and the adjustments applied laid down in item 27 of this Decision.

27. Banks shall adjust the amount of the asset levels of the HQLA in accordance with the formulae laid down in Annex I to this Decision, before determining that the requirements under item 26 of this Decision are met.

## **VII. NET LIQUIDITY OUTFLOWS**

28. The net liquidity outflows shall be the sum of liquidity outflows in Section VIII of this Decision reduced by the sum of liquidity inflows of:

- the fully exempted inflows referred to in paragraph 2 indent 1 of this item;
- the lower of the (1) partially exempted inflows (IHC) referred to in paragraph 2 indent 2 of this item and (2) 90% of the outflows referred to in Section VIII of this Decision reduced by the amount under indent 1 of this item;
- the lower of the (1) exempted inflows (IC) referred to in paragraph 2 indent 3 of this item and (2) 75% of the outflows referred to in Section VIII of this Decision reduced by the amounts in indents 1 and 2 of this item;

For the purposes of this item and Annex 2, which is an integral part of this Decision:

- fully exempted inflows shall be the sum of liquidity inflows meeting the requirements under items 56 and 57 of this Decision;
- partially exempted inflows (IHC) shall be the inflows meeting the requirements under item 58 of this Decision;
- exempted inflows (IC) shall include all other liquidity inflows that fail to meet the requirements under items 56, 57 and 58 of this Decision and that are subject to the limitation under item 55 paragraph 1 of this Decision.

The net liquidity outflows referred to in paragraph 1 of this item and the amounts under paragraph 1 indents 2 and 3 of this item shall not be less than zero.

When calculating the net liquidity outflow under paragraph 1 of this item the bank shall take into account liquidity outflows and inflows occurring over the next 30 calendar days, including the expected interest inflows and outflows during that period.

The calculation of net liquidity outflow laid down in paragraph 1 of this item shall be performed in accordance with the formula set out in Annex 2 of this Decision.

## **VIII. LIQUIDITY OUTFLOWS**

29. Liquidity outflows shall include:

- outflows from stable retail deposits referred to item 30 of this Decision, other retail deposits referred to in item 31 of this Decision, in accordance with item 32 of this Decision and retail deposits taken in other countries in accordance with item 33 of this Decision;
- outflows from operational deposits under item 34 of this Decision;
- outflows from other liabilities of the bank referred to in items 35, 36, 37, 38, 39 and 40 of this Decision;
- outflows from credit and liquidity facilities referred to in item 41 of this Decision, taking account of item 42 of this Decision; and
- additional outflows specified in items 43, 44, 45, 46, 47, 48 and 49 of this Decision.

Liquidity outflows shall be calculated by multiplying the outstanding balances under paragraph 1 of this item and the outflow rate, i.e. utilization rate as indicated in this Section of the Decision, divided by 100.

Liquidity outflows from liabilities not included in paragraph 1 of this item shall be subject to outflow or utilization rate of 100%.

### **Retail Deposits**

30. Stable retail deposits shall be deposits which according to law are covered by the Deposit Insurance Fund (hereinafter: the Fund) or an equivalent deposit guarantee scheme in another country that insure deposits at least in the way the Fund insures deposits in the Republic of North Macedonia and that meets at least one of the following criteria:

30.1. It is part of an established relationship between a depositor and a bank making withdrawal highly unlikely, meaning that at the time of determining the outflow, the depositor meets at least one of the following criteria:

- has an active contractual relationship with the bank of at least 12 months duration;
- has a borrowing relationship with the bank for residential loans or other long term loans; or
- has at least one other active product, other than a loan, with the bank;

30.2. Retail deposit shall be considered as being held in a transactional account where salaries, income or transactions are regularly credited and debited respectively against that account.

Stable retail deposits of this item shall be assigned 5% outflow rate.

31. Other retail deposits that do not meet the criteria under item 30 of this Decision shall be subject to 10% outflow rate, other than deposits that meet the criteria below, that are assigned outflows rate defined under paragraphs 2 and 3 of this item:

31.1. The total deposit balance, including all the client's deposit accounts at that bank or group, exceeds denar equivalent of Euro 100.000;

31.2. The deposit is an internet only account;

31.3. The deposit offers an interest rate that fulfils any of the following conditions:

- the rate significantly exceeds the average rate for similar retail products;
- its return is derived from the return on a market index or set of indices;
- its return is derived from any market variable other than a floating interest rate;

31.4. the deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or presents a fixed notice period shorter than 30 calendar days, other than deposits referred to in item 32 paragraph 1 of this Decision;

31.5. The depositor is a non-resident in the Republic of North Macedonia or the deposit is denominated in a currency other than the denar (for deposits in the Republic of North Macedonia) or, for banks or its subsidiaries or branches in other countries, the depositor is a non-resident in the other country or the deposit is denominated in another currency than the domestic currency of the other country (for deposits abroad).

Banks shall determine the probable outflow rate referred to in paragraph 1 of this item and shall determine the outflow rate in its internal regulations as follows:

- where the retail deposits fulfill the criterion in paragraph 1 sub-item 31.1 of this item or two of the criteria in paragraph 1 sub-items 31.2, 31.2, 31.4 and 31.5 of this item, an outflow rate of between 10% and 15% shall be applied;
- where the retail deposits fulfill item 1 sub-item 31.1 of this item and at least another criterion referred to in paragraph 1, sub-items 31.2, 31.2, 31.4 and

31.5 of this item or three or more criteria of paragraph 1 of this item, an outflow rate of between 15% and 20% shall be applied.

Banks shall apply the outflow rate of 20% where the assessment referred to in 2 has not been carried out.

The National Bank Governor may require from the banks to apply higher outflow rates than those prescribed in its internal acts, depending on the nature, the type and the scope of the banks' financial activities.

32. By way of derogation from items 30 and 31 of this Decision, banks may exclude from the calculation of outflows the following term deposits (to apply 0% outflow rate)

- the depositor is not allowed to withdraw the deposit within 30 calendar days; or
- for early withdrawals within 30 calendar days, the depositor has to pay a penalty that includes the loss of interest between the date of withdrawal and the contractual maturity date plus a material penalty that does not have to exceed the interest due for the time that elapsed between the date of deposit and the date of withdrawal.

If a portion of the term deposit referred to paragraph 1 can be withdrawn without incurring such a penalty, only that portion of the deposit shall be assigned the outflow rates under items 30 or 31 of this Decision. The remaining balance shall be subject to paragraph 1 of this decision.

An outflow rate of 100% shall be applied to cancelled deposits with a residual maturity of less than 30 calendar days and where pay-out has been agreed.

33. Banks shall apply outflow rate of the other country on retail deposits that they have taken in other countries only provided that such outflow rate is higher than the outflow rates defined in items 30, 31 or 32 of this Decision.

### **Operational deposits**

34. Operational deposits shall include deposits in the bank maintained as follows:

- by the depositor in order to obtain clearing, custody, cash management or other comparable services in the context of an established operational relationship from the bank;
- by the depositor – non-financial customer in the context of an established operational relationship

Operational deposits shall be deposits referred to in paragraph 1 of this item that have significant legal or operational limitations that make significant withdrawals within 30 calendar days unlikely.

Clearing, custody, cash management or other comparable services referred to in paragraph 1 indent 1 of this item only cover such services to the extent that they are critically important to the depositor and depositor's operations.

For the purposes of paragraph 1 indent 2, a bank shall consider that there is an established operational relationship with a non-financial customer, where all of the following criteria are met:

- the remuneration of the account is priced at least 5 basis points below the prevailing rate for wholesale deposits, but need not be negative;
- the deposit is held in specifically designated accounts and priced without creating economic incentives for the depositor to maintain funds in the deposit in excess of what is needed for the operational relationship;
- material transactions are credited and debited on a frequent basis on the account considered; and
- the relationship with the depositor has existed for at least 24 months or the deposit is used for a minimum of 2 active services (these services may include access to national or international payment services, security trading or depository services, etc.).

Only that part of the deposit which is necessary to perform activities under paragraph 1 of this item shall be included in the calculation of the amount of operational deposit.

Operational deposits that meet the requirements of this item shall be subject to 25% outflow rate. Funds in excess of those under paragraph 5 of this item shall be subject to the outflow rate under item 35 of this Decision.

By way of derogation from paragraph 6 of this item, 5% outflow rate shall be applied to the deposits referred to in paragraph 1 indent 1 of this item which are subject to indemnification by the Fund or are covered by a deposit guarantee scheme in another country that insures deposits at least in a way in which the Fund insures the deposits in the Republic of North Macedonia.

Deposits arising out of a correspondent banking relationship or from the provision of brokerage services shall not be treated as an operational deposit and shall receive a 100% outflow rate.

### **Other liabilities (non-operational deposits)**

35. Banks shall apply 40% outflow rate to liabilities resulting from deposits or portion of deposits by clients that are non-financial customers who do not meet the requirements under item 34 of this Decision and to liabilities arising from deposits or portion of deposits by central governments, central banks, multilateral development banks and public sector entities.

By way of derogation from the paragraph 1 of this item, the deposits by clients referred to in paragraph 1 of this item that are subject to indemnification by the Fund or are covered by a deposit guarantee scheme in another country that insures deposit at least in the way the Fund insures deposits in the Republic of North Macedonia, shall be assigned 20% outflow rate.

36. Banks shall multiply liabilities resulting from the bank's own operating expenses by 0%.

37. Banks shall apply the following outflow rates to liabilities resulting from secured lending and capital market-driven transactions maturing within 30 calendar days:

- 0% where they are collateralized by assets that would qualify as level 1 asset referred to in item 19 of this Decision, with the exception of extremely high quality covered bonds referred to in item 19 sub-item 19.8 of this Decision;
- 7% if they are collateralized by assets that would qualify as extremely high quality covered bonds referred to in item 19 sub-item 19.8 of this Decision;
- 15% if they are collateralized by assets that would qualify as level 2A assets in accordance with item 22 of this Decision;
- 25% where they are collateralized by assets-backed securities that would qualify in accordance with item 24 paragraph 2 indents 1 and 3 of this Decision;
- 30% where they are collateralized by high quality covered bonds that would qualify in accordance with item 23 sub-item 23.2 of this Decision;
- 35% if they are collateralized by assets-backed securities that would qualify in accordance with item 24 paragraph 2 indents 2 and 4 of this Decision;
- 50% if they are collateralized by corporate debt securities or shares that would qualify in accordance with item 23 sub-items 23.3 and 23.4 of this Decision;
- the percentage minimum haircut determined in accordance with item 25 paragraphs 2 and 3 of this Decision where they are collateralized by units in CIUs that would qualify in accordance with item 25 of this Decision to be included in the adequate level of HQLA;
- 100% where they are collateralized by assets that do not fall within any of indents of this paragraph (illiquid assets).

By way of derogation from paragraph 1 of this item, the liabilities resulting from secured lending or capital market-driven transaction concluded with the National Bank shall be assigned 0% outflow rate. However, in cases where the transaction is concluded with the central bank of the other country and done through a branch of the bank in another country, a 0% outflow rate shall be applied only if the branch has the same access to central bank liquidity, including during stress periods, as the banks incorporated in that other country have.

By way of derogation from paragraph 1 of this item, for liabilities resulting from secured lending or capital market-driven transactions that would require an outflow rate under paragraph 1 of this item higher than 25%, the bank may apply an outflow rate of 25% where the transaction is concluded with:

- the central government, a public sector entity, a regional government or a local authority in the Republic of North Macedonia;
- the central government, a public sector entity, a regional government or a local authority of the other country provided that the transaction is executed by the bank's subsidiary in the other country;
- a multilateral development bank.

Liabilities resulting from secured lending or capital market-driven transactions concluded with a public sector entity, a regional government or a local authority referred to in paragraph 3 indents 1 and 2 of this item would be assigned a 25% outflow rate only if the public sector entity, regional government or local authority

are subject to 20% risk weight according to the National Bank regulation on the methodology for determining capital adequacy.

38. Collateral swaps, and other transactions with a similar form, that mature within the next 30 calendar days shall lead to an outflow where the asset borrowed is subject to a lower haircut under Section VI of this Decision than the asset lent. The outflow shall be calculated by multiplying the market value of the asset borrowed by the difference between the haircut applicable to the asset lent and the haircut applicable to the asset borrowed. For the purposes of this calculation, a 100% haircut shall be applied to assets that do not qualify as HQLA.

By way of derogation from paragraph 1 of this item, where the counterparty to the collateral swap or other transaction with a similar form is the National Bank or the central bank of another country, item 37 paragraph 2 of this Decision shall apply.

By way of derogation from paragraph 1 of this item, where the counterparty to the collateral swap or other transaction with a similar form is the central government, a public sector entity, a regional government or a local authority in the Republic of North Macedonia, or the central government, a public sector entity, a regional government or a local authority of another country or a multilateral development bank, item 37 paragraphs 3 and 4 of this Decision shall apply.

39. Banks shall apply a 100% outflow rate to all notes, bonds and other debt securities issued by the bank. By way of derogation, bonds sold exclusively in the retail market and held in a retail account, and which will be subject to limitations that do not allow these bonds to be bought by parties other than retail customers shall be subject to an outflow rate for retail deposits referred to items 30, 31, 32 and 33 of this Decision.

40. Assets borrowed on an unsecured basis and maturing within 30 calendar days shall be subject to 100% outflow rate unless the bank owns the securities and they do not form part of the bank's HQLA.

### **Credit and liquidity facilities**

41. Banks shall determine outflows from committed credit and liquidity facilities as a percentage of the maximum amount that can be drawn down within 30 calendar days, net of the amount of trade finance off-balance sheet items and net of any collateral made available to the bank and valued in accordance with item 16 paragraph 2 of this Decision, provided that the collateral fulfils all of the following conditions:

- it may be reused by the bank for withdrawing additional liquid assets;
- it is not recognized as part of the HQLA; and
- it does not consist in assets issued by the counterparty of the facility or one of its affiliated entities .

42. The bank shall apply the following utilization rates to the undrawn amount of committed credit and liquidity facilities under item 41 of this Decision that can be drawn down within the next 30 calendar days:

- 5% to the undrawn amount of the committed credit and liquidity facilities if they qualify for the retail portfolio as prescribed in the National Bank regulation on the methodology for determining the capital adequacy;

- 10% to the undrawn amount of the committed credit facilities if they have been provided to client that is non-financial legal entity (except small companies included in indent 1 of this paragraph), the central government, central banks, public sector entities or multilateral development bank;
- 30% to the undrawn amount of the committed liquidity facilities if the client is listed in indent 2 of this item;
- 10% to the undrawn committed amount of a liquidity facility that has been provided to an SSPE for the purpose of enabling such an SSPE to purchase assets as exposures to non-financial customers, other than securities, to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn down is contractually limited to the amount of assets currently purchased;
- 40% to the undrawn amount of committed credit and liquidity facilities extended to banks;
- 40% to undrawn amount of committed credit facilities extended to other regulated financial institutions, including insurance undertakings and investment firms, CIUs or non-open ended investment scheme;
- 100% to the undrawn amount of the committed liquidity facilities that are not eligible under indent 4 of this paragraph;
- 100% to the undrawn amount of the committed credit and liquidity facilities to financial customers not referred to in previous indents of this paragraph.

By way of derogation from paragraphs 1 of this item, the Development Bank of North Macedonia may apply the utilization rates set out in paragraph 1 indents 1 and 2 of this item to credit and liquidity facilities that are extended to promotional lenders provided that those loans meet the requirements referred to in paragraph 1 indents 1 and 2 of this item.

Where those promotional loans are extended as pass through loans via another bank acting as an intermediary, the intermediary bank may apply the utilization rates set out in paragraph 1 indents 1 and 2 of this item.

For the purposes of paragraphs 2 and 3 of this item and item 52 sub-item 52.1 paragraph 2 of this Decision, the promotional loans shall be available only to persons who are not financial customers on a non-competitive, not for profit basis in order to promote public policy objectives of the central or regional government. It shall only be possible to draw on such facilities following the reasonably expected demand for a promotional loan and up to the amount of such demand provided there is a subsequent reporting on the use of the funds distributed.

### **Additional outflows**

43. Collateral which is posted by the bank for derivative contracts and that would qualify for level 2 assets under Section VI of this Decision, shall be subject to an additional outflow of 20% of the collateral value.

Collateral which is posted by the bank for derivative contracts and that would qualify for extremely high quality covered bonds under item 19 sub-item 19.8 of this Decision shall be subject to an additional outflow of 10% of the collateral value.

44. Banks shall calculate and notify the National Bank on an additional outflow for all contracts entered into the contractual conditions of which lead, within 30 calendar days and following a material deterioration of the credit quality of the bank, to additional liquidity outflows within the period set out in item 71 paragraph 2 of this Decision.

Where the National Bank considers such outflows material for the bank, it shall require the bank to add an additional outflow for those contracts under paragraph 1 of this item and in this case the bank shall apply a 100% outflow rate to cash outflows or to those additional collateral.

For the purposes of paragraph 1 of this item, the bank shall regularly review the extent of this material deterioration in the light of what is relevant under the contracts it has entered into from paragraph 1 of this item and shall notify the National Bank on the result of its review within the period set out in item 71 paragraph 2 of this Decision.

45. The bank shall add an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the bank's derivatives transactions if material.

Additional outflows referred to in paragraph 1 of this item shall equal the highest additional collateral in the last two years on a net basis for a period of 30 calendar days.

For the purposes of paragraph 1 of this item, derivative contracts are considered material to the bank if their total nominal value exceeds 10% of the bank's net outflows defined under Section VII of this Decision, at least once in the last two years. For the purposes of this paragraph, net outflows shall be determined without taking into account the additional outflows under paragraph 1 of this item.

46. Banks shall apply 100% outflow rate to the net outflow from derivative contracts, with the exception of contracts under items 43, 44 and 45 of this Decision, expected over a 30 calendar day period.

Banks shall calculate liquidity outflows and inflows from paragraph 1 of this item expected over a 30 calendar day period on a net basis by counterparty subject to the existence of bilateral netting agreements.

By way of derogation from paragraph 2 of this item, cash outflows and inflows arising from foreign currency derivative transactions that involve a full exchange of principal amounts on a simultaneous basis or within the same day shall be calculated on a net basis, even where those transactions are not covered by a bilateral netting agreement.

For the purposes of this item, banks shall not take into account the amount of collateral offered or received over a 30 calendar day period when determining cash outflows and inflows on a net basis. By way of derogation, banks may take into account collateral received if the following requirements are met: (1) the collateral is eligible to be included in the HQLA in accordance with Section VI of this Decision and (2) there are no legal or operational limitations for the bank to use the collateral received for other purposes.

47. Where the bank has a short position that is covered by an unsecured security borrowing or commodities sold short, the bank shall add an additional outflow corresponding to 100% of the market value of the securities or commodities, unless the terms upon which the transaction was concluded require their return after 30 calendar days. Where the short position is covered by a collateralized securities financing transaction, the bank shall apply a 0% outflow.

48. The bank shall add an additional outflow corresponding to 100% of:
- the excess collateral the bank holds that can be contractually called at any time by the counterparty;
  - collateral that is due to be posted to a counterparty within the next 30 calendar days;
  - collateral that corresponds to assets that qualify as HQLA in accordance with Section VI of this Decision if such collateral can be substituted for collateral that would not qualify as HQLA without the consent of the bank;
  - collateralized securities financing transaction, covered bonds and similar financial instruments that become due within 30 calendar days, if issued by the bank or SSPE sponsored by the bank.

Banks shall apply a 100% outflow rate to any uncollateralized liabilities that become due within 30 calendar days and that are not included in this item.

Banks shall determine cash outflow for deposits received as collateral by applying outflow rates under paragraph 1 of this item and items 44, 45 и 46 of this Decision, where the deposit shall not be treated as retail deposit, operational deposit or other liability under this Section or other liability in accordance with paragraph 2 of this item.

Where the total of all contractual commitments to extend funding to non-financial customers within 30 calendar days, other than commitments referred to in this item and in other items of this Section, exceed the amount of inflows from those non-financial customers calculated in accordance with item 52 sub-item 52.1 of this Decision, the excess shall be subject to a 100% outflow rate.

49. Banks shall regularly assess the likelihood and potential volume of liquidity outflows during 30 calendar days for products or services which are not referred to in this Section of the Decision. The assessment shall include at least:
- other off-balance sheet and contingent funding obligations, including uncommitted funding facilities;
  - undrawn loans and advances to wholesale counterparties;
  - mortgage loans that have been agreed but not yet drawn down;
  - credit cards;
  - overdrafts;
  - planned outflows related to renewal or extension of new retail or wholesale loans;
  - other derivatives payables not included in this Section;
  - trade finance off-balance sheet items.

The outflows referred to in paragraph 1 shall be assessed under the assumption of determining a stress period where banks shall particularly take into

account reputational damage that could result from not providing liquidity support to such products or services.

Banks shall report at least once a year to the National Bank on those products and services for which the likelihood and potential volume of the liquidity outflows referred to in paragraph 1 are material.

The National Bank shall determine the outflows to be assigned based on the analysis referred to in paragraph 3 of this item.

The bank may apply a utilization rate of 5% to trade finance off-balance sheet items referred to in paragraph 1 indent 8 of this item.

## **IX. LIQUIDITY INFLOWS**

50. The calculation of net outflow under item 28 of this Decision shall comprise contractual inflows expected over a period of 30 calendar days where such inflows are not related to monies that are past due and for which the bank has no reason to expect non-performance within 30 calendar days.

For the purposes of paragraph 1 of this item, inflows expected over a period of 30 calendar days shall be subject to inflow rates under items 51 and 52 of this Decision.

Banks shall take into account liquidity inflows which are to be received in other countries where there are transfer restrictions or which are denominated in non-convertible currencies only to the extent that they correspond to outflows respectively in the other country or non-convertible currency in question.

### **Inflow rates**

51. The bank shall apply an inflow rate of 100% to inflows from:

- monies due from central banks and financial customers with a residual maturity of no more than 30 calendar days;
- monies due from self-liquidating trade finance transaction with a residual maturity of no more than 30 calendar days;
- monies due from securities maturing within 30 calendar days;
- monies due from shares included in MBI10 or in stock market indexes of another country, assigned as a major stock market index by a competent authority in that country, other than shares included in level 2B assets as referred to in item 23 sub-item 23.4 of this Decision. Those monies shall include monies due within 30 calendar days, such as cash dividends paid in cash and inflows from those shares sold but not yet settled, if they are not recognized as HQLA.

52. By way of derogation of item 51 of this Decision:

52.1. Monies due from non-financial customers with a residual maturity of no more than 30 calendar days, with the exception of monies under item 51 indents 2 and 3 of this Decision, shall be applied an inflow rate of 50%.

By way of derogation from paragraph 1 of this sub-item, banks acting as intermediaries that have received a commitment to disburse a promotional loan or

have received a similar commitment from a multilateral development bank or a public sector entity, may take an inflow into account up to the amount of the outflow that they apply to the corresponding commitment to extend those loans as referred to in item 42 paragraphs 2 and 3 of this Decision;

52.2. Monies due from secured lending and capital market-driven transactions with a residual maturity of no more than 30 calendar days shall be subject to inflow rate of:

- 0% where they are collateralized by assets that would qualify as level 1 asset referred to in item 19 of this Decision, with the exception of extremely high quality covered bonds referred to in item 19 sub-item 19.8 of this Decision;
- 7% where they are collateralized by extremely high quality covered bonds that would qualify in accordance with item 19 sub-item 19.8 of this Decision;
- 15% where they are collateralized by assets that would qualify as level 2A asset referred to in item 22 of this Decision;
- 25% where they are collateralized by assets-backed securities that would qualify in accordance with item 24 paragraph 2 indents 1 and 3 of this Decision;
- 30% where they are collateralized by extremely high quality covered bonds that would qualify in accordance with item 23 sub-item 23.2 of this Decision;
- 35% where they are collateralized by assets-backed securities that would qualify in accordance with item 24 paragraph 2 indents 2 and 4 of this Decision;
- 50% if they are collateralized by corporate debt securities and assets that would qualify in accordance with item 23 sub-item 23.3 and 23.4 of this Decision;
- the percentage minimum haircut determined in accordance with item 25 paragraphs 2 and 3 of this Decision if they are collateralized by units in CIUs that would qualify as HQLA, in accordance with item 25 of this Decision;
- 100% where they are collateralized by assets that do not fall within any indent of this item.

By way of derogation from paragraph 1 of this sub-item, no inflow shall be recognized where the collateral is used by the bank to cover a short position in accordance with item 47 of this Decision;

52.3. Monies due from contractual margin loans maturing in the next 30 calendar days made against non-liquid assets collateral may receive a 50% inflow rate. Those inflows may only be considered where the bank is not using the collateral it originally received against the loans to cover any short positions;

52.4. Monies due from deposits with other banks treated as operational deposits in other banks shall be assigned a corresponding symmetrical inflow rate in accordance with item 34 of this Decision. Where the corresponding symmetrical rate cannot be established, a 5% inflow rate shall be applied;

52.5. Collateral swaps, and other transactions with a similar form that mature within 30 calendar days shall lead to an inflow where the asset lent is subject to a lower haircut than the asset borrowed under Section VI of this Decision. The inflow shall be calculated as the difference of the market value of the asset lent and the difference between the haircut of the asset borrowed and the haircut of the asset lent. For the purposes of this calculation, a 100% haircut shall apply to assets that do not qualify as HQLA;

52.6. Where the collateral obtained through reverse repos, securities borrowings, collateral swaps, or other transactions with a similar form, maturing within 30 calendar days is used to cover short positions that can be extended beyond 30 calendar days, the bank shall assume that such transactions will be rolled-over and will not give rise to any cash inflows. For the purposes of this sub-item, short positions shall include instances of selling a security as part of a trading or hedging strategy and its buyback after a given period and instances of borrowing a security and lending the security out for a longer period;

52.7. Undrawn credit or liquidity facilities, including undrawn committed liquidity facilities from central banks, and other commitments received, other than those referred to in item 42 paragraph 2 of this Decision shall not be taken into account as an inflow;

52.8. Monies due from securities issued by the bank itself or by a SSPE with which the bank has close links shall be taken into account on a net basis with an inflow rate applied on the basis of the inflow rate applicable to the underlying assets;

52.9. Loans with an undefined contractual end date shall be taken into account with a 20% inflow rate, provided that the contract allows the bank to withdraw or to request payment within 30 calendar days.

53. Inflow from derivative contracts expected over 30 calendar days shall be calculated on a net basis and shall be applied 100% inflow rate. Net inflow shall be calculated in accordance with item 46 paragraphs 2, 3 and 4 of this Decision.

54. Banks shall not take into account any inflows from any of the HQLA other than payments due on the assets that are not reflected in the market value of the asset.

### **Cap on Inflows**

55. Banks shall limit the recognition of liquidity inflows to 75% of total liquidity outflows as defined in Section VIII of this Decision.

The bank may exceed the cap from paragraph 1 of this item only if it results from cases included in items 56, 57 and 58 of this Decision.

56. The bank may exempt from the cap referred to in item 55 of this Decision the following liquidity inflows:

56.1. inflows where the provider is a parent or a subsidiary of the bank or another subsidiary of the same parent or included in the bank's consolidated financial reports;

56.2. Inflows from deposits placed with other banks within a group of entities in the country or abroad if the following conditions are fulfilled:

- the bank and the counterparty are included in a consolidation on a full basis;
- the bank and the counterparty are subject to the same risk evaluation, measurement and control procedures,
- the bank and the counterparty is established in the Republic of North Macedonia;
- there is no current impediment for withdrawal of the placed funds;

56.3. Inflows from loans related to mortgage lending, or promotional loans referred to in item 42 paragraph 4 of this Decision or from a multilateral development bank or a public sector entity that the bank has passed-through.

57. Specialized banks may be exempted from the cap referred to in item 55 of this Decision on inflows when their main activities are leasing and factoring business, and the conditions laid down in item 59 of this Decision are met.

58. Banks specialized in financing for the acquisition of motor vehicles, consumer credit as defined in the law regulating consumer protection in case of consumer loans may be subject to a cap on inflows of 90% under item 55 of this Decision when the conditions laid down in item 59 of this Decision are met.

59. Banks referred to in items 57 and 58 of this Decision should meet the following conditions:

- the business activities exhibit a low liquidity risk profile, i.e. the timing of inflows matches the timing of outflows and the share of retail deposits in bank's financing is insignificant;
- activities under items 57 and 58 of this Decision account for at least 80% of the total balance sheet;
- the derogations are disclosed in annual reports.

## **X. MONITORING THE LIQUIDITY LEVEL**

60. The bank shall monitor the liquidity level at least by:

- monitoring the liquidity coverage ratios referred to in item 9 of this Decision;
- establishing and maintaining an appropriate maturity structure, in accordance with Section XI of this Decision;
- monitoring the funding sources and their concentration, in accordance with Section XII of this Decision;
- monitoring the available unencumbered assets, in accordance with Section XIII of this Decision;
- determining, monitoring and maintaining the internal liquidity indicators, in accordance with Section XIV of this Decision.

## **XI. ESTABLISHING AND MAINTAINING ADEQUATE MATURITY STRUCTURE**

61. The bank shall monitor the maturity structure of assets for residual maturity match, allocating them in appropriate time periods. The bank shall monitor the maturity structure of assets that are part of the HQLA, without applying the

haircuts, as well as of assets that are part of the cash outflows and cash inflows, without applying outflow and inflow rates.

The bank shall monitor the maturity structure of assets for residual maturity match at an aggregate level and by significant currency.

62. In addition to monitoring the maturity structure through the residual maturity, the bank shall determine and monitor their expected maturity, taking into account the development plan and business policy of the bank.

The bank shall calculate the expected maturity by using appropriate assumptions (hereinafter: assumptions) for the size of cash inflows and outflows in time periods that take into account the likelihood of cash inflow or outflow (e.g. likelihood of collection of bank receivables within due dates, likelihood of the amount of deposits that will not be withdrawn within their maturity, etc.).

Expected cash inflows shall include inflows from all types of deposits, loan collection, sale of securities, interbank loans, inflows based on off-balance sheet items, inflows based on derivatives, as well as all other highly probable inflows.

Expected cash outflows shall include outflows from approved loans, purchased securities, interbank lending, payment of deposits, outflows from off-balance sheet items, outflows from derivatives, as well as all other outflows expected in the period.

## **XII. MONITORING THE FUNDING SOURCES AND THEIR CONCENTRATION**

63. The bank should monitor the funding sources aggregately and by significant currency at least by:

- monitoring the concentration of the funding sources by depositor and by type of instruments, i.e. products, in accordance with item 64 of this Decision;
- monitoring the price of funding sources and their maturity, by type of depositor (retail/wholesale), type of funding sources (collateralized/uncollateralized), type of instrument, etc.;
- monitoring the possibility for renewal of the funding sources, having in mind the segregation of funding sources by type of depositor (retail/wholesale), the type of funding (collateralized/uncollateralized), the maturity of funding sources, the possibility to use new funding sources.

64. The bank shall calculate and monitor the level of concentration of funding sources by depositor and connected parties, as well as by instrument/product, i.e. the group of similar instruments/products that exceed 1% of the bank's total balance sheet liabilities.

Within the established system for monitoring the concentration by depositor, the bank shall monitor the concentration by type of depositors (financial customer, wholesale and retail), and of funding sources on a net basis, if there is an interbank lending within the banking group.

### **XIII. AVAILABLE UNENCUMBERED ASSETS**

65. The bank shall calculate and monitor the available unencumbered assets that can be used as collateral for obtaining additional funding on the secondary market or as collateral for obtaining liquidity support from the central bank. The bank should take into account their currency structure, geographical area and the fulfillment of the requirements to be used as collateral.

The bank should identify and monitor the funds received as collateral and where there are no restrictions on their use as collateral for obtaining additional funding.

### **XIV. INTERNAL LIQUIDITY INDICATORS**

66. Depending on the nature and features of bank's financial activities, it shall prescribe one or more internal indicators (qualitative and/or quantitative) to monitor its liquidity risk exposure, to prescribe thresholds, including early warning thresholds, as well as to set internal limits on liquidity risk exposures, taking into account the National Bank regulation on the risk management methodology.

Depending on the risk profile and the bank's internal liquidity, the National Bank may specify different indicators and internal limits, as well as time periods for their monitoring.

67. The internal liquidity indicators referred to in item 66 of this Decision may refer to the movements specific to the bank itself, to arise from financial system-specific movements (movement of financial instrument price on capital markets and on foreign exchange markets, movement of market indices related to specific products, such as securitization transactions, etc.) and/or from the overall economic movements (commodity market price movements, inflation, economic growth rates, etc.).

### **XV. LIQUIDITY CONTINGENCY PLAN**

68. The bank shall develop a Plan containing at least:

- clear segregation of tasks, competences, responsibilities and decision-making regarding the application of the Plan;
- early warning indicators as signs for emergency and designation of bank's employees responsible for monitoring and reporting on such indicators;
- definition of emergencies subject of the Plan;
- definition of activities to be undertaken and identification of the possible sources of funds, their size and priority in their use under various circumstances, and definition of the period for undertaking such activities;
- definition of the method of communication with the major depositors, business partners, other clients and the public, in the case of emergency; and
- contact data on the persons responsible for implementation of the Plan.

69. The Bank shall revise the Plan periodically, to adjust it to the changes in the internal and external business environment of the bank.

## **XVI. MANNER AND CONTENTS OF REPORTING TO THE NATIONAL BANK**

70. The bank shall prepare the following liquidity reports on a monthly basis:
- Reports on the maturity structure of assets and liabilities at an aggregate level and by significant currency;
  - Report on monitoring the concentration of funding sources by major depositors;
  - Report on monitoring the concentration of funding sources by instrument, i.e. product;
  - Report on the price of funding sources and their maturity;
  - Report on the possibility of renewal of the funding sources;
  - Report on determining the available unencumbered assets;
  - Reports on the liquidity coverage ratio at aggregate level and by significant currency; and
  - Report on the internal liquidity indicators.

The bank shall submit the liquidity reports referred to in paragraph 1 of this item to the National Bank, within fifteen days after the end of the reporting month.

The Governor of the National Bank shall prescribe the form and content of the liquidity reports referred to in paragraph 1 of this item and the manner of reporting.

71. In addition to the reports referred to in item 70 of this Decision, the bank shall report to the National Bank at least once a year on:

- the amount and the basis of the additional cash outflow referred to in item 44 paragraph 1 of this Decision;
- any deterioration of the credit quality of a bank significant from the aspect of concluded contracts referred to in item 44 paragraph 3 of this Decision;
- those products and services for which the likelihood and potential volume of the liquidity outflows referred to in item 49 paragraph 3 are material.

The bank shall submit the reports referred to in paragraph 1 of this item within 30 calendar days after the completed assessment by the bank.

72. Provided that the liquidity coverage ratio is below the requirement or the bank expects the liquidity coverage ratio to be below the requirement, in accordance with item 11 of this Decision, the bank shall, along with the report referred to in item 70 paragraph 1 indent 7 of this Decision, explain to the National Bank in writing the reasons behind any present or future non-compliance and submit a plan specifying measures and deadlines for achieving or maintaining the requirement.

The National Bank shall monitor the delivery of the plan referred to in paragraph 1 of this item and may impose on the bank referred to in paragraph 1 of this item, compliance measures to be implemented within a certain time period.

Banks that have neither maintained nor reached the requirement shall file to the National Bank at the end of each working day the report referred to in item 70 paragraph 1 indent 7 of this Decision, until the requirement is achieved.

73. On special request of the National Bank, the bank shall compile the reports of item 70 paragraph 1 of this Decision as of another date and another deadline different from the date and the deadline specified in item 70 paragraph 2 of this Decision.

## **XVII. TRANSITIONAL AND CLOSING PROVISIONS**

74. The provisions of this Decision shall also apply to foreign bank branches and savings houses in the Republic of North Macedonia.

75. This Decision shall enter into force on the eighth day from the date of publication in the Official Gazette of the Republic of North Macedonia, and shall apply from 1 January 2021.

76. The implementation of this Decision shall supersede the Decision on liquidity risk management (Official Gazette of the Republic of Macedonia No. 126/11, 19/12 and 151/13).

**D. No. 02-15/VIII-2/2020**  
**May 29, 2020**  
**Skopje**

**Anita Angelovska Bezhoska**  
**Governor**  
**and**  
**Chairperson**  
**of the National Bank Council**

## **Annex 1**

### **Formula for the determination of the HQLA composition**

1. Having in mind items 16, 26 and 27 of this Decision, the bank shall determine:
  - 1.1. the level 1 asset amount;
  - 1.2. the level 2A asset amount;
  - 1.3. the level 2B asset amount;
  - 1.4. The sum of 1.1, 1.2 and 1.3 of this item;
  - 1.5. The excess HQLA as calculated in accordance with items 2 and 3 of this Annex.

The amount of HQLA shall be equal to the sum of 1.1, 1.2 and 1.3 of this item minus the lesser of 1.4 or 1.5 of this item.

2. Excess HQLA shall be comprised of the components defined herein:
  - 2.1. the adjusted level 1 asset amount excluding level 1 covered bond, which shall be equal to the value post-haircuts of all level 1 liquid assets, excluding level 1 covered bonds, that would be held by the bank upon any secured funding, secured lending or collateral swap transaction or any other similar transaction that matures within 30 calendar days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction;
  - 2.2. the adjusted level 1 covered bond amount, which shall be equal to the value post-haircuts of all level 1 covered bonds that would be held by the bank upon any secured funding, secured lending or collateral swap transaction or any other similar transaction that matures within 30 calendar days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction;
  - 2.3. the adjusted level 2A asset amount, which shall be equal to the value post-haircuts of all level 2A assets that would be held by the bank upon any secured funding, secured lending or collateral swap transaction or any other similar transaction that matures within 30 calendar days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction; and
  - 2.4. the adjusted level 2B asset amount, which shall be equal to the value post-haircuts of all level 2B assets that would be held by the bank upon any secured funding, secured lending or collateral swap transaction or any other similar transaction that matures within 30 calendar days from the calculation date and where the bank and the counterparty exchange liquid assets on at least one leg of the transaction.
3. The excess HQLA shall be equal to the sum of 2.1, 2.2, 2.3 and 2.4 of item 2 of this Annex minus the lesser of:
  - 3.1. The sum of 2.1, 2.2, 2.3 и 2.4 of item 2 of this Annex;
  - 3.2. 100/30 times 2.1 from item 2 of this Annex;
  - 3.3. 100/60 times the sum of 2.1 and 2.2 from item 2 of this Annex; or
  - 3.4. 100/85 times 2.1, 2.2 and 2.3 from item 2 of this Annex.



## **Annex 2**

### **Formula for the calculation of the net liquidity outflow**

$$\text{NLO} = \text{TO} - \text{MIN}(\text{FEI}, \text{TO}) - \text{MIN}(\text{IHC}, 0,9*\text{MAX}(\text{TO} - \text{FEI}, 0)) - \text{MIN}(\text{IC}, 0,75*\text{MAX}(\text{TO} - \text{FEI} - \text{IHC}/0,9, 0))$$

where:

NLO = Net liquidity outflow

TO = Total outflows, as calculated in Section VIII of this Decision

FEI = Fully exempted inflows

IHC = Inflows subject to higher cap of 90% outflows (partially exempted inflows)

IC = Inflows subject to cap of 75% of outflows (exempted inflows)