

Pursuant to Article 44 paragraph (2) item 3) of the Central Bank of Montenegro Law (OGM 40/10, 06/13 and 70/17), Article 113 paragraph (11) and Article 114 paragraph (10) of the Law on Credit Institutions (OGM 72/19), the Council of the Central Bank of Montenegro, at its meeting held on 28 December 2020, passed the following

DECISION ON LIQUIDITY RISK MANAGEMENT IN CREDIT INSTITUTIONS

I. GENERAL PROVISIONS

Subject matter

Article 1

This Decision shall prescribe minimum standards for liquidity risk management in credit institutions as well as the obligations of a credit institution regarding liquidity coverage and stable sources of funding requirements.

Definitions

Article 2

Terms used in this Decision shall have the following meaning:

- 1) **risk profile** means the measurement or assessment of all risks to which a credit institution is or might be exposed in its operations;
- 2) **stress testing** means the assessment of the impact of certain developments and processes, including micro- or macroeconomic scenarios, on the overall capital position of a credit institution or sources of funding and liquidity, by means of projecting the credit institution's capital sources and requirements or the impact of shocks on the overall liquidity position of the credit institution, including determining capital requirements;
- 3) **scenario analysis** means an assessment of the impact of a concurrent change in several risk factors on the financial position of a credit institution under clearly defined stress conditions;
- 4) **sensitivity analysis** means an assessment of the impact of a specific risk factor on the financial position of a credit institution wherein the cause of stress is not identified;
- 5) **reputational risk** means the risk of loss of confidence in the integrity of a credit institution caused by adverse public opinion on the credit institution's business practices, regardless of whether there are any grounds for such a public opinion or not;
- 6) **liquidity buffer** means the amount of liquid assets that a credit institution holds in accordance with Articles 19 to 30 of this Decision;
- 7) **reporting currency** means the currency used for the purposes of liquidity coverage ratio (LCR) reporting expressed in EUR;

- 8) **asset coverage requirement** means the ratio of assets to liabilities as determined for credit enhancement purposes in relation to covered bonds;
- 9) **public sector entity** shall have the meaning specified under the Decision on Capital Adequacy of Credit Institutions (hereinafter: the Decision on Capital Adequacy);
- 10) **micro, small and medium enterprise (SME)** means a micro, small and medium-sized legal person as defined in the law governing accounting;
- 11) **net liquidity outflows** mean the amount which results from deducting a credit institution's liquidity inflows from its liquidity outflows in accordance with Articles 31 to 46 of this Decision;
- 12) **level 1 assets** mean assets of extremely high liquidity and credit quality in accordance with Article 24 of this Decision;
- 13) **level 2 assets** mean assets of high liquidity and credit quality in accordance with Articles 24 to 30 of this Decision;
- 14) **retail deposit** means a liability to a natural person or to an SME, where the SME would qualify for the retail exposure class under the Standardised Approach or the Internal Rating Based Approach for credit risk, or a liability to a legal person which is eligible for the treatment set out in Article 172 paragraph (5) of the Decision on Capital Adequacy, and where the aggregate deposits by such SME or legal person on a group basis do not exceed EUR 300,000;
- 15) **financial customer** means a customer, including a non-financial corporate group that provides financial services listed in Article 5 of the Law on Credit Institutions (hereinafter: the Law) as its main business, or is one of the following:
- a credit institution;
 - an investment firm;
 - a securitisation special purpose entity (SSPE);
 - a collective investment undertaking (CIU);
 - a non-open ended investment scheme;
 - an insurance undertaking;
 - a reinsurance undertaking;
 - a financial holding company or mixed-financial holding company;
 - financial institution;
 - occupational pensions institution;
- 16) **stress** means a sudden or severe deterioration in the solvency or liquidity position of a credit institution due to changes in market conditions or idiosyncratic factors as a result of which there is a significant risk that the credit institution becomes unable to meet its commitments as they fall due within the next 30 calendar days;
- 17) **deposit broker** means a natural person or a business undertaking that places deposits from third parties, including retail deposits and corporate deposits but excluding deposits from financial institutions, with credit institutions in exchange of a fee;
- 18) **unencumbered asset** means an asset not subject to any legal, contractual, regulatory or other restrictions preventing the credit institution from liquidating, selling, transferring, assigning or, generally, disposing of such asset via active outright sale or repurchase agreement within the following 30 calendar days.

- 19) non-mandatory overcollateralisation** means any amount of assets which the credit institution is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline, including in particular where:
- the assets are provided in excess of the minimum legal, statutory or regulatory overcollateralisation requirement applicable to the covered bonds under the regulations of Montenegro or a third country;
 - pursuant to the methodology of a nominated External Credit Assessment Institution (ECAI), the assets are not required for the covered bonds to maintain their current credit assessment; or
 - the assets are not required for the purposes of material credit enhancement of the cover bond;
- 20) margin loans** mean collateralised loans extended to customers for the purpose of taking leveraged trading positions;
- 21) derivative contracts** mean the contracts referred to in Article 128 paragraph (5) of the Decision on Capital Adequacy;
- 22) cover pool** means a clearly defined set of assets securing the payment of obligations attached to covered bonds that are segregated from other assets held by the credit institution issuing the covered bonds;
- 23) convertible currencies** mean the currencies of countries members of G10 (Belgium, France, Italy, Japan, the Netherlands, Canada, Germany, the USA, Sweden, Switzerland), the EEA member states (including Iceland, Liechtenstein, and Norway in addition the EU Member States), Australia, and New Zealand;
- 24) covered bonds** mean bonds that meet the mandatory requirements for covered bonds and that are issued by a credit institution which has its registered office in an EU Member State and is subject by law to special public supervision designed to protect bond holders;
- 25) personal investment company** means an undertaking or a trust whose owner or beneficial owner, respectively, is a natural person or a group of closely related natural persons, which was set up with the sole purpose of managing the assets of the owners and which does not carry out any other commercial, industrial or professional activity, and which may carry out activities such as segregating the owners' assets from corporate assets, facilitating the transmission of assets within a family or preventing a split of the assets after the death of a member of the family, provided these are connected to the main purpose of managing the owners' assets;
- 26) central government** shall have the meaning specified under Article 10 paragraph (3) of the Law;

II. MINIMUM REQUIREMENTS FOR LIQUIDITY RISK MANAGEMENT

Liquidity risk management

Article 3

(1) When implementing the strategies, policies, processes, and systems for the identification, measurement and monitoring of liquidity risk, in addition to activities set out in Article 113 paragraph (5) of the Law, a credit institution shall:

- 1) perform stress testing and establish procedures for the credit institution's management board and senior management to act in cases of certain adverse stress test results;
- 2) have in place a credit institution funding plan/strategy;
- 3) establish assumptions on the behaviour of assets, liabilities and off-balance sheet, and assumptions on other relevant circumstances in such way that these assumptions correspond with the credit institution's activities and market conditions;
- 4) ensure diversification in the structure of the sources of funding and the access to the sources of funding;
- 5) set up an adequate information system.

(2) Acts adopted by a credit institution in accordance with the Law and this Decision for the purpose of liquidity risk management shall be deemed adequate where they:

- 1) are proportionate to the complexity, risk profile, scope of operations of a credit institution and the established risk tolerance;
- 2) provide liquidity risk management over appropriate sets of time horizons, including intra-day;
- 3) ensure the maintenance of adequate levels of liquidity buffers;
- 4) are tailored to business lines, currencies, and branches;
- 5) reflect the credit institution's importance in each state in which it carries out business; and
- 6) include adequate allocation mechanism.

Risk tolerance

Article 4

Risk tolerance shall be established as a level of liquidity risk a credit institution is willing to take, taking into account its business model, total risk tolerance, role in the financial system, financial condition, and the funding capacity allowing it to manage its liquidity under both normal and stressed conditions.

Risk management strategy and policies

Article 5

(1) Liquidity risk management strategy shall at least cover the objectives and basic principles for taking and managing liquidity risk.

(2) Policies and other credit institution's internal acts relating to liquidity risk management shall cover at least the following:

- 1) a detailed description of the liquidity risk management process with clearly defined competences and responsibilities of all participants (organisational units and established bodies within a credit institution) in relation to taking and managing liquidity risk;

- 2) a clearly defined system of reporting on the credit institution's exposure to liquidity risk, and, in particular, timely reporting to the management on the credit institution's liquid position and compliance with established limits, i.e. other reporting relevant for appropriate liquidity risk management;
- 3) established internal liquidity risk exposure limits that must adequately reflect the credit institution's business orientation, i.e. the complexity of the activities it performs, specified periodicity of monitoring and management reporting, and procedures defining the activities taken in the event of limit breaches;
- 4) establishment and maintenance of adequate levels of liquidity buffers, in accordance with the analysis of maturity match between the liabilities and receivables, and off-balance sheet positions for previously established time horizons, including one-day period;
- 5) assumptions of the trends of assets, liabilities and off-balance sheet positions, as well as assumptions of other relevant circumstances in accordance with credit institution's activities, and assumptions of inflows and outflows;
- 6) assets and liabilities' structure, including off-balance sheet liabilities and the assumptions regarding the asset liquidity and marketability;
- 7) measurement and monitoring of net cash flows, including intra-day liquidity management;
- 8) management of pledged and unencumbered assets, in accordance with Article 113 of the Law;
- 9) procedures for adequate oversight of pledged assets;
- 10) policies for foreign currency operations;
- 11) defined level of interaction between the liquidity risk and other risks to which the credit institution is exposed (credit risk, market risk, interest rate risk, operational risk, legal, and reputational risk), which affect the credit institution's liquid position;
- 12) credit institution's obligation to review, on a regular basis, the interactions between the following risks:
 - that the credit institution will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial result of the credit institution (funding liquidity risk) and
 - that a credit institution cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth (hereinafter: market liquidity risk);
- 13) diversification and stability of the sources of funding, i.e. the credit institution's access to markets so that it reflects the credit institution's presence in its chosen funding markets, and the assessment of the credit institution's capacity to raise funds quickly from its sources under both normal and stressed conditions;
- 14) defined system for assessing all current and future inflows and outflows, including the estimation of funds required for off-balance sheet items;
- 15) detailed description of internal control process, which defines appropriate control activities for monitoring the efficiency and effectiveness of the liquidity risk management system, i.e. the assessment of adequacy and reliability of financial information of the credit institution;

- 16) cross-border liquidity management, liquidity management across different business lines, branches and subsidiaries, and, where applicable, liquidity management within the group of credit institutions;
 - 17) stress testing and the analysis of different stress scenarios;
 - 18) contingency plan; and
 - 19) liquidity recovery plans.
- (3) A credit institution operating in foreign currencies shall analyse the foreign currency liquidity, including the analysis of convertibility of foreign currencies.
- (4) Where there are constraints with regard to the transfer of liquidity surplus across jurisdictions, a credit institution shall specify any such constraints in the policy referred to in paragraph (2) of this Article, and take them into account when managing liquidity risk.

Allocation mechanism

Article 6

- (1) A credit institution shall align the allocation mechanism of liquidity costs, benefits, and risks (hereinafter: the allocation mechanism) referred to in Article 113 paragraph (4) of the Law with the established liquidity risk management system and liquidity risk tolerance, and establish an appropriate decision-making process regarding the liquidity costs allocation.
- (2) A credit institution shall use the allocation mechanism in its process for internal pricing of products.
- (3) The allocation mechanism shall include at least the following:
- 1) the impact of current market conditions i.e. the direct costs of funding (e.g. market cost of raising funds, base yield curve), including other direct funding costs (e.g. difference between the transaction purchase and selling prices, transaction price, cost of physical transfer of cash, etc.),
 - 2) the situation of the credit institution itself (e.g. credit quality, availability of funding sources),
 - 3) characteristics of specific products in terms of liquidity (e.g. cost of early cancellation option, products available by means of internet banking or products with irregular cash flows), and
 - 4) indirect costs of funding (e.g. liquidity mismatch cost, liquidity reserve cost, additional collateral cost, etc.).
- (4) A credit institution shall update the allocation mechanism on a regular basis, taking into account the impact of factors referred to in paragraph (3) of this Article.

(5) A credit institution shall ensure that a relevant organisational unit is responsible for controlling and monitoring of the functioning of the allocation mechanism.

(6) A credit institution shall ensure that all relevant levels of management and all relevant organisational units have full knowledge of the allocation mechanism and that they act in accordance with that mechanism.

Management board's activities with respect to liquidity risk

Article 7

With respect to liquidity risk, the management board of a credit institution shall:

- 1) ensure the implementation of acts adopted for the purpose of liquidity risk management;
- 2) ensure that the credit institution's day-to-day obligations are met under both normal and stressed conditions, thus maintaining the appropriate liquidity buffer;
- 3) ensure necessary quality and timeliness of liquidity risk reports;
- 4) ensure the efficiency of internal controls embedded into the liquidity risk management system; and
- 5) adopt contingency and liquidity recovery plans.

Senior management's activities with respect to liquidity risk

Article 8

With respect to liquidity risk, the senior management shall:

- 1) ensure the functioning of the liquidity risk management system and its efficiency in EUR and in other currencies;
- 2) set limits for liquidity risk management, and regularly revise them in accordance with the established liquidity risk tolerance;
- 3) establish an appropriate reporting system in case of breaches of limits, and the procedures for breaches of limits;
- 4) review the allocation mechanism at least annually; and
- 5) develop contingency and liquidity recovery plans, review these plans at least annually, and propose adjustments of internal acts to those plans.

Monitoring and reporting

Article 9

A credit institution shall include in its system of reporting risks to the management bodies as a minimum the monitoring of liquidity position in EUR and other currency, liquidity indicators in relation to liquidity risk limits, stress testing results, and the like.

Measuring and monitoring cash flows

Article 10

(1) A credit institution shall establish a system for forecasting all current and future inflows and outflows, including the forecasting of funds for off-balance sheet positions.

(2) A credit institution should manage liquidity risk with respect to future cash flows of assets and liabilities for:

- 1) sources of contingent liquidity demand and related triggers associated with balance sheet positions (in the case of liquid funds shortfall); and
- 2) currencies in which a credit institution has exposures.

(3) A credit institution shall regularly re-examine the interactions between the funding liquidity risk and the market liquidity risk, and consider the effects of liquidity risk and other types of risks to which it is exposed, in particular the interest rate risk arising from non-tradeable positions, credit risk, and operational risk including legal and reputational risks.

(4) A credit institution shall ensure that its liquidity risk management practices over various time horizons consider changes in liquidity needs and funding capacity on an intraday basis, and short-term, medium-term and longer-term liquidity needs and funding capacity, as well as potential vulnerabilities to events, activities and strategies of the credit institution in order to ensure that an adequate liquidity buffer levels are maintained.

(5) Liquidity buffer referred to in paragraph (4) of this Article shall comprise sufficient liquid assets, specifically highly liquid, unencumbered liquid assets readily available at any moment to be used, without any legal, regulatory or operational impediment, in various stress events (of different intensity and duration), including the loss or impairment of both unsecured and otherwise secured funding sources.

(6) A credit institution shall regularly check the accuracy of input data used for calculating its liquidity position.

Funding sources

Article 11

A credit institution shall secure access to alternative sources of funding and in its liquidity risk policy cover in particular:

- 1) potential funding sources and its projection, taking into account the long-term maturity gap, the business model, strategy, and liquidity risk tolerance;
- 2) the manner of active management of funding sources in the market;
- 3) the manner of establishing and maintaining cooperation with depositors and creditors, and monitoring frequency of use of available funding sources;
- 4) an assessment of access to financial markets and an assessment of available funds under normal circumstances and in stress situations;
- 5) an assessment of stability of funding sources and the risks affecting their stability;

- 6) monitoring of the concentration of sources of financing and limiting it, taking into account the assessment of specific instruments' liquidity, geographical locations, and providers of funding sources; and
- 7) identification and the manner of use of the alternative funding sources (deposit growth, the extension of maturities of liabilities, new issues of short- and long-term debt instruments, asset securitisation, the sale or repo of unencumbered, highly liquid assets, borrowing from the Central Bank of Montenegro (hereinafter: the Central Bank), and the like).

Stress testing

Article 12

(1) A credit institution shall define, in its liquidity risk management policy or another act relating to liquidity risk stress testing, the procedures for implementation and analysis of stress scenarios referred to in Article 113 paragraph (5) of the Law, as well as the frequency of their implementation, and, at least on a quarterly basis it shall:

- 1) establish the obligation of carrying out stress testing for shorter and longer periods of stress conditions;
- 2) establish the obligation of carrying out liquidity testing depending on the circumstances and the severity of those circumstances if they are unfavourable, ranging from usual to unusual (extreme) circumstances;
- 3) enable the relevant body and senior management of the credit institution to analyse the stress testing results;
- 4) establish procedures for actions to be taken in cases of specific unfavourable stress testing results;

(2) A credit institution shall take into account, periodically review and revise as appropriate, the assumptions underlying the stress testing, and in particular the assumptions relating to the following:

- 1) a sudden withdrawal of retail deposits;
- 2) sources of funding with the early withdrawal option;
- 3) reduction of funding sources by major depositors;
- 4) additional contingent off-balance sheet exposures;
- 5) funding tenor;
- 6) the effects of any deterioration of credit institution's credit rating;
- 7) convertibility of foreign currencies and their availability in the foreign exchange markets; and
- 8) an estimate of future balance sheet growth.

(3) When carrying out stress testing, a credit institution shall calculate the impact on liquidity for all positions with the possibility of margin calls.

(4) Stress testing results represent a basis for taking remedial measures or actions for mitigating the credit institution's exposure to liquidity risk, for providing liquidity buffers and for adjusting the credit institution's liquidity profile to the established risk tolerance.

Contingency Plan

Article 13

(1) Pursuant to Article 113 paragraph (5) item 7) of the Law, a credit institution shall adopt a contingency plan, which shall contain in particular the following:

- 1) early warning indicators that signal the occurrence of a crisis to the employees responsible for monitoring and reporting on the occurrence of contingencies (e.g. exceeding of internal limits, decline in deposits, decline in security prices, increased funding costs in relation to other credit institutions, changes in the credit institution's credit rating, difficulties in raising funds in money markets, deterioration of asset quality or profitability);
- 2) situations in which the plan is implemented;
- 3) clear segregation of duties, powers, and responsibilities in a credit institution for the implementation of the plan, with contact information of the members of the team which shall be activated in the case the plan is implemented;
- 4) procedures enabling timely and relevant information to be delivered to the management board and senior management for the purpose of deciding on acting under contingency;
- 5) procedures and manners of obtaining lacking funds and a timeframe during which specific activities should be taken (e.g. sale of assets, establishment of new funding lines) under normal and stress circumstances;
- 6) types, amount, and reliability of all funding sources with specified sequence of use under different stress situations;
- 7) ranking of funding sources, or establishing a schedule for the use of these sources in accordance with the identified situation, defining back-up facilities, which could be used in regular business, and secured facilities, which would be used when back-up facilities are not available or sufficient to cover lacking funds under contingency;
- 8) potential encumbrance on assets arising from various stress situations (credit institution credit quality downgrade, impairment of pledged assets or increased margin calls).

(2) A credit institution shall, at least annually, revise the plan referred to in paragraph (1) of this Article and change it, as appropriate, on the basis of the stress testing results.

(3) The plan referred to in paragraph (1) of this Article may be an integral part of the liquidity risk management policy or a part of the liquidity recovery plan of a credit institution.

Liquidity recovery plan

Article 14

(1) Liquidity recovery plan of a credit institution shall contain elements prescribed in Article 113 paragraph (5) item 8) of the Law.

(2) The plan referred to in paragraph (1) of this Article may be integrated into the general recovery plan of a credit institution referred to in Article 125 of the Law.

Information system

Article 15

A credit institution's information system shall provide data necessary for timely and continuous management of liquidity risk, and in particular for:

- 1) measuring and monitoring credit institution's liquidity on a day-to-day basis and in other set periods;
- 2) measuring and monitoring liquidity for each foreign currency that has a material impact on the overall liquidity of a credit institution;
- 3) monitoring compliance with established limits for liquidity risk management;
- 4) designing liquidity indicators;
- 5) analysing the trends and assessing deposit stability;
- 6) carrying out liquidity stress testing of the credit institution;
- 7) compiling reports and information for the purposes of credit institution's bodies and other persons involved in the liquidity risk management process.

II. QUANTITATIVE REQUIREMENTS FOR LIQUIDITY RISK MANAGEMENT

1. LIQUIDITY INDICATORS

Daily and ten-day liquidity indicators

Article 16

(1) A credit institution shall express minimum daily and ten-day liquidity by its liquidity indicator.

(2) Liquidity indicator referred to in paragraph (1) of this Article shall be the ratio between the sum of liquid assets and the sum of matured liabilities referred to in Article 17 of this Decision.

Liquid assets and matured liabilities

Article 17

(1) Liquid assets shall be considered, within the meaning of this Decision, the following:

- 1) cash;
- 2) funds at the account with the Central Bank;
- 3) cheques and other cash receivables;
- 4) funds at the accounts with domestic banks (demand deposits);
- 5) funds with payment system agents;
- 6) funds at the accounts at foreign banks (demand deposits);

- 7) a part of reserve requirement funds which may be used for maintaining credit institution's daily liquidity, in accordance with a separate regulation of the Central Bank.

(2) Matured liabilities shall be considered, within the meaning of this Decision, the following:

- 1) loan payables;
- 2) interest and fee payables;
- 3) matured liabilities on time deposits;
- 4) 30% of demand deposits;
- 5) 10% of liabilities on approved, irrevocable committed undrawn credit facilities;
- 6) other matured liabilities.

Minimum daily and ten-day liquidity indicator

Article 18

A credit institution shall maintain the liquidity level so that the minimum value of liquidity indicator amounts to:

- 1) 0.9 – when calculated for one working day (daily liquidity indicator);
- 2) 1.0 – when calculated as an average of liquidity indicators for all working days in a ten-day period (ten-day liquidity indicator).

2. ELEMENTS FOR CALCULATING LIQUIDITY COVERAGE RATIO

2.1. Liquidity buffer

Composition of the liquidity buffer

Article 19

In order to be eligible to form part of a credit institution's liquidity buffer, the liquid assets shall comply with the following requirements:

- 1) the general requirements laid down in Article 20 of this Decision,
- 2) the operational requirements laid down in Article 21 of this Decision,
- 3) the criteria for classification of assets as a level 1 or level 2 assets in accordance with Articles 24 to 30 of this Decision.

General requirements for liquid assets

Article 20

(1) The liquid assets of a credit institution meet the general criteria if:

- 1) the assets are a property, right, entitlement or interest which is held by a credit institution or which is a part of a liquidity pool referred to in paragraph (2) item 1) of this Article and which is free from any encumbrance.

- 2) the assets have not been issued by the credit institution itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking, or by a SSPE with which the credit institution has close links;
- 3) the assets have not been issued by any of the following:
 - another credit institution, unless the issuer is a public sector entity referred to in Article 24 paragraph (1) item 3), Article 25 paragraph (1) items 1) and 2) of this Decision, the asset is a covered bond referred to in Article 24 paragraph (1) item 5) and Article 25 paragraph (1) items 3) or 4) of this Decision,
 - an investment firm,
 - an insurance undertaking;
 - a reinsurance undertaking,
 - a financial holding company,
 - a mixed financial holding company,
 - any other entity that performs one or more of the activities listed in Article 5 of the Law, other than a SSPE;
- 4) the value of the assets may be capable of being determined on the basis of widely disseminated and easily available market prices, and in the absence of such prices, the value of the assets must be capable of being determined on the basis of an easy-to-calculate formula that uses publicly available inputs and is not significantly dependent upon strong assumptions;
- 5) the assets are listed on a recognised exchange in Montenegro or in a third country, and tradable via active outright sale or via simple repurchase transaction on generally accepted repurchase markets.

(2) Within the meaning of paragraph (1) item 1) of this Article, an asset shall be deemed to be unencumbered where:

- 1) assets included in a liquidity pool that are available for immediate use as collateral to obtain additional funding under committed or, if the liquidity pool is managed by a central bank, uncommitted but not yet funded credit facilities available to the credit institution, including assets placed by a credit institution with the central institution in a cooperative network or institutional protection scheme. Credit institutions shall assume that assets in the liquidity pool are encumbered in order of increasing liquidity on the basis of the liquidity classification set out in Articles 24 to 30 of this Decision, starting with assets ineligible for the liquidity buffer;
- 2) assets that the credit institution has received as collateral for credit risk mitigation purposes in reverse repo or securities financing transactions and that the credit institution may dispose of;
- 3) assets attached as non-mandatory overcollateralisation to a covered bond issuance.

(3) The criteria referred to in paragraph (1) item 5) of this Article shall be assessed separately for each market, and assets admitted to trading in an organised venue which is not a recognised exchange, either in a Montenegro or in a third country, shall be deemed liquid only where the trading venue provides for an active and sizable market for outright sales of assets.

(4) To assess whether the trading venue provides for an active and sizable market referred to in paragraph (3) of this Article, the following shall in particular be taken into account:

- 1) historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants;
- 2) the presence of a robust market infrastructure.

(5) The requirements laid down in paragraph (1) items 4) and 5) of this Article shall not apply to:

- 1) cash referred to in Article 24 paragraph (1) item 1) of this Decision;
- 2) the exposures to central governments referred to in Article 24 paragraph (1) item 4) of this Decision;
- 3) the exposures to central banks referred to in Article 24 paragraph (1) items 2) and 4) and Article 25 paragraph (1) item 2) of this Decision.

Operational requirements

Article 21

(1) A credit institution shall have policies and limits in place to ensure that the holdings of liquid assets comprising their liquidity buffer remain appropriately diversified at all times and for those purposes, and for those purposes, it shall take into account the extent of diversification between the various categories of liquid assets and within the same category of liquid assets referred to Articles 24 to 30 of this Decision, and any other relevant diversification factors, such as types of issuers, counterparties or the geographical locations of those issuers and counterparties.

(2) During the process of supervision, the Central Bank may, in accordance with the Law, impose specific restrictions or requirements on a credit institution's holdings of liquid assets to ensure compliance with the requirements set out in paragraph (1) of this Article.

(3) Restrictions or requirements referred to in paragraphs (1) and (2) of this Article shall not apply to:

- 1) the following categories of level 1 assets:
 - cash referred to in Article 24 paragraph (1) item 1) of this Decision;
 - the exposures to central banks referred to in points referred to in Article 24 paragraph (1) items 2) and 4) of this Decision;
 - assets referred to in Article 24 paragraph (1) item 6) of this Decision;
- 2) the categories of level 1 assets representing claims on or guaranteed by the central government, local self-government units or public sector entities referred to Article 24 paragraph (1) items 3) and 4) of this Decision, provided that the credit institution holds the relevant asset to cover stressed net liquidity outflows incurred in the currency of the third country or the asset is issued by the central government, or local self-government units or public sector entities in Montenegro

that may be treated as central government within the meaning of Article 10 paragraph (3) of the Law;

(4) A credit institution shall have direct access to its holdings of liquid assets and be able to monetise them at any time during the 30 calendar day stress period via outright sale or repurchase agreement on generally accepted repurchase markets where:

- 1) a liquid asset shall be deemed readily accessible, where there are no legal or practical impediments to the credit institution's ability to monetise such an asset in a timely fashion;
- 2) assets used to provide credit enhancement in structured transactions or to cover operational costs of the credit institution shall not be deemed as readily accessible to a credit institution;
- 3) assets held in a third country where there are restrictions to their free transferability shall be deemed readily accessible only insofar as the credit institution uses those assets to meet liquidity outflows in that third country;
- 4) assets held in a non-convertible currency shall be deemed readily accessible only insofar as the credit institution uses those assets to meet liquidity outflows in that currency;

(5) A credit institution shall ensure that its liquid assets are under the control of a specific liquidity management function within the credit institution, and compliance with this requirement shall be demonstrated either by:

- 1) placing the liquid assets in a separate liquidity pool under the direct management of the liquidity management function and with the sole intent of using them as a source of contingent funds, including during stress periods;
- 2) putting in place internal systems and controls to give the liquidity management function effective operational control to monetise the holdings of liquid assets at any point in the 30 calendar day stress period and to access the contingent funds without directly conflicting with any existing business or risk management strategies, provided that an asset shall not be included in the liquidity buffer where its monetisation without replacement throughout the 30 calendar day stress period would remove a hedge that would create an open risk position in excess of the internal limits of the credit institution;
- 3) a combination of options referred to in items 1) and 2) of this paragraph, provided that the Central Bank has deemed such combination acceptable.

(6) A credit institution shall regularly, and at least once a year, monetise a sufficiently representative sample of their holdings of liquid assets by means of outright sale or simple repurchase agreement on a generally accepted repurchase market.

(7) A credit institution shall develop a strategy for disposing of samples of liquid assets which are adequate to:

- 1) test the access to the market for those assets and their usability;
- 2) check that the credit institution's processes for the timely monetisation of assets are effective;

3) minimise the risk of sending a negative signal to the market as a result of the credit institution's monetising its assets during stress periods.

(8) The requirement laid down in paragraph (6) of this Article shall not apply to level 1 assets referred to in Article 24 of this Decision, other than extremely high quality covered bonds;

(9) The requirement set out in paragraph (4) of this Article shall not prevent a credit institution from hedging the market risk associated with its liquid assets, provided that the following conditions are met:

- 1) the credit institution puts in place appropriate internal arrangements in accordance with paragraph (5) of this Article to ensure that those assets continue to be readily available and under the control of the liquidity management function; and
- 2) the net liquidity outflows and inflows that would result in the event of an early close-out of the hedge are taken into account in the valuation of the relevant asset in accordance with Article 23 of this Decision.

(10) A credit institution shall ensure that the currency denomination of its liquid assets is consistent with the distribution by currency of its net liquidity outflows, however, and upon the Central Bank's request in the case referred to in Article 280 of the Law, it shall restrict currency mismatch by setting limits on the proportion of net liquidity outflows in a specific currency that can be met during a stress period by holding liquid assets not denominated in that currency.

(11) Restriction referred to in paragraph (10) of this Article may only be applied for the reporting currency or a currency that may be subject to separate reporting in accordance with the Central Bank decision governing the reports to be submitted by the credit institutions to the Central Bank.

(12) In determining the level of any restriction on currency mismatch that may be applied in accordance with paragraphs (10) and (11) of this Article, the following shall be taken into account:

- 1) whether the credit institution has the ability to do any of the following:
 - use the liquid assets to generate liquidity in the currency and jurisdiction in which the net liquidity outflows arise;
 - swap currencies and raise funds in foreign currency markets during stressed conditions consistent with the 30 calendar day stress period;
 - transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities within its group during stressed conditions consistent with the 30 calendar day stress period;
- 2) the impact of sudden, adverse exchange rate movements on existing mismatched positions and on the effectiveness of any foreign exchange hedges in place.

Stress scenarios for the purposes of liquidity coverage ratio

Article 22

The credit institution may be considered as being subject to stress in the case of:

- 1) the run-off of a significant proportion of its retail deposits;
- 2) a partial or total loss of unsecured wholesale funding capacity, including wholesale deposits and other sources of contingent funding such as received committed or uncommitted liquidity or credit facilities;
- 3) a partial or total loss of secured, short-term funding;
- 4) additional liquidity outflows as a result of a credit rating downgrade of up to three notches;
- 5) increased market volatility affecting the value of collateral or its quality or creating additional collateral needs;
- 6) unscheduled draws on liquidity and credit facilities;
- 7) potential obligation to buy-back debt or to honour non-contractual obligations.

Valuation of Liquid Assets

Article 23

(1) For the purposes of calculating its liquidity coverage ratio, a credit institution shall use the market value of its liquid assets.

(2) The market value of liquid assets referred to in paragraph (1) of this Article shall be reduced in accordance with Article 21 paragraph (9) item 2) and the haircuts set out in Articles 24 to 28 of this Decision, where appropriate.

2.2 LIQUID ASSETS

Level 1 assets

Article 24

(1) Level 1 assets shall include the following:

- 1) cash;
- 2) the following exposures to central banks:
 - assets representing claims on or guaranteed by the Central Bank;
 - assets representing claims on or guaranteed by central banks of third countries, provided that exposures to the central bank or the central government of third countries are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 131 of the Decision on Capital Adequacy;
 - reserves held by the credit institution in a central bank referred to in indent 1 or 2 of this item, provided that the credit institution is permitted to withdraw such reserves at any time during stress periods under the conditions for such withdrawal specified in an agreement between the competent authority of the

credit institution and the central bank in which the reserves are held or in applicable regulations of a third country where the following shall apply:

- a) where the reserves are held by a subsidiary of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority of the third country subsidiary credit institution and the central bank of that third country in which the reserves are held, or in the applicable regulations of the third country, as applicable,
 - b) where the reserves are held by a branch of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority of the third country where the branch is located and the central bank in which the reserves are held, or in the applicable regulations of the third country, as applicable;
- 3) assets representing claims on or guaranteed by the:
- central government of Montenegro;
 - central government of a third country, provided that it is assigned a credit assessment of at least credit quality step 1 by a nominated external credit assessment institution in accordance with Article 131 of the Decision on Capital Adequacy;
 - regional government or local self-government units in a third country referred to in indent 2 of this item, provided that they are treated as exposures to the central government of the third country and that the credit institution is able to prove such treatment in accordance with Article 132 paragraph (5) of the Decision on Capital Adequacy;
 - public sector entities, provided that those claims are treated as exposures to the central government of Montenegro;
- 4) other assets, which include the following:
- claims on or guaranteed by the central government or the central bank of a third country which is not assigned a credit quality step 1 credit assessment by a nominated external credit assessment institution;
 - reserves held by the credit institution in a central bank referred to in indent 1 of this item, provided that the credit institution is permitted to withdraw such reserves at any time during stress periods and the conditions for such withdrawal have been specified in an agreement between the competent authorities of the third country and the central bank in which the reserves are held or in the applicable regulations of the third country, where the following shall apply:
 - a) where the reserves are held by a subsidiary of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority of the subsidiary of the third country credit institution and the central bank in which the reserves are held, or in the applicable regulations of the third country;
 - b) where the reserves are held by a branch of a credit institution, the conditions for the withdrawal shall be specified in an agreement between the competent authority of the third country where the branch is located and the central bank in which the reserves are held, or in the applicable regulations of the third country;

- 5) exposures in the form of extremely high quality covered bonds, which shall comply with all of the following requirements:
- they are bonds as referred to in Article 3 item 25) of this Decision and meet the requirements to be eligible for the treatment set out in Article 146 paragraphs (4) and (5) of the Decision on Capital Adequacy;
 - the exposures to institutions in the cover pool meet the conditions laid down in Article 146 paragraph (1) item 3) of the Decision on Capital Adequacy, or the Central Bank has granted the partial waiver from Article 146 paragraph (2) of the Decision on Capital Adequacy;
 - the credit institution investing in the covered bonds and the issuer meet the requirements referred to in Article 146 paragraph (8) of the Decision on Capital Adequacy;
 - bond issue size is at least EUR 500 million;
 - the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 146 paragraph (6) of the Decision on Capital Adequacy, the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 146 paragraph (7) of the Decision on Capital Adequacy;
 - the cover pool meets at all times an asset coverage requirement of at least 2% in excess of the amount required to meet the claims attaching to the covered bonds;
- 6) assets representing claims on or guaranteed by the multilateral development banks and the international organisations referred to in Article 134 of the Decision on Capital Adequacy.

(2) The aggregate amount of assets referred to in paragraph (1) item 4) of this Article denominated in a given currency that the credit institution may recognise as level 1 assets shall not exceed the amount of the credit institution's stressed net liquidity outflows incurred in that same currency.

(3) Moreover, where part or all of the assets referred to in paragraph (1) item 4) of this Article are denominated in a currency which is not the domestic currency of the third country in question, the credit institution may only recognise those assets as level 1 assets up to an amount equal to the amount of the credit institution's stressed net liquidity outflows incurred in that foreign currency that corresponds to the credit institution's operations in the jurisdiction of a country where the liquidity risk is being taken.

(4) The market value of extremely high quality covered bonds referred to in paragraph (1) item 5) of this Article shall be subject to a haircut of at least 7%.

(5) No haircut shall be required on the value of the remaining level 1 assets, except as specified in relation to shares and units in CIUs in Article 28 paragraph (2) items 2) and 3) of this Decision.

Level 2A assets

Article 25

(1) Level 2A assets shall include:

- 1) assets representing claims on or guaranteed by local self-government units or public sector entities in Montenegro, where exposures to them are assigned a risk weight of 20% in accordance with Article 132 paragraphs (1) and (5) and Article 133 of the Decision on Capital Adequacy;
- 2) assets representing claims on or guaranteed by the central government or the central bank of a third country, or by a local self-government unit or public sector entity in a third country, provided that they are assigned a 20% risk weight in accordance with Articles 131, 132 or 133 of the Decision on Capital Adequacy;
- 3) 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 Article 3 item 25) of this Decision or meet the requirements to be eligible for the treatment set out in Article 146 paragraphs (5) and (6) of the Decision on Capital Adequacy;
 - the exposures to institutions in the cover pool meet the conditions laid down in Article 146 paragraph (1) item 3) of the Decision on Capital Adequacy or, where the partial waiver from Article 146 paragraph (2) of the Decision on Capital Adequacy has been granted;
 - the credit institution investing in the covered bonds and the issuer meet the transparency requirement laid down in Article 146 paragraph (8) of the Decision on Capital Adequacy;
 - bond issue size is at least EUR 250 million;
 - the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 2 in accordance with Article 146 paragraph (6) of the Decision on Capital Adequacy, or the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 20% risk weight in accordance with Article 146 paragraph (7) of the Decision on Capital Adequacy; and
 - the cover pool meets at all times an asset coverage requirement of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, however, where covered bonds with a credit quality step 1 credit assessment do not meet the minimum issue size for extremely high quality covered bonds in accordance with Article 24 paragraph (1) item 5) indent 4 of this Decision but meet the requirements for high quality covered bonds laid down in indents 1 to 4 of this item, they shall instead be subject to a minimum asset coverage requirement of 2%;
- 4) exposures in the form of covered bonds issued by credit institutions in third countries, where:
 - such bonds are, in accordance with the national law of the third country defined as debt securities issued by credit institutions, or by a wholly owned subsidiary of a credit institution which guarantees the issue, and secured by a

cover pool of assets, in respect of which bondholders shall have direct recourse for the repayment of principal and interest on a priority basis in the event of the issuer's default;

- the issuer and the covered bonds are subject, pursuant to the national law in the third country, to special public supervision designed to protect bondholders and the supervisory and regulatory arrangements applied in the third country are at least equivalent to those applied in the European Union;
- the covered bonds are backed by a pool of assets of one or more of the types described in Article 146 paragraph (1) item 2), item 4) indent 1, item 6) indent 1 or item 7) of the Decision on Capital Adequacy, provided that, where the pool comprises loans secured by immovable property, the requirements set out in Articles 228 and 249 of the Decision on Capital Adequacy must be met;
- the exposures to institutions in the cover pool meet the conditions laid down in Article 146 paragraph (1) item 3) of the Decision on Capital Adequacy or, where the application of the partial waiver has been granted, the conditions referred to in Article 146 paragraph (2) of the Decision on Capital Adequacy;
- the credit institution investing in the covered bonds and the issuer meet the transparency requirement laid down in Article 146 paragraph (8) of the Decision on Capital Adequacy;
- the covered bonds are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 146 paragraph (6) of the Decision on Capital Adequacy, the equivalent credit quality step in the event of a short term credit assessment or, in the absence of a credit assessment, they are assigned a 10% risk weight in accordance with Article 146 paragraph (7) of the Decision on Capital Adequacy; and
- the cover pool meets at all times an asset coverage requirement of at least 7% in excess of the amount required to meet the claims attaching to the covered bonds, however, where the issue size of the covered bonds is EUR 500 million (or the equivalent amount in domestic currency) or higher, they shall instead be subject to a minimum asset coverage requirement of 2%;

5) corporate debt securities where:

- they are assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 139 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short term credit assessment;
- the securities issue size is at least EUR 250 million;
- the maximum time to maturity of the securities at the time of issuance is 10 years.

(2) The market value of each of the level 2A assets shall be subject to a haircut of at least 15%.

Level 2B assets

Article 26

(1) Level 2B assets shall include:

- 1) exposures in the form of asset-backed securities meeting the requirements laid down in Article 27 of this Decision;
- 2) corporate debt securities which meet the following requirements:
 - they have received a credit assessment by a nominated external credit assessment institution which is at least credit quality step 3 in accordance with Article 139 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short term credit assessment;
 - the securities issue size is at least EUR 250 million (or the equivalent in domestic currency);
 - the maximum time to maturity of the securities at the time of issuance is 10 years;
- 3) shares, provided that they meet all of the following requirements:
 - they form part of a MNSE10 stock index in Montenegro or a major stock index in a third country, defined by the competent authority, and if a major stock index is not defined, credit institutions shall regard as such a stock index composed of leading companies in the relevant jurisdiction;
 - they are denominated in EUR or, where denominated in a different currency, they count as level 2B only up to the amount to cover stressed net liquidity outflows 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, and 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; and
- 4) 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 Article 3 item 25) of this Decision;
 - the credit institution investing in the covered bonds meets the transparency requirement laid down in Article 146 paragraph (8) of the Decision on Capital Adequacy;
 - the issuer of the covered bonds makes the information referred to in Article 146 paragraph (8) item 1) of the Decision on Capital Adequacy available;
 - their issue size is at least EUR 250 million;
 - the covered bonds are collateralised exclusively by the assets referred to in Article 146 paragraph (1) item 1), item 4) indent 1, and item 5) of the Decision on Capital Adequacy;
 - the pool of underlying assets consists exclusively of exposures which qualify for a 35% or lower risk weight under Article 142 of the Decision on Capital Adequacy for credit risk;

- the cover pool meets at all times an asset coverage requirement of at least 10% in excess of the amount required to meet the claims attaching to the covered bonds;
- the issuing credit institution needs to publicly disclose on a monthly basis that the cover pool meets the 10% asset coverage requirement.

(2) The market value of each of the level 2B assets shall be subject to the following minimum haircuts:

- 1) the applicable haircut set out in Article 27 paragraph (7) of this Decision for level 2B securitisations;
- 2) a 50% haircut for corporate debt securities referred to in paragraph (1) item 2) of this Article;
- 3) a 50% haircut for shares referred to in paragraph (1) item 2) of this Article;
- 4) a 30% haircut for covered bond programmes or issues referred to in paragraph (1) item 4) of this Article;

Level 2B securitisations

Article 27

(1) Exposures in the form of asset-backed securities referred to in Article 26 paragraph (1) item 1) of this Decision shall qualify as level 2B securitisations where they meet the following criteria:

- 1) in accordance with the European Union regulation governing simple, transparent, and standardised securitisation, for a securitisation it is permitted to use the designation 'STS' or 'simple, transparent and standardised' or a designation that refers directly or indirectly to those terms and that designation is used;
- 2) the criteria laid down in paragraphs (2) to (6) of this Article have been met.

(2) The securitisation position and the exposures underlying the position should meet the following requirements:

- 1) the position has been assigned a credit assessment by a nominated external credit assessment institution which is at least credit quality step 1 in accordance with Article 284 of the Decision on Capital Adequacy or the equivalent credit quality step in the event of a short term credit assessment;
- 2) the position is in the most senior tranche or tranches of the securitisation and possesses the highest level of seniority at all times during the ongoing life of the transaction, whereby a tranche shall be deemed to be the most senior where after the delivery of an enforcement notice and, where applicable, an acceleration notice, the tranche is not subordinated to other tranches of the same securitisation transaction or scheme in respect of receiving principal and interest payments, without taking into account amounts due under interest rate or currency derivative contracts, due fees or other similar payments in accordance with Article 262 item 6) of the Decision on Capital Adequacy;
- 3) the securitisation position is backed by a pool of underlying exposures, which all belong to only one of the following subcategories, or by a pool of underlying

exposures which combines residential loans referred to in indents 1 and 2 of this item:

- residential loans secured by a first-ranking mortgage granted to individuals for the acquisition of apartment in their place of residence, provided that:
 - a) the loans in the pool meet on average the loan-to-value requirement laid down in Article 146 paragraph (1) item 4) indent 1 of the Decision on Capital Adequacy; or
 - b) a loan-to-income limit on the amount that a debtor may borrow in a residential loan has been determined in accordance with regulations, and this loan-to-income limit is calculated on the gross annual income of the debtor, taking into account the tax obligations and other commitments of the debtor and the risk of changes in the interest rates over the term of the loan, and for each residential loan in the pool, the percentage of the debtor's gross income that may be spent to service the loan (including interest, principal and fee payments) does not exceed 45%;
- fully guaranteed residential loans referred to in Article 146 paragraph (1) item 5) of the Decision on Capital Adequacy, provided that the loans meet the collateralisation requirements laid down in that paragraph and the average loan-to-value requirement laid down in Article 146 paragraph (1) item 4) indent 1 of the Decision on Capital Adequacy;
- commercial loans, leases and credit facilities to undertakings established in a third country to finance capital expenditures or business operations other than the acquisition or development of commercial real estate, provided that at least 80% of the debtors in the pool in terms of portfolio balance are small and medium sized enterprises at the time of issuance of the securitisation, and none of the debtors is an institution as defined in Article 16 item (1) of the Law;
- auto loans and leases to persons established or having habitual residence or temporary residence in Montenegro, including loans or leases for the financing of motor vehicles or trailers, agricultural or forestry tractors, motorcycles or motor tricycles or tracked vehicles that may include ancillary insurance and service products or additional vehicle parts, or, in the case of leases, the residual value of leased vehicles, and all loans and leases in the pool are secured with a first-ranking charge or security over the vehicle or an appropriate guarantee in favour of the SSPE, such as a retention of title provision;
- loans and credit facilities to individuals, resident in a third country for personal, family or household consumption purposes.

(3) The underlying exposures shall not have been originated by the credit institution holding the securitisation position in its liquidity buffer, its subsidiary, its parent undertaking, a subsidiary of its parent undertaking or any other undertaking closely linked with that credit institution.

(4) The issue size of the tranche shall be at least EUR 100 million.

(5) The remaining weighted average life of the tranche shall be five years or less, and it shall be calculated using the lower of either the transaction's pricing prepayment assumption or a 20% constant prepayment rate, for which the credit institution shall assume that the call is exercised on the first permitted call date.

(6) The originator of the exposure underlying the securitisation shall be an institution as defined in Article 16 item 1) of the Law or an undertaking whose principal activity is the provision of financial services listed in Article 5 of the Law.

(7) The market value of level 2B securitisations shall be subject to the following minimum haircuts:

- 1) 25% for securitisations backed by the subcategories of assets referred to in paragraph (2) item 3) indents 1, 2, and 4 of this Article;
- 2) 35% for securitisations backed by the subcategories of assets referred to in paragraph (2) item 3) indents 3 and 5 of this Article.

Shares or units in CIUs

Article 28

(1) Shares or units in CIUs shall qualify as liquid assets of the same level as the liquid assets underlying the relevant undertaking up to an absolute amount of EUR 500 million for each credit institution on an individual basis, provided that:

- 1) the requirements referred to in Article 149 paragraph (5) of the Decision on Capital Adequacy are complied with;
- 2) the CIU invests only in liquid assets and derivatives, in the latter case only to the extent necessary to mitigate interest rate, currency or credit risk in the portfolio.

(2) Credit institutions shall apply the following minimum haircuts to the value of their shares or units in CIUs depending on the category of underlying liquid assets:

- 1) 0% for cash and exposures to central banks referred to in Article 24 paragraph (1) item 2) of this Decision;
- 2) 5% for level 1 assets other than extremely high quality covered bonds;
- 3) 12% for extremely high quality covered bonds referred to in Article 24 paragraph (1) item 5) of this Decision;
- 4) 20% for level 2A assets;
- 5) 30% for level 2B securitisations backed by the subcategories of assets referred to in Article 27 paragraph (2) item 3) indents 1, 2, and 4 of this Decision;
- 6) 35% for level 2B covered bonds referred to in Article 26 paragraph (1) item 4) of this Decision;
- 7) 40% for level 2B securitisations backed by the subcategories of assets referred to in Article 27 paragraph (2) item 3) of this Decision;
- 8) 55% for level 2B corporate debt securities referred to in Article 26 paragraph (1) item 2), and shares referred to in Article 26 paragraph (1) item 3) of this Decision;

(3) The haircuts referred to in paragraph (2) of this Article shall be applied as follows:

- 1) where the credit institution is aware of the exposures underlying the CIU, it may look-through to those underlying exposures to assign them the appropriate haircut in accordance with paragraph (2) of this Article;
- 2) where the credit institution is not aware of the exposures underlying the CIU, for the purposes of determining the liquidity level of the underlying assets and an appropriate haircut for these assets, it must assume that the CIU invests, up to the maximum amount allowed, in the same order referred to in paragraph (2) of this Article, starting with those assets referred to in item 8) of that paragraph and in ascending order until the maximum total investment limit is reached.

(4) A credit institution shall develop a robust methodology and the manner of calculating and reporting the market value and haircuts for shares or units in CIUs.

(5) Notwithstanding paragraph (4) of this Article, where the exposure is not sufficiently material, the credit institution may, subject to the authorisation of the Central Bank, rely on the following to calculate and report the haircuts for shares or units in CIUs:

- 1) the depository institution of the CIU, provided that the CIU invests exclusively in securities and deposits all such securities at this depository institution; or
- 2) other CIUs, or the CIU management company, which meets the requirements laid down in Article 149 paragraph (3) item 1) of the Decision on Capital Adequacy.

(6) The correctness of the calculations by the depository institution or the CIU management company when determining market value and haircuts for shares or units in CIU referred to in paragraph (5) of this Article, shall be confirmed by an external auditor at least annually.

(7) Where a credit institution fails to comply with the requirements laid down in paragraphs (4) and (5) of this Article in relation to shares or units in a CIU, it shall cease to recognise them as liquid assets in accordance with Article 30 of this Decision.

Composition of the liquidity buffer by asset level

Article 29

(1) A credit institution shall comply at all times with the following requirements on the composition of their liquidity buffer:

- 1) a minimum of 60% of the liquidity buffer is to be composed of level 1 assets;
- 2) a minimum of 30% of the liquidity buffer is to be composed of level 1 assets excluding extremely high quality covered bonds referred to in Article 24 paragraph (1) item 5) of this Decision;
- 3) a maximum of 15% of the liquidity buffer may be held in level 2B assets.

(2) The requirements set out in paragraph (1) of this Article shall be applied after adjusting for the impact on the stock of liquid assets of secured funding, secured lending or collateral swap transactions using liquid assets where these transactions mature within 30 calendar days, after deducting any applicable haircuts and provided

that the credit institution complies with the operational requirements laid down in Article 21 of this Decision.

(3) Credit institutions shall determine the composition of their liquidity buffer in accordance with the formulae laid down in Annex 1, which makes an integral part of this Decision.

(4) The Central Bank may, on a case-by-case basis, waive the application of paragraphs (2) and (3) of this Article in full or in part with respect to one or more secured funding, secured lending or collateral swap transactions using liquid assets on at least one leg of the transaction and maturing within 30 calendar days, provided that the following conditions are met:

- 1) the counterparty to the transaction or transactions is the Central Bank;
- 2) exceptional circumstances exist which pose a systemic risk affecting the banking sector of Montenegro;

Implications of a breach of requirements and criteria

Article 30

(1) Where a liquid asset ceases to comply with any requirements laid down in Article 20 and Article 21 paragraph (4) of this Decision or any applicable eligibility criteria laid down in this Articles 24 to 30 of this Decision, the credit institution shall cease to recognise it as a liquid asset no later than 30 calendar days from the date when the breach of requirements or criteria occurred.

(2) Provision laid down in paragraph (1) of this Article shall apply to shares or units in a CIU that cease to meet eligibility requirements only where they do not exceed 10% of the CIU's overall assets.

2.3. LIQUIDITY OUTFLOWS AND INFLOWS

Net Liquidity outflows

Article 31

(1) The net liquidity outflows, within the meaning of this Decision, shall be the sum of liquidity outflows referred to paragraph (2) item 1) of this Article reduced by the sum of liquidity inflows in paragraph (2) item 2) of this Article, but shall not be less than zero.

(2) The net liquidity outflows shall be calculated based on:

- 1) the sum of the liquidity outflows in accordance with Articles 33 to 43 of this Decision;
- 2) the sum of liquidity inflows in accordance with Articles 44 and 45 of this Decision, calculated as follows:

- the inflows exempted from the cap as referred to in Article 45 paragraphs (2) and (3) of this Decision;
- the lower of the inflows, other than those referred to in Article 45 paragraph (2) of this Decision, or 75 % of the outflows referred to in item 1) of this Decision reduced by the exempt inflows referred to in Article 45 paragraph (2) of this Decision, but not less than zero;

(3) Liquidity inflows and liquidity outflows shall be assessed over a 30 calendar day stress period, under the assumption of a combined idiosyncratic and market-wide stress scenarios as referred to in Article 22 of this Decision.

(4) The calculation of net liquidity outflows shall be performed in accordance with the formula set out in Annex 2, which is an integral part of this Decision.

Netting of derivatives transactions

Article 32

(1) A credit institution shall calculate liquidity outflows and inflows expected over a 30 calendar day period, for the contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy and for credit derivatives, on a net basis by counterparty subject to the existence of bilateral netting agreements meeting the conditions laid down in Article 331 of the Decision on Capital Adequacy.

(2) By way of derogation from paragraph (1) of this Article, a credit institution shall calculate cash outflows and inflows arising from foreign currency other than EUR derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) on a net basis, even where those transactions are not covered by a bilateral netting agreement.

(3) For the purposes of paragraphs (1) and (2) of this Article, net basis shall be considered to be net of collateral to be posted or received in the next 30 calendar days, but, in the case of collateral to be received in the next 30 calendar days, net basis shall be considered to be net of that collateral only if both of the following conditions are met:

- 1) the collateral, when received, will qualify as a liquid asset under Articles 24 to 30 of this Decision; and
- 2) the credit institution will be legally entitled and operationally able to reuse the collateral, when received.

a) Liquidity outflows

Liquidity outflows calculation

Article 33

(1) Liquidity outflows shall be calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates

at which they are expected to run off or be drawn down in accordance with Articles 34 to 43 of this Decision.

(2) Liquidity outflows referred to in paragraph (1) of this Article multiplied by the applicable outflow rate shall include:

- 1) the current outstanding amount for stable retail deposits and other retail deposits in accordance with Articles 35 and 36 of this Decision;
- 2) the current outstanding amounts of other liabilities that become due, can be called for pay-out by the issuer or by the provider of the funding or entail an expectation by the provider of the funding that the credit institution would repay the liability during the next 30 calendar days, as determined in accordance with Articles 38, 39, and 43 of this Decision;
- 3) the additional outflows determined in accordance with Article 40 of this Decision;
- 4) the maximum amount that can be drawn down during the next 30 calendar days from undrawn committed credit and liquidity facilities, as determined in accordance with Article 41 of this Decision;
- 5) the additional outflows identified in the assessment in accordance with Article 34 of this Decision.

(3) The calculation of liquidity outflows in accordance with paragraph (1) of this Article shall be subject to any netting of interdependent inflows that is approved under Article 37 of this Decision.

Additional liquidity outflows for other products and services

Article 34

(1) A credit institution 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 Articles 38 to 43 of this Decision and which it offers or sponsors or which potential purchasers would consider associated with that credit institution.

(2) Products and services referred to in paragraph (1) of this Article shall include in particular:

- 1) other off-balance-sheet liabilities and contingent funding obligations, including uncommitted funding facilities;
- 2) undrawn loans and advances to wholesale counterparties;
- 3) mortgage loans that have been agreed but not yet drawn down;
- 4) credit cards;
- 5) overdrafts;
- 6) planned outflows related to the renewal of existing retail or wholesale loans or the extension of new retail or wholesale loans;
- 7) derivative payables, other than the contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy, and credit derivatives;
- 8) trade finance off-balance-sheet related products.

(3) The outflows referred to in paragraph (1) of this Article shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenarios as referred to in Article 22 of this Decision.

(4) For the assessment referred to in paragraph (3) of this Article, a credit institution shall particularly take into account material reputational damage that could result from not providing liquidity support to products or services referred to in paragraph (2) of this Article.

(5) A credit institution shall report at least once a year and before the expiry of the third quarter of the current year to the Central Bank those products and services for which the likelihood and potential volume of the liquidity outflows referred to in paragraph (1) of this Article are material.

(6) The Central Bank shall determine the outflows referred to in paragraph (5) of this Article.

(7) The credit institution shall apply an outflow rate of 5% for trade finance off-balance sheet related products.

(8) Within the meaning of paragraph (7) of this Article, trade finance shall mean financing, including guarantees, connected to the exchange of goods and services through financial products of fixed short-term maturity, generally of less than one year, without automatic rollover, and such financing is uncommitted and requires the submission of supporting transactional documentation for each drawdown request, and the repayment of trade finance exposures is usually independent of the debtor, the funds instead coming from cash received from importers or resulting from proceeds of the sales of the underlying goods.

Outflows from stable retail deposits

Article 35

(1) Unless the criteria for a higher outflow rate under Article 36 paragraphs (2), (3) or (5) of this Decision are fulfilled, the amount of retail deposits covered by a deposit guarantee scheme in accordance the law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country shall be considered as stable and multiplied by 5% where the deposit is either:

- 1) part of an established relationship making withdrawal highly unlikely; or
- 2) held in a transactional account.

(2) Within the meaning of paragraph (1) item 1) of this Article, a deposit shall be considered to be part of an established relationship where the depositor has:

- 1) an active contractual relationship with the credit institution of at least 12 months' duration;
- 2) a borrowing relationship with the credit institution for residential loans or other long term loans;

3) at least one other active product, other than a loan, with the credit institution.

(3) Within the meaning of paragraph (1) item 2) of this Article, a deposit shall be considered as being held in a transactional account where salaries, income or other transactions of the depositor are regularly credited and debited respectively against that account.

(4) Credit institutions may be authorised by the Central Bank to multiply by 3% the amount of the retail deposits covered by a deposit guarantee scheme in a third country equivalent to the scheme referred to in paragraph (1) of this Article if the third country allows this treatment.

Outflows from other retail deposits

Article 36

(1) A credit institution shall multiply by 10% other retail deposits, including that part of retail deposits not covered by Article 35 of this Decision.

(2) Notwithstanding paragraph (1) of this Article, other retail deposits shall be subject to higher outflow rates, as determined by the credit institution, in accordance with paragraph (3) of this Article, where:

- 1) the total deposit balance, including all the clients' deposit accounts at that credit institution or group, exceeds EUR 300 000;
- 2) the deposit is placed in an internet access-only account;
- 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;
- 4) the deposit was originally placed as fixed-term with an expiry date maturing within the 30 calendar day period or the deposit presents a fixed notice period shorter than 30 calendar days, in accordance with contractual arrangements, other than the deposits referred to in paragraphs (5) and (6) of this Article;
- 5) the depositor is resident in a third country or the deposit is denominated in a currency other than the euro, and for credit institutions and branches in third countries, the depositor is a non-resident in the third country or the deposit is denominated in another currency than the domestic currency of the third country.

(3) A credit institution shall apply a higher outflow rate determined as follows:

- 1) where a retail deposit fulfils the criterion referred to in paragraph (2) item 1) or two of the criteria referred to in items 2) to 5) of this Article, an outflow rate of between 10% and 15% shall be applied;
- 2) where a retail deposit fulfils the criterion referred to in paragraph (2) item 1) and at least another criterion referred to in items 2) to 5) of this Article, or three or more criteria referred to in paragraph (2) of this Article, an outflow rate of between 15% and 20% shall be applied.

(4) On a case by case basis, the Central Bank may require the application of a higher outflow rate, where justified by the specific circumstances of the credit institution.

(5) A credit institution shall apply the outflow rate referred to in paragraph (3) item 2) of this Article to retail deposits, where the assessment of fulfilment of conditions referred to in paragraph (2) of this Article has not been carried out or is not completed.

(6) A credit institution may exclude from the calculation of outflows certain clearly circumscribed categories of retail deposits, as long as in each and every instance the credit institution applies the following provisions for the whole category of those deposits, unless an exception can be justified on the basis of circumstances of hardship for the depositor:

- 1) within 30 calendar days, the depositor is not allowed to withdraw the deposit; or
- 2) for early withdrawals within 30 calendar days, the depositor shall lose the interest between the date of withdrawal and the contractual maturity date, or pay a pecuniary penalty that should not exceed the interest due for the time that elapsed between the date of deposit and the date of withdrawal.

(7) The portion of the deposit referred to in paragraph (6) of this Article, which can be withdrawn without incurring a penalty, shall be treated as a demand deposit, and the remaining balance shall be treated as a term deposit.

(8) 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 to another credit institution.

(9) By way of derogation from paragraphs (1) to (6) of this Article and Article 35 of this Decision, a credit institution shall multiply retail deposits that they have taken in third countries by a higher percentage outflow rate if such a percentage is provided for by the national law establishing liquidity requirements in that third country.

Outflows with interdependent inflows

Article 37

Subject to prior approval of the Central Bank, a credit institution may calculate the liquidity outflow net of an interdependent inflow provided that:

- 1) the interdependent inflow is directly linked to the outflow and is not considered in the calculation of liquidity inflows referred to in this Decision;
- 2) the interdependent inflow is required pursuant to a legal, regulatory or contractual commitment; and
- 3) the interdependent inflow meets one of the following conditions:
 - it arises compulsorily before the outflow;
 - it is received within ten days and is guaranteed by the Government of a Montenegro.

Outflows from operational deposits

Article 38

(1) A credit institution shall multiply by 25% liabilities resulting from deposits that are maintained as follows:

- 1) in order to obtain clearing, custody, cash management or other comparable services in the context of an established operational relationship from the credit institution; and
- 2) in the context of an established operational relationship other than the relationship referred to in item 1) of this paragraph.

(2) By derogation from paragraph (1) of this Article, a credit institution shall multiply by 5% the portion of liabilities resulting from deposits referred to in paragraph (1) item 1) of this Article, which is covered by a deposit guarantee scheme in accordance with the law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country.

(3) Clearing, custody, cash management or other comparable services referred to in paragraph (1) of this Article shall be treated as such services only to the extent that they are rendered in the context of an established relationship which is critically important to the depositor, and shall have significant legal or operational limitations that make significant withdrawals within 30 calendar days unlikely.

(4) Funds in excess of those required for the provision of operational services shall be treated as non-operational deposits.

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

(6) In order to identify the deposits referred to in paragraph (1) item 2) of this Article, a credit institution may consider that there is an established operational relationship with a non-financial customer, excluding term deposits, savings deposits and brokered deposits, where:

- 1) the remuneration of the account is priced at least five basis points below the prevailing rate for wholesale deposits with comparable characteristics, but need not be negative;
- 2) 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;
- 3) material transactions are credited and debited on a regular basis on the account considered;
- 4) one of the following criteria is met:
 - the relationship with the depositor has existed for at least 24 months;

- the deposit is used for a minimum of 2 active services, and these services may include direct or indirect access to national or international payment services, security trading or depository services, whereby only that part of the deposit which is necessary to make use of the service of which the deposit is a by-product shall be treated as an operational deposit, and the excess shall be treated as non-operational.

Outflows from other liabilities

Article 39

(1) A credit institution shall multiply by 40% liabilities resulting from deposits by clients that are non-financial customers, sovereigns, central banks, multilateral development banks, public sector entities, credit unions authorised by a competent authority of the third country, personal investment companies or by clients that are deposit brokers, to the extent they do not fall under Article 38 of this Decision.

(2) By way of derogation, where the liabilities referred to in paragraph (1) of this Article are covered by a deposit guarantee scheme in accordance with law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in a third country they shall be multiplied by 20%.

(3) A credit institution shall multiply liabilities resulting from its own operating expenses by 0%.

(4) A credit institution shall multiply liabilities maturing within 30 calendar days and resulting from secured lending or capital market-driven transactions, as defined in Article 211 items 2) and 3) of the Decision on Capital Adequacy, by the following weights:

- 1) 0% where they are collateralised by liquid assets of any of the categories of level 1 assets referred to in Article 24 of this Decision, with the exception of extremely high quality covered bonds referred to in Article 24 paragraph (1) item 5) of this Decision;
- 2) 7% where they are collateralised by liquid assets of the category referred to in Article 24 paragraph (1) item 5) of this Decision;
- 3) 15% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2A assets;
- 4) 25% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2B asset referred to in Article 27 paragraph (2) item 3) indents 1, 2 or 4 of this Decision;
- 5) 30% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of the category of level 2B asset referred to in Article 26 paragraph (1) item 4) of this Decision;
- 6) 35% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of

level 2B asset referred to in Article 27 paragraph (2) item 3) indents 1, 2 or 4 of this Decision;

- 7) 50% where they are collateralised by assets that, but for being used as collateral for those transactions, would qualify as liquid assets of any of the categories of level 2B asset referred to in Article 26 paragraph (1) items 2) and 3) of this Decision;
- 8) the percentage minimum haircut determined in accordance with Article 28 paragraphs (2) and (3) of this Decision, where they are collateralised by shares or units in CIUs that, but for being used as collateral for those transactions, would qualify as liquid assets of the same category as the underlying liquid assets;
- 9) 100% where they are collateralised by assets that do not fall within any of items 1) to 8) of this paragraph.

(5) By way of derogation from paragraph (4) of this Article:

- 1) where the counterparty to the secured lending or capital market-driven transaction is the Central Bank, the outflow rate shall be 0%;
- 2) where the transaction is done through a third country branch with the central bank in which the branch is located, a 0% outflow rate shall be applied if the branch has the same access to central bank liquidity, including during stress periods, as credit institutions incorporated in that country have;
- 3) for secured lending or capital market-driven transactions that would require an outflow rate higher than 25% under that paragraph, the outflow rate shall be 25% where the counterparty to the transaction is an eligible counterparty.

(6) 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, in accordance with Articles 24 to 30 of this Decision, subject to a lower weight than the asset lent, and in that case the outflow shall be calculated by multiplying the market value of the asset borrowed by the difference between the outflow rate applicable to the asset lent and the outflow rate applicable to the asset borrowed determined in accordance with paragraph (4) of this Article.

(7) For the purposes of calculation referred to in paragraph (6) of this Article, a 100% haircut shall be applied to assets that do not qualify as liquid assets.

(8) By way of derogation from paragraph (6) of this Article:

- 1) where the counterparty to the collateral swap or other transaction with a similar form is the Central Bank, the outflow rate to be applied to the market value of the asset borrowed shall be 0%;
- 2) where the transaction is done through a branch with the central bank of the third country in which the branch is located, a 0% outflow rate shall be applied only if the branch has the same access to central bank liquidity, including during stress periods, as credit institutions established in that country have;
- 3) for collateral swaps or other transactions with a similar form that would require an outflow rate higher than 25% under paragraph (4) of this Article, the outflow

rate to be applied to the market value of the asset borrowed shall be 25% where the counterparty to the transaction is an eligible counterparty.

(9) The offsetting balances held in segregated accounts related to client protection regimes imposed by relevant regulations shall be treated as inflows in accordance with Article 43 of this Decision and shall be excluded from the stock of liquid assets.

(10) An outflow rate of 100% shall be applied to all notes, bonds and debt securities issued by the credit institution, unless the bond is sold exclusively in the products and services market pertaining to retail category and held in a retail account, in which case those instruments can be treated as the appropriate retail deposit category, provided that those instruments cannot be bought and held by persons other than retail customers.

(11) Assets borrowed on an unsecured basis and maturing within the next 30 calendar days shall be assumed to run off in full, leading to a 100% outflow of liquid assets, unless the credit institution owns the assets borrowed and the assets borrowed do not form part of the liquidity buffer.

(12) The following shall be considered an eligible counterparty within the meaning of paragraph (5) item 2) and paragraph (8) item 2) of this Article:

- 1) the central government, a public sector entity, and a local self-government unit in Montenegro;
- 2) the central government, a public sector entity, a regional or a local self-government unit of the third country in which the credit institution undertaking those transactions is established; and
- 3) a multilateral development bank.

(13) Public sector entities and local self-government entities referred to in paragraph (12) of this Article shall only count as an eligible counterparty where they are assigned a risk weight of 20% or lower in accordance with Article 132 or Article 133 of the Decision on Capital Adequacy.

Additional outflows

Article 40

(1) Collateral other than cash and assets referred to in Article 24 of this Decision which is posted by the credit institution for contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy, and credit derivatives, shall be subject to an additional outflow of 20%.

(2) Collateral in assets referred to in Article 24 paragraph (1) item 5) of this Decision which is posted by the credit institution for contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy, and credit derivatives shall be subject to an additional outflow of 10%.

(3) The credit institution shall calculate an additional outflow for all contracts entered into, which lead, within 30 calendar days and following a material deterioration of the credit institution's credit quality, to additional liquidity outflows or collateral needs, and it shall notify the Central Bank of that outflow no later than at the submission of the reports in accordance with the regulation governing the credit institutions' reporting to the Central Bank.

(4) Where the Central Bank considers the outflow for contracts referred to in paragraph (3) of this Article to be material in relation to the potential liquidity outflows of the credit institution, it shall require the credit institution to calculate an additional outflow for those contracts corresponding to the additional collateral needs or cash outflows resulting from a material deterioration in the credit institution's credit quality corresponding to a downgrade in its external credit assessment of at least three notches.

(5) The credit institution shall apply a 100% outflow rate to additional collateral or cash outflows referred to in paragraph (4) of this Article.

(6) The credit institution shall regularly review the relationship between the material deterioration in the credit quality and the contracts referred to in paragraph (3) of this Article, and notify the results of its review to the Central Bank.

(7) The credit institution shall add additional outflows corresponding to collateral needs in the case of a material impact of an adverse market scenario on the derivatives transactions, and this calculation shall be made in the manner provided for in Annex 3 which is an integral part of this Decision.

(8) Outflows and inflows expected over 30 calendar days from the contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy, and from credit derivatives shall be taken into account on a net basis in accordance with Article 32 of this Decision, whereby, in the case of a net outflow, the credit institution shall multiply the result by a 100% outflow rate, and it shall exclude from such calculations those liquidity requirements that result from the application of paragraphs (1) to (5) of this Article.

(9) Where the credit institution has a short position that is covered by an unsecured security borrowing, it shall add an additional outflow corresponding to 100% of the market value of the securities or other assets sold short, unless the terms upon which the credit institution has borrowed them require their return only after 30 calendar days, and where the short position is covered by a collateralised securities financing transaction, the credit institution shall assume the short position will be maintained throughout the 30 calendar day period and will receive a 0% outflow.

(10) The credit institution shall add an additional outflow corresponding to 100% of:

- 1) the excess collateral the credit institution holds that can be contractually called at any times by the counterparty;
- 2) collateral that is due to be posted to a counterparty within 30 calendar days;

- 3) collateral that corresponds to assets that would qualify as liquid assets for the purposes of Articles 19 to 30 of this Decision that can be substituted for assets corresponding to assets that would not qualify as liquid assets without the consent of the credit institution.

(11) Deposits received as collateral shall not be considered as liabilities for the purposes of Articles 35, 36, 38, 39 or 43 of this Decision and shall be subject to the provisions of paragraphs 1 to 10 of this Article.

(12) The amount of cash received exceeding the amount of cash received as collateral shall be treated as deposits in accordance with Articles 35, 36, 38, 39 or 43 of this Decision.

(9) A credit institution shall assume a 100% outflow for loss of funding:

- 1) on asset-backed securities, covered bonds and other structured financing instruments maturing within 30 calendar days, when these instruments are issued by the credit institution itself or SPVs sponsored by the credit institution;
- 2) on asset-backed commercial papers, securities investment vehicles and other such financing facilities, and this 100% outflow rate shall apply to the maturing amount, to the amount of assets that could potentially be returned, or the liquidity required.

(14) For that portion of financing programs under paragraph (13) of this Article, the credit institution that is a provider of associated liquidity facilities does not need to double count the maturing financing instrument and the liquidity facility for consolidated programmes.

(15) In case of the provision of prime brokerage services, where a credit institution has covered the short sales of a client by internally matching them with the assets of another client and the assets do not qualify as liquid assets, those transactions shall be subject to a 50% outflow rate for the contingent obligation.

Outflows from credit and liquidity facilities

Article 41

(1) Within the meaning of this Article, a liquidity facility means any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets.

(2) The amount of liquidity facility referred to in paragraph (1) of this Article shall be calculated as the amount of the debt issued by the customer currently outstanding and maturing within 30 calendar days that is backstopped by the facility, provided that:

- 1) the portion of the liquidity facility that is backing a debt that does not mature within 30 calendar days shall be excluded from the liquidity facility.
- 2) any additional capacity of the liquidity facility shall be treated as a committed credit facility with the associated drawdown rate as specified in paragraph (3) of this Article.

- 3) general working capital facilities for corporate entities shall be classified as credit facilities.

(3) Outflows for credit and liquidity facilities shall be calculated by multiplying the amount of those facilities by the corresponding outflow rates set out in paragraphs (5), (6), and (7) of this Article, and determined as a percentage of the maximum amount that can be drawn down within 30 calendar days, net of any liquidity requirement that would be applicable under Article 34 of this Decision for the trade finance off-balance sheet items, and net of any collateral made available to the credit institution and valued in accordance with Article 23 of this Decision, provided that the collateral fulfils all of the following conditions:

- 1) it may be reused or hypothecated by the credit institution;
- 2) it is held in the form of liquid assets, but is not recognised as part of the liquidity buffer; and
- 3) it does not consist in assets issued by the counterparty of the facility or one of its affiliated entities.

(4) If the necessary information is available to the credit institution, the maximum amount that can be drawn down for credit and liquidity facilities shall be determined taking into account the counterparty's own obligations or the pre-defined contractual drawdown schedule coming due over 30 calendar days.

(5) The maximum amount that can be drawn down from undrawn committed credit and liquidity facilities within the next 30 calendar days shall be multiplied by 5%, if they qualify for the retail deposit exposure class.

(6) The maximum amount that can be drawn down from undrawn committed credit facilities within 30 calendar days shall be multiplied by 10% where they:

- 1) do not qualify for the retail deposit exposure class;
- 2) have been provided to clients that are not financial customers, including non-financial corporates, sovereigns, central banks, multilateral development banks and public sector entities;
- 3) have not been provided for the purpose of replacing funding of the client in situations where the client is unable to meet the funding requirements in the financial markets.

(7) The maximum amount that can be drawn down from undrawn committed liquidity facilities within the next 30 calendar days shall be multiplied by 30%, where those facilities meet the conditions referred to in paragraph (6) items 1) and 2) of this Article, and by 40% when they are provided to personal investment companies.

(8) The undrawn committed amount of a liquidity facility that has been provided to an SSPE for the purpose of purchasing assets, other than securities, from clients that are not financial customers shall be multiplied by 10%, 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.

(9) The maximum amount that can be drawn down from other undrawn committed credit and liquidity facilities within 30 calendar days shall be multiplied by the corresponding outflow rate as follows:

- 1) 40% for credit and liquidity facilities extended to credit institutions and for credit facilities extended to other regulated financial institutions, including insurance undertakings and investment firms, CIUs or non-open ended investment schemes;
- 2) 100% for liquidity facilities that the credit institution has granted to SSPEs, other than those referred to in paragraph (8) of this Article, and for arrangements under which the credit institution is required to buy or swap assets from an SSPE;
- 3) 100% for credit and liquidity facilities to financial customers not referred to in items 1) and 2) of this paragraph and paragraphs (1) to (8) of this Article.

(10) By way of derogation from paragraphs (1) to (9) of this Article, a credit institution which has been set up and is sponsored by the Government of Montenegro or a local self-government unit may apply the treatments set out in paragraphs (5) and (6) of this Article to credit and liquidity facilities that are extended to promotional lenders for the sole purpose of directly or indirectly funding promotional loans, provided that those loans meet the requirements for the outflow rates referred to in paragraphs (3) and (4) of this Article.

(11) By way of derogation from Article 44 paragraph (3) item 7) of this Decision, where promotional loans referred to in paragraph (10) of this Article are extended as pass through loans via another credit institution acting as an intermediary, the credit institution acting as an intermediary may apply symmetric inflows and outflows, which shall be calculated by applying to the undrawn committed credit or liquidity facility received and extended the rate referred to in paragraphs (5) and (6) of this Article and respecting the conditions and requirements otherwise imposed in relation to that rate.

(12) The promotional loans referred to in paragraph (10) of this Article shall be available only to persons who are not financial customers on a non-competitive, not for profit basis in order to promote the policy of the Government Montenegro, and it shall only be possible to draw on such credit and liquidity 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.

Outflows within a group

Article 42

By way of derogation from Article 41 of this Decision the Central Bank may authorise the application of a lower outflow rate on a case by case basis for undrawn credit or liquidity facilities where:

- 1) there are reasons to expect a lower outflow even under a combined idiosyncratic stress scenario and liquidity provider stress scenario;

- 2) the counterparty is the parent or subsidiary institution of the credit institution or another subsidiary of the same parent institution or linked to the institution by a relationship referred to in Article 11 of the Law;
- 3) the lower outflow rate does not fall below the inflow rate applied by the counterparty; and
- 4) the credit institution and the counterparty are established in Montenegro.

Outflows from other liabilities

Article 43

(1) A credit institution shall multiply by a 100% outflow rate any liabilities that become due within 30 calendar days, except for the liabilities referred to in Articles 35 to 41 of this Decision.

(2) Where the total of all contractual commitments to extend funding to non-financial customers within 30 calendar days, other than commitments referred to in Articles 35 to 41 of this Decision, exceeds the amount of inflows from those non-financial customers calculated in accordance with Article 44 paragraph (4) item 1) of this Decision, the excess shall be subject to a 100% outflow rate.

(3) Non-financial customers referred to in paragraph (2) of this Article and Article 44 paragraph (3) item 1) of this Decision shall include, but not be limited to, natural persons, SMEs, business undertakings, sovereigns, multilateral development banks and public sector entities,

(4) Non-financial customers referred to in paragraph (3) of this Article shall exclude financial customers and central banks.

b) Liquidity inflows

Inflows

Article 44

(1) Liquidity inflows shall be assessed over a period of 30 calendar days, and they shall comprise only contractual inflows from exposures that are not past due and for which the credit institution has no reason to expect non-performance within 30 calendar days.

(2) A credit institution shall apply a 100% inflow rate to inflows referred to in paragraph (1) of this Article, including in particular the monies due from:

- 1) central banks and financial customers with a residual maturity of no more than 30 calendar days;
- 2) trade finance transactions defined in Article 3 paragraph (2) item 34) of the Decision on Capital Adequacy, with a residual maturity of no more than 30 calendar days;
- 3) securities maturing within 30 calendar days;

4) positions in major indexes of equity securities, provided there is no double counting with liquid assets, and that they include monies contractually due within 30 calendar days, such as cash dividends from those major indexes and cash due from those equity securities sold but not yet realized/settled, if they are not recognised as liquid assets in accordance with Articles 19 to 30 of this Decision.

(3) By way of derogation from paragraph (2) of this Article:

- 1) monies due from non-financial customers with a residual maturity of no more than 30 calendar days, with the exception of monies due from trade finance transactions or maturing securities, shall be reduced for the purposes of principal payment by 50 % of their value, however, credit institutions acting as intermediaries that have received a commitment from a multilateral development bank or a public sector entity to disburse a promotional loan to a final recipient may take into account an inflow up to the amount of the outflow that they apply to the corresponding commitment to extend those promotional loans;
- 2) monies due from secured lending and capital market-driven transactions, as defined in Article 211 items 2) and 3) of the Decision on Capital Adequacy, with a residual maturity of no more than 30 calendar days shall be multiplied by:
 - 0%, where they are collateralised by assets of any of the categories of level 1 asset, with the exception of covered bonds referred to in Article 24 paragraph (1) item 5) of this Decision;
 - 7%, where they are collateralised by liquid assets referred to in Article 24 paragraph (1) item 5) of this Decision;
 - 15%, where they are collateralised by liquid assets of any of the categories of level 2A asset;
 - 25%, where they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 27 paragraph (2) item 3) indent 1, 2, or 4 of this Decision;
 - 30%, where they are collateralised by liquid assets of the category of level 2B asset referred to in Article 26 paragraph (1) item 4) of this Decision;
 - 35%, where they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 27 paragraph (2) item 3) indent 3 or 5 of this Decision;
 - 50%, if they are collateralised by liquid assets of any of the categories of level 2B asset referred to in Article 26 paragraph (1) items 2) and 3) of this Decision;
 - the percentage minimum haircut determined in accordance with Article 28 paragraphs (2) and (3) of this Decision, where they are collateralised by assets that would qualify as shares or units in CIUs of the same level as the underlying liquid assets;
 - 100%, where they are collateralised by assets that do not fall within any of indents 1 to 8 of this item.
- 3) monies due from contractual margin loans maturing in the next 30 calendar days made against non-liquid assets collateral shall receive a 50% inflow rate, provided that the credit institution is not using the collateral it originally received against the loans to cover any short positions;

- 4) monies due that the credit institution owing those monies treats in accordance with Article 38 of this Decision shall be multiplied by a corresponding symmetrical inflow rate, and where the rate cannot be established, a 5% inflow rate shall be applied;
- 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, and that inflow shall be calculated by multiplying the market value of the asset lent by the difference between the inflow rate applicable to the asset borrowed and the inflow rate applicable to the asset lent in accordance with the rates specified in item 2) of this paragraph, whereby a 100% haircut shall apply to assets that do not qualify as liquid assets;
- 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 credit institution shall assume that such transactions will be rolled-over and will not give rise to any cash inflows reflecting the need to continue to cover the short position or to repurchase the relevant securities, and the short positions shall include both, instances where in a matched book the credit institution sold short a security outright as part of a trading or hedging strategy and instances where in a matched book the credit institution has borrowed a security for a given period and lent the security out for a longer period;
- 7) undrawn credit or liquidity facilities, including undrawn liquidity facilities from the Central Bank, and other commitments received, other than the commitments referred to in Article 41 paragraph (9) and Article 46 of this Decision, shall not be recognised as an inflow;
- 8) monies due from securities issued by the credit institution itself or by a SSPE with which the credit institution 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 in accordance with this Article;
- 9) loans with an undefined contractual end date shall be taken into account with a 20% inflow rate, provided that the contract allows the credit institution to withdraw or to request payment within 30 calendar days.

(4) Provisions of paragraph (3) item 1) of this Article shall not apply to monies due from secured lending and capital market-driven transactions as defined in Article 211 items 2) and 3) of the Decision on Capital Adequacy, that are collateralised by liquid assets in accordance with Articles 19 to 30 of this Decision in the manner specified in paragraph (3) item 2) of this Article.

(5) In the case referred to in paragraph (3) item 2) of this Article, no inflow shall be recognised where the collateral is used by the credit institution to cover a short position in accordance with Article 46 paragraph (6) of this Decision;

(6) Inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets shall be taken into

account in full, provided that those segregated balances are maintained in liquid assets as defined in Articles 19 to 30 of this Decision.

(7) Outflows and inflows expected over 30 calendar days from the contracts listed in Article 128 paragraph (5) of the Decision on Capital Adequacy, and from credit derivatives shall be calculated on a net basis in accordance with Article 32 of this Decision and shall be multiplied by a 100% inflow rate in the event of a net inflow.

(8) A credit institution shall not take into account any inflows:

- 1) from any of the liquid assets referred to in Articles 19 to 30 of this Decision other than payments due on the assets that are not reflected in the market value of the asset.
- 2) from any new obligations entered into.

(9) A credit institution shall take liquidity inflows which are to be received in third countries where there are transfer restrictions or which are denominated in non-convertible currencies into account only to the extent that they correspond to outflows respectively in the third country or currency in question.

Cap on Inflows

Article 45

(1) A credit institution shall limit the recognition of liquidity inflows to 75% of total liquidity outflows in accordance with Articles 33 to 43 of this Decision.

(2) By way of derogation from paragraph (1) of this Article, subject to the prior approval of the Central Bank, the credit institution may fully or partially exempt from the cap the following liquidity inflows:

- 1) where the provider is a parent or a subsidiary of the credit institution or another subsidiary of the same parent institution or linked to the credit institution by joint directorship referred to in Article 11 of the Law;
- 2) from deposits placed with another credit institution within a group of entities qualifying for the treatment set out in Article 130 paragraphs (6) and (8) of the Decision on Capital Adequacy;
- 3) referred to in Article 47 of this Decision, including inflows from loans related to mortgage lending, or promotional loans referred to in Article 41 paragraph (10) of this Decision or from a multilateral development bank or a public sector entity that the credit institution has passed-through.

(3) A credit institution shall determine the amount of the net liquidity inflows referred to in paragraph (1) of this Article applying the formulae laid down in Annex 2 to this Decision.

Inflows within a group

Article 46

By way of derogation from Article 44 paragraph (3) item 7) of this Decision, the Central Bank may authorise the application of a higher inflow rate on a case by case basis for undrawn credit and liquidity facilities where:

- 1) there are reasons to expect a higher inflow even under a combined market and idiosyncratic stress scenarios of the liquidity provider;
- 2) the counterparty is the parent or a subsidiary of the credit institution or another subsidiary of the same parent or linked to the credit institution by joint directorship referred to in Article 11 of the Law;
- 3) the inflow rate exceeds 40%, a corresponding symmetric outflow rate shall be applied by the counterparty by way of derogation from Article 41 of this Decision; and
- 4) the credit institution and the counterparty are established in Montenegro.

Application for consolidation purposes

Article 47

Where a group of credit institutions comprises one or more credit institutions from Montenegro and subsidiary undertakings from a third country, for the purposes of consolidation, the following provisions shall apply:

- 1) assets held by a subsidiary undertaking in a third country shall be recognised as liquid assets for consolidation purposes where they qualify as liquid assets under that third country's regulations and where they:
 - meet the requirements laid down in Articles 19 to 30 of this Decision; or
 - in the case that they fail to meet the specific requirement with respect to their issue size, but meet all the other requirements laid down in Articles 19 to 46 of this Decision, these assets may only be recognised up to the amount of the stressed net liquidity outflows incurred in the particular currency in which they are denominated and arising from that same subsidiary undertaking.
- 2) liquidity outflows in a subsidiary undertaking in a third country which are, under the regulations of that third country, subject to higher percentages than those specified in Articles 31 to 46 of this Decision, shall be subject to consolidation in accordance with those higher rates;
- 3) liquidity inflows in a subsidiary undertaking in a third country which are, under the regulations of that third country, subject to lower percentages than those specified in Articles 31 to 46 of this Decision, shall be subject to consolidation in accordance with those lower rates.

III. NET STABLE FUNDING REQUIREMENTS

Determining stable funding

Article 48

A credit institution shall determine items providing stable funding and items requiring stable funding of the credit institution.

Items providing stable funding

Article 49

(1) Items providing stable funding referred shall be the following:

- 1) the following own funds, after deductions have been applied, where appropriate:
 - tier 1 capital instruments;
 - tier 2 capital instruments;
 - other preferred shares and capital instruments in excess of Tier 2 allowable amount having an effective maturity of one year or greater;
- 2) the following liabilities not included in item 1) of this Article:
 - retail deposits that qualify for the treatment set out in Article 35 paragraph (1) of this Decision;
 - retail deposits that qualify for the treatment set out in Article 35 paragraph (2) of this Decision;
 - deposits that qualify for the treatment set out in Article 36 paragraphs (3) and (4) of this Decision;
 - of the deposits referred to in indent 3 of this item, those that are subject to a deposit guarantee scheme in accordance with the Law governing deposit protection in Montenegro or an equivalent deposit guarantee scheme in another state;
 - part of the deposits referred to in indent 3 of this item that falls under Article 36 paragraph (3) item 2) of this Decision;
 - amounts deposited not falling under indents 1, 2, or 3 of this item if they are not deposited by financial customers;
 - all funding obtained from financial customers;
 - separately for amounts falling under indents 6 and 7 of this item respectively, funding from secured lending and capital market-driven transactions as defined in Article 211 items 2) and 3) of the Decision on Capital Adequacy, which are:
 - a) collateralised by assets that would qualify as liquid assets in accordance with reports on liquid assets submitted to the Central Bank;
 - b) collateralised by any other assets;
 - liabilities resulting from securities issued qualifying for the treatment set out in Article 146 paragraphs (6) and (7) of the Decision on Capital Adequacy, or liabilities resulting from securities issued by a credit institution which has its registered office in a European Union Member State and is subject by law of that state to special public supervision designed to protect bond-holders, and sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.
 - other liabilities resulting from securities issued that do not fall under item 1) of this paragraph;
 - liabilities resulting from securities issued with an effective maturity of one year or greater;

- liabilities resulting from securities issued with an effective maturity of less than one year;
- any other liabilities.

(2) Items referred to in paragraph (1) of this Article shall be presented in the following five buckets according to the closest of their maturity date and the earliest date at which they can contractually be called:

- 1) within three months;
- 2) between three and six months;
- 3) between six and nine months;
- 4) between nine and 12 months;
- 5) after 12 months.

Items requiring stable funding

Article 50

(1) Items requiring stable funding shall be the following:

- 1) the assets that would qualify as liquid assets in accordance with reports on liquid assets submitted to the Central Bank, broken down by asset type;
- 2) the following securities and money market instruments not included in item 1) of this paragraph:
 - assets qualifying for credit quality step 1 under Article 139 of the Decision on Capital Adequacy;
 - assets qualifying for credit quality step 2 under Article 139 of the Decision on Capital Adequacy;
 - other assets;
- 3) equity securities of non-financial entities listed on a major index in a recognised exchange;
- 4) other equity securities;
- 5) gold;
- 6) other precious metals;
- 7) non-renewable loans and receivables, and separately those non-renewable loans and receivables for which debtors are:
 - natural persons;
 - SMEs that qualify for the retail exposure class under the Standardised Approach or Internal Ratings Based Approach for credit risk or to a business undertaking which is eligible for the treatment set out in Article 172 paragraph (5) of the Decision on Capital Adequacy and where the aggregate deposit placed by that client or group of connected clients is less than EUR 300,000;
 - sovereigns, central banks and public sector entities;
 - clients not referred to in indents 1 and 2 of this item, other than financial customers;
 - financial customers not referred to in indents 1 and 2 of this item and clients that are credit institutions;
- 8) non-renewable loans and receivables referred to in item 7) of this paragraph, and thereof separately those that are collateralised by:

- commercial real estate;
 - residential real estate;
 - match funded (pass-through) via bonds eligible for the treatment set out in Article 146 paragraphs (6) and (7) of the Decision on Capital Adequacy or via bonds issued by a credit institution which has its registered office in a European Union Member State and are subject by law of that state to special public supervision designed to protect bond-holders, and sums deriving from the issue of those bonds shall be invested in accordance with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in the event of failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest;
- 9) derivatives receivables;
- 10) any other assets;
- 11) undrawn committed credit facilities that qualify as 'medium risk' or 'medium to low risk' under Article 128 paragraph (3) of the Decision on Capital Adequacy.

(2) All items under paragraph (1) of this Article shall be presented in the five buckets described in Article 49 paragraph (2) of this Decision.

IV. REPORTING AND NOTIFICATION

-Reporting to the Central Bank

Article 51

(1) Reporting to the Central Bank on daily and ten-day liquidity indicators, liquidity coverage ratio and stable funding shall be done in the manner and within the deadlines set out in a separate Central Bank decision governing the reporting to the Central Bank by the credit institutions.

(2) In the event of shortfall in liquidity, the credit institution shall immediately notify the Central Bank of the amount of lacking liquid assets, reasons for liquidity shortfall and planned activities to overcome illiquidity.

Public disclosure

Article 52

A credit institution shall establish mechanisms that ensure an adequate level of public disclosure of information on the organisation and financial position of the credit institution, in particular in situations where negative information about the credit institution appears in public.

V. FINAL PROVISIONS

Repealed Regulations

Article 53

As from the commencement date of the application of this Decision, the Decision on minimum standards for liquidity risk management in banks (OGM 60/08) shall be repealed.

Entry into force

Article 54

This Decision shall enter into force on the day following that of its publication in the Official Gazette of Montenegro, and it shall apply from the date of application of the Law on Credit Institutions (OGM 72/19).

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

**CHAIRMAN
G O V E R N O R,**

Radoje Žugić m.p.

Decision number: 0101-7725-13/2020
Podgorica, 28 December 2020

Determination of the liquidity buffer composition

1. Calculation of the liquidity buffer.

As of the calculation date, the liquidity buffer of the credit institution shall be equal to:

- (1) the level 1 asset amount; plus
- (2) the level 2A asset amount; plus
- (3) the level 2B asset amount;
minus the lesser of the sum of items (1), (2), and (3) or the 'excess liquid assets amount' as calculated in accordance with items 2) and 3) of this Annex.

2. Excess liquid assets amount.

Excess liquid assets amount shall be comprised of the following components:

- 1) the adjusted non-covered bond level 1 asset amount, 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 credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;
- 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 credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;
- 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 credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction;
and
- 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 credit institution upon the unwind of any secured funding, secured lending or collateral swap transaction that matures within 30 calendar days from the calculation date and where the credit institution and the counterparty exchange liquid assets on at least one leg of the transaction.

3. Calculation of the excess liquid assets amount

This amount shall be equal to:

- (1) the adjusted non-covered bond level 1 asset amount; plus:

- (2) the adjusted level 1 covered bond amount; plus
- (3) the adjusted level 2A asset amount; plus
- (4) the adjusted level 2B asset amount;
minus the lesser of:
 - (5) the sum of items (1) to (4);
 - (6) 100/30 times item (1);
 - (7) 100/60 times the sum of items (1) and (2);
 - (8) 100/85 times the sum of items (1), (2) and (3), whichever is lower.

Formula for the calculation of the net liquidity outflow

1. The net liquidity outflow shall be calculated by applying the following formula:

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

2. The elements of the formula referred to in item 1) of this Annex shall have the following meanings:

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

Net liquidity outflows equals total outflows less the reduction for fully exempt inflows less the reduction for inflows subject to the 75% cap.

Calculation of additional outflows

- 1.** For the purposes of calculation of outflows referred to in Article 40 paragraph (7) of this Decision, a credit institution's derivatives transactions shall be considered material where the total of notional amounts of such transactions have exceeded 10% of the net liquidity outflows at any time in the previous two years.
- 2.** For the purposes of item 1) of this Annex, the net liquidity outflows shall be calculated without the additional outflow component referred to in Article 40 paragraphs (4) and (5) of this Decision.
- 3.** The additional outflow corresponding to collateral needs resulting from the impact of an adverse market scenario on a credit institution's derivatives transactions considered as material within the meaning of item 1) of this Annex, shall be the largest absolute net 30-day collateral flow realised during the 24 months preceding the date of calculation of the liquidity coverage requirement.
- 4.** A credit institution may only treat inflows and outflows of transactions on a net basis where they are executed under the same master netting agreement. The absolute net collateral flow shall be based on both realised outflows and inflows, and the netting shall be calculated at the credit institution's portfolio level.