

## **REGULATION ON BANK'S LIQUIDITY**

### **I. GENERAL PROVISIONS**

This regulation is elaborated pursuing the authority of the National Bank of Moldova as provided for in Article 11 and 44 of the Law on the National Bank of Moldova and Articles 25, 28, and 40 of the Law on Financial Institutions.

For the purpose of promoting a sound and competitive financial sector, avoiding excessive risks in the financial system, protecting the interests of depositors and ensuring the availability of an adequate level of bank liquidity, under the present regulation the National Bank of Moldova establishes the following rules, aimed at setting an adequate relationship between a bank's invested funds (assets) and its financial resources (liabilities).

### **II. MAIN DEFINITIONS**

For the purpose of this Regulation are used the following main definitions:

- 1 Liquidity: A financial institution's capability to place in assets and to ensure the redemption of its payment liabilities until maturity at all times.
- 2 Principle I of the Liquidity Regulation: It prescribes that the amount of a bank's assets, with a remaining maturity period of more than two years, should not exceed the amount of its financial resources.
- 3 Principle II of the Liquidity Regulation: It prescribes that a bank's short-term liquidity, expressed as a ratio of liquid assets and total assets, should not be lower than the percentage rate set by this regulation.
- 4 The remaining maturity period of a credit: The remaining period until final maturity date of credit, calculated from the reporting date onwards.
- 5 The remaining maturity period of a deposit: The remaining period until final maturity date of deposit, calculated from the reporting date onwards.

6. Savings deposit of a physical person: A type of sight or time deposit held for creating savings for certain purposes, payable on demand or according to its maturity term, for which the bank may issue a savings passbook or a savings certificate.
  
7. Liquid securities: government securities issued by the Ministry of Finance of the Republic of Moldova and securities issued by National Bank of Moldova, which are not encumbered with tasks and are free of prohibitions.
  
8. Current Net Interbank Resources: difference between the amount of extended loans to other banks and funds due by banks with the remaining maturity of up to one month, and the amount of loans and funds due to banks with the remaining maturity of up to one month.

### **III. PRINCIPLES AND LIQUIDITY MANAGEMENT**

- 1 Principle I (long-term liquidity)  
Long-term liquidity indicator of a bank which is the ratio of:

***The sum of a bank's assets in the form of:***

- (1) loans granted to banks and other financial institutions with a remaining maturity period of two years and more;
- (2) loans and advances to customers with a remaining maturity period of two years and more;
- (3) financial leasing with a remaining maturity period of two years and more;
- (4) participating holdings in the capital of economic agents (including banks);
- (5) long-term investment securities with a remaining maturity period of two years and more;
- (6) fixed assets;

less allowance for loan losses, fixed assets amortization and provisions for value adjustments with regard to the above-mentioned assets,

***and the sum of the following financial resources:***

- (1) Total Regulatory Capital, determined in accordance with the Regulation on Risk Based Capital Adequacy;
- (2) liabilities due to banks and liabilities due to customers (excluding savings deposits of natural persons) with a remaining maturity period of two years and more;
- (3) 50% of liabilities due to banks and liabilities due to customers (excluding savings deposits of natural persons) with a remaining maturity period from one to two years;
- (4) 10% of liabilities due to customers (excluding savings deposits of natural persons) payable on demand;
- (5) savings deposits of natural persons with a remaining maturity period of two years and more;
- (6) 60% of the savings deposits of individual persons with a remaining maturity period from one to two years;
- (7) 30% of savings deposits of natural persons payable on demand and with a remaining maturity period of up to one year;
- (8) bonds outstanding and other debt securities issued by the bank with a remaining maturity period of two years and more;
- (9) 50% of bonds outstanding and other debt securities issued by the bank with a remaining maturity period of up to two years;
- (10) 60% of the provisions for the pensions of the bank's employees.

***must not exceed 1.***

## 2 Principle II (Short-Term Liquidity)

***Short – term liquidity indicator of a bank which is the ratio of:***

***(1) the sum of a bank's liquid assets, in the form of***

- (a) Cash and precious metals,

- (b) Deposits with the National Bank of Moldova,
- (c) Liquid Securities,
- (d) Current Net Interbank Resources (placements in other banks are included in the calculation of liquid assets only if these resources are not encumbered with tasks and are free of prohibitions)

**(2) *and the total balance sheet assets less allowance for loan losses) must not be less than 20%.***

### 3. LIQUIDITY MANAGEMENT POLICY

1) Banks shall have an appropriate liquidity management policy that includes procedures and internal guidelines on the assessment, monitoring and ongoing maintenance of a sufficient level of liquidity, but not less than the coefficient of liquidity provisions of this Regulation.

2) Liquidity management policy shall include at least the following components:

a) appropriate information systems on the assessment, monitoring and reporting the level of liquidity;

b) stress tests to identify the weaknesses and potential vulnerabilities of bank's liquidity level in unforeseeable conditions;

c) management plans for different stress scenarios on liquidity for unforeseen circumstances;

d) control of the liquidity management.

3) Procedures and internal instructions on information systems shall ensure that the bank's liquidity is duly assessed and examined by bank administration to take appropriate decisions on liquidity management. Such systems must have the ability to calculate liquidity positions in all currencies in which the bank operates, future cash flows and to be flexible to adapt them to various unforeseen circumstances that may occur.

4) Internal procedures and guidelines on stress testing shall ensure regular stress tests and cover various short, medium and long term scenarios, considering the specific situations at the bank and market, under which vulnerabilities related to the bank liquidity position are analyzed, the potential adverse effects and ways of their solution are determined. These scenarios must be constantly updated, taking into consideration both internal factors (specific to the bank), as well as the external (related to market).

#### IV. REPORTING

- 3 Banks shall report to the National Bank of Moldova monthly in accordance with the Instruction on Compilation and Submission of Reports Regarding the Financial Activity by Banks.
- 4 The first report must be submitted as of December 31, 1997.

#### IV. COMPLIANCE

- 1 From December 31, 1997, onwards, banks must reach and maintain the short-term liquidity ratio (Principle II) of not less than 10%.
- 2 From June 30, 1998, onwards, banks must reach and maintain the short-term liquidity ratio (Principle II) of not less than 15%.
- 3 From December 31, 1998, onwards, banks must reach and maintain the short-term liquidity ratio (Principle II) of not less than 20%.

#### V. FINAL PROVISIONS

- 1 Starting from December 31, 1997, the present regulation annuls:

Norm No. 1 on controlling the activity of commercial (joint-stock) banks, both private and co-operative of June 29, 1993, with all amendments and additions;

- (1) Supplement no. 1 of June 29, 1993.
- (2) Amendments of December 28, 1993.
- (3) Supplement of October 13, 1994, minutes No. 9.
- (4) Amendments of March 17, 1995, minutes No. 9.
- (5) Amendments of April 18, 1995, minutes No. 13.
- (6) Amendments of May 31, 1995, minutes No. 17.
- (7) Amendments of June 27, 1995, minutes No. 19.
- (8) Amendments of May 8, 1996, minutes No. 22.

- (9) Amendments of June 12, 1996, minutes No. 28.
  - (10) Supplement of December 25, 1996, minutes No. 59.
2. The present Regulation becomes effective on the date of its approval. The Regulation shall be subsequently published in the *Official Monitor of the Republic of Moldova*.