

BOARD OF THE BANK OF LITHUANIA

RESOLUTION No 1

of 29 January 2004

ON LIQUIDITY OF BANKS

Vilnius

(*Valstybės žinios* (Official Gazette) No 22-696, 2004)

25 May 2010, No 03-58 (*Valstybės žinios* (Official Gazette) No 63-3141, 2010) [as amended]

In observance of Article 9 of the Law of the Republic of Lithuania on the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-1957, 1994; No 28-890, 2001), Article 48(2) of the Law of the Republic of Lithuania on Banks (*Valstybės žinios* (Official Gazette) No 54-1832, 2004) and Article 37(3) the Law of the Republic of Lithuania on the Central Credit Union (*Valstybės žinios* (Official Gazette) No 45-1288, 2000; No 61-2181, 2004), the Board of the Bank of Lithuania has r e s o l v e d:

1. To approve:

1.1. Liquidity Requirement Calculation Rules and General Regulations for Determining the Liquidity Buffer and Counterbalancing Capacity (attached);

1.2. Form 7003 of the Report on Structure of Assets and Liabilities by Maturity (attached).

2. To establish that this Resolution shall come into force on 30 June 2010.

Chairman of the Board

Reinoldijus Šarkinas

APPROVED by
Resolution No 1
of the Board of the Bank
of Lithuania of 29 January 2004
(as amended by Resolution No 03-58
of the Board of the Bank
of Lithuania of 25 May 2010)

LIQUIDITY REQUIREMENT CALCULATION RULES AND GENERAL REGULATIONS FOR DETERMINING LIQUIDITY BUFFER AND COUNTERBALANCING CAPACITY

(*Valstybės žinios* (Official Gazette) No 22-696, 2004)
25 May 2010, No 03-58 (*Valstybės žinios* (Official Gazette) No 63-3141, 2010) [as amended]

I. GENERAL PROVISIONS

1. This document establishes the procedure for the calculation of liquidity requirement and general regulations for determining liquidity buffer and counterbalancing capacity of banks, foreign bank branches and the central credit union registered in the Republic of Lithuania (hereinafter the banks). The document has been drafted in observance of Sound Practices for Managing Liquidity in Banking Organizations issued by the Basel Committee on Banking Supervision and the following documents of the Committee of European Banking Supervisors (CEBS): Recommendations on Liquidity Risk Management, Second Part of CEBS' Technical Advice to the European Commission on Liquidity Risk Management and Guidelines on Liquidity Buffers & Survival Periods.

2. Liquidity requirement of the bank, i.e. the ratio of liquid assets to current liabilities, may not be less than 30%:

$$L = \frac{LT}{E\downarrow} \times 100\%, L \geq 30\%,$$

where:

L – liquidity ratio,

LT – liquid assets,

E \downarrow – current liabilities.

3. Definitions:

Counterbalancing capacity – excess liquidity in relation to the calculated need for liquid assets available for the bank to be used under business-as-usual and stressed conditions over the short-, medium- and long-term time periods.

Liquidity buffer – liquid assets covering the additional need for liquidity that may arise over a defined survival period under stressed conditions of the highest probability scenario. The liquidity buffer should be a short end of the counterbalancing capacity.

Survival period – short period defined by the bank during which the bank can continue operating without needing to generate additional cash flows and avoiding the loss-making disposal of assets.

Net funding gap – negative difference calculated subtracting the sum of expected outflows from the sum of expected inflows.

Very short-term period – at least one week survival period.

Short-term period – at least one month survival period. Short-term horizon also covers a very short-term horizon.

Medium-term period – period of time not exceeding one year.

Long-term period – period exceeding one year.

II. CALCULATION OF LIQUID ASSETS

4. Liquid assets of the bank for liquidity requirement calculation purposes:

4.1. cash and commemorative coins;

4.2. funds with central banks repayable on demand and fixed-term funds with residual maturity of up to one month, excluding funds earmarked for payment of shares newly issued by the bank;

4.3. funds repayable on demand and fixed-term funds with residual maturity of up to one month held in banks and credit institutions of the European Union Member States and countries assigned not lower than 1–2 CQS long-term rating specified in Annex 1 to the General Regulations for the Calculation of Capital Adequacy approved by Resolution No 138 of 9 November 2006 of the Board of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 142-5442, 2006), (hereinafter higher rating) with residual maturity not exceeding one month, excluding pledged funds and funds earmarked for payment of shares newly issued by the bank;

4.4. securities issued by governments and central banks of the EU Member States and countries with higher rating, excluding pledged securities;

4.5. claims regarding financial derivatives, also including hedge contracts, which must be fulfilled on demand and claims with residual maturity of up to one month;

4.6. 50% of loans and leasing with residual maturity of up to one month granted to resident customers;

4.7. acquired deposit certificates of credit institutions assigned higher rating excluding pledged securities with redemption period of up to one month;

4.8. debt securities of issuers with not lower than 1–2 CQS long-term rating specified in Annex 1 to the General Regulations for the Calculation of Capital Adequacy approved by Resolution No 138 of 9 November 2006 of the Board of the Bank of Lithuania, when information about lower (non-investment) ratings is not available, excluding pledged securities;

4.9. equity securities on the basis of which liquid equity indices are compiled in the markets of different countries, excluding pledged securities;

4.10. assets and disposal groups classified as held for sale to be sold within the period of up to one month;

4.11. callable funds in transit accounts and funds to be transferred within the period of up to one month.

5. For liquidity requirement calculation purposes liquid assets (items 4.1-4.11) shall be reduced by callable liabilities of transit accounts and liabilities repayable within the period of up to one month.

6. Overdue assets shall be recorded in the column “Indefinite Maturity” of the Report.

III. CALCULATION OF CURRENT LIABILITIES

7. Current liabilities of the bank for liquidity requirement calculation purposes:

7.1. callable liabilities to the central bank and fixed-term debts with residual maturity of up to one month and overdue liabilities;

7.2. callable liabilities to banks and other credit institutions repayable on demand and fixed-term debts with residual maturity of up to one month and overdue liabilities;

7.3. loans obtained from international organisations with residual maturity of up to one month and overdue loans;

7.4. other loans with residual maturity of up to one month and overdue loans;

7.5. time deposits of legal entities with no more than one month remaining until the day of their repayment or payment and time deposits with overdue repayment or payment term;

7.6. 75% of time deposits of natural persons;

7.7. demand deposits;

- 7.8. issued deposit certificates with no more than one month remaining until the day of their redemption and overdue deposit certificates;
 - 7.9. liabilities related with agreements on financial derivatives, including hedge transactions, with residual maturity of up to one month and overdue liabilities;
 - 7.10. issued debt securities with no more than one month remaining until the day of their redemption and overdue debt securities;
 - 7.11. subordinated loans with residual maturity of up to one month and overdue subordinated loans;
 - 7.12. liabilities related with disposal groups classified as held for sale to be fulfilled within the period of up to one month and overdue liabilities;
 - 7.13. other callable liabilities with residual maturity of up to one month and overdue liabilities;
 - 7.14. crediting liabilities and off-balance sheet liabilities repayable at short notice and those with residual maturity of up to one month.
8. Overdue liabilities shall be shown in column “Callable” of the Report.

IV. DETERMINATION OF LIQUIDITY BUFFER AND COUNTERBALANCING CAPACITY

9. Liquidity buffer should cover the net funding gap which occurs under stressed conditions according to the most probable scenario during the survival period.
10. Liquidity buffer shall be composed of:
 - 10.1. for a very short-term period – cash and other unencumbered assets highly liquid in the market recognised as eligible for securing liquidity loans granted by the Bank of Lithuania (excluding loans);
 - 10.2. liquidity buffer for a very short-term horizon may also comprise the categories of assets, other than those established in paragraph 10.1, subject to the bank demonstrating the ability to generate liquidity under stress from them according to the most probable scenario. These include planned additional funds which would be sufficient to cover the increased net funding gap.
11. Banks shall manage their liquidity buffer to ensure to the maximum extent possible that they will be available in the times of stress conditions and there should be no legal, regulatory, or operational impediments to using these assets. Banks should avoid holding large concentrations of securities and other liquid assets specified in paragraphs 10.1 and 10.2.
12. Liquidity buffer shall be determined in consideration of the structure and activities of the banking group and differentiate between currencies relevant to the bank.
13. The counterbalancing capacity shall be determined in order to guarantee continuous and adequate liquidity level in the bank. To that end banks should develop cash-flow projections covering expected cash inflows and outflows broken down according to the main financial instruments, maturity buckets and business lines established by the bank. When determining expected cash flows and expected counterbalancing capacity banks should also distinguish between contractual and behavioural flows and choose the most appropriate and (or) most conservative type in estimating their liquidity situation over time. For each maturity bucket the net funding gap shall be determined and different sources of financing shall be projected to cover it. The counterbalancing capacity should be addressed as a regular contingency funding plan where appropriate making adjustments to the business model or applying other measures.
14. Determining the counterbalancing capacity the banks must be sure that they will be able to use the liquidity buffer both in business-as-usual situations and under stressed conditions.

V. FINAL PROVISIONS

15. The bank must fulfil the liquidity requirement on a daily basis.

16. Pursuant to requirements of the Regulations for the Organisation of Internal Control and Risk Assessment (Management) approved by Resolution No 149 of the Board of the Bank of Lithuania of 25 September 2008 (*Valstybės žinios* (Official Gazette) No 127-4888, 2008) the liquidity risk management policies of banks should specify the categories of assets eligible for being included in the liquidity buffer.

17. Banks shall determine the liquidity buffer and counterbalancing capacity under stressed conditions in observance of the General Regulations for Stress Testing approved by Resolution No 133 the Board of the Bank of Lithuania of 11 October 2007 (*Valstybės žinios* (Official Gazette) No 109-4486, 2007).

18. The bank must continuously monitor the developments of the net funding gap and ensure that liquidity buffer is sufficient to cover this gap.

19. Provisions of Section IV hereof shall apply commensurately to the bank's activities, i.e. they shall be implemented in consideration of the scope and nature of activities, risks assumed and operations performed by the bank.

20. Banks must furnish the Credit Institutions Supervision Department with a monthly Report on Structure of Assets and Liabilities by Maturity (Form 7003). Liquidity requirement and liquidity buffer calculated for a period of one month shall be provided in Table A of the Report and information on group assets and liabilities – in Table B. The Report shall specify liquidity buffer for a period of one month under conditions of the most probable scenario covering the combination of factors related with changes taking place inside the bank and in the market.

12134	05	Cash and cash balances with banks and other credit institutions of countries assigned lower rating											
12137	06	Pledged funds earmarked for payment of shares newly issued by the bank											
12105	07	Securities issued by governments and central banks of the European Union and countries assigned higher rating											
12106	08	Securities issued by governments and central banks of the European Union and countries assigned lower rating											
12138	09	Claims concerning financial derivative agreements											
12139	10	Loans and leasing to residents											
12140	11	Loans and leasing to non-residents											
12142	12	Acquired deposit certificates of credit institutions of countries assigned higher rating											
12143	13	Acquired deposit certificates of credit institutions of countries assigned lower rating											
12144	14	Debt securities											
12145	15	Equities											
12146	16	Other debt securities and equities											
12130	17	Pledged securities											
12116	18	Fixed tangible and intangible assets of the bank											
12147	19	Fixed assets and disposal groups held for sale											
12118	20	Transit accounts											
12120	21	Other assets											
12100	22	Total assets											
Liabilities and shareholders' equity													
23417	23	Deposits of central banks											
23419	24	Debts to banks and other credit institutions											
23444	25	Loans from international organisations											

23448	26	Other loans											
23420	27	Time deposits of legal persons											
23421	28	Time deposits of natural persons											
23422	29	Demand deposits											
23434	30	Issued deposit certificates											
23447	31	Liabilities related with financial derivative agreements											
23424	32	Issued debt securities											
23439	33	Subordinated loans											
23449	34	Liabilities related with disposal groups held for sale											
23436	35	Transit accounts											
23437	36	Other liabilities											
23450	37	Provisions											
23451	38	Callable equity capital (cooperative shares)											
23433	39	Shareholders' equity											
23400	40	Total liabilities and shareholders' equity											
02035	41	Difference I (lines 22–40)											
30036	42	Off-balance-sheet liabilities											
02037	43	Difference II (lines 22–40–42)											
02038	44	Difference II as percentage from total assets (line 43:N22*100%)											
02039	45	Liquid assets (LA)= N01+D03+E03+ D04+E04+N07+D09+E09+E10*0.5+E12+ N14+N15+E19+D20+E20-D35-E35=											
02040	46	Current liabilities of the bank (CL) = D23+E23+D24+E24+ D25+E25+D26+E26+D27+E27+N28*0.75+N29+D30+E30+D31+E31+ D32+E32+D33+E33+D34+E34+D36+E36+D42+E42 =											
02041	47	LIQUIDITY RATIO: LA:CL*100% =											
02042	48	Expected cash inflows											
02043	49	Expected cash outflows											
02044	50	Net funding gap (lines 48-49)											
02045	51	LIQUIDITY BUFFER											

Table B

Information about group assets and liabilities												
		Group assets										
31001	1	Funds with banks and credit institutions										
31011	1.1	parent bank or credit institution										
31012	1.2	controlling bank or credit institution of the group										
31013	1.3	other group banks and credit institutions										
31014	1.4	controlled banks and credit institutions										
31002	2	Loans to companies and financial institutions to										
31021	2.1	parent company or financial institution										
31022	2.2	controlling company or financial institution the group										
31023	2.3	other group companies and financial institutions										
31024	2.4	controlled companies and financial institutions										
31003	3	Securities and deposit certificates of										
31031	3.1	parent bank or credit institution, parent company or financial institution										
31032	3.2	controlling bank or credit institution, company or financial institution of the group										
31033	3.3	other banks and credit institutions, companies or financial institutions of the group										
31034	3.4	controlled banks and credit institutions, companies or financial institutions										
		Group liabilities										
31004	4	Liabilities to banks and credit institutions										
31041	4.1	parent bank or credit institution										
31042	4.2	bank or credit institution controlling the group										
31043	4.3	other group banks and credit institutions										
31044	4.4	controlled banks and controlled credit institutions										
31005	5	Deposits of companies and financial institutions										

31051	5.1	parent company or financial institution											
31052	5.2	company or financial institution controlling the group											
31053	5.3	other group companies and financial institutions											
31054	5.4	controlled companies and financial institutions											
31006	6	Subordinated loans of:											
31061	6.1	parent bank or credit institution, parent company or financial institution											
31062	6.2	bank or credit institution, company or financial institution controlling the group											
31063	6.3	other group banks and credit institutions, companies or financial institutions											
31064	6.4	controlled banks and credit institutions, companies and financial institutions											

.....
 (Manager's duties)

.....
 (signature)

.....
 (forename and surname)

Chief accountant (accountant)

.....
 (signature)

.....
 (forename and surname)

.....
 (Executor's full name and telephone)