



Pursuant to the Article 35, paragraph 1, sub-paragraph 1.1 of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16, August 2010), Article 20 and Article 85 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No. 11/11, May 2012), Board of the Central Bank of the Republic of Kosovo, in the meeting held on 28 April 2016, approved the following:

## **REGULATION ON MANAGEMENT OF INTEREST RATE RISK IN BANKING BOOK**

### **Article 1 Subject matter and scope**

1. The purpose of the present Regulation is to establish the procedures and principles for managing the interest rate risk in the banking book, the method for calculating the changes in the economic value of a bank in relation to the change of positions in the banking book as a result of the standard interest rate stress and requirements for reporting to the Central Bank of the Republic of Kosovo.
2. This Regulation shall apply to all banks licensed by the CBK to operate in the Republic of Kosovo.

### **Article 2 Definitions**

1. Terms used in the present Regulation shall have the same meaning with the terms defined in the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (hereinafter "*the Law on Banks*"), or as defined below for purposes of the present Regulation:
  - 1.1. **Interest rate risk in the banking book** means the interest rate risk resulting from transactions executed in the banking book positions.
  - 1.2. **Repricing risk** means the risk to which the bank is exposed as a result of maturity mismatches (for fixed interest rates) and reassessment of interest rates (for variable interest rates) of the positions in the banking book.

1.3. **Yield curve risk** means risk to which a bank is exposed as a result of the change of yield curve slope.

1.4. **Basis risk** means the risk to which a bank is exposed as a result of changes in reference interest rates for instruments with similar characteristics in terms of maturity or period to the future change of interest rate.

1.5. **Option risk** means risk to which a bank is exposed as a result of options included in the interest rate-sensitive positions (for instance loans with prepayment facility, deposits with premature withdrawal facility, etc.).

1.6. **Trading book** means all positions in financial instruments and goods held for the purpose of trading or to hedge other positions of trading book.

1.7. **Banking book** consists of all balance sheet items and off-balance sheet items, except those considered as positions of the trading book.

1.8. **Economic Value of Equity of a Bank** means the calculation of the present value of all expected net cash flows, positions in the banking book, as: expected cash flows from bank assets minus the expected cash flows from bank liabilities.

1.9. **Main currency** means any currency that accounts for more than 5% of the total assets or liabilities in the banking book.

1.10. **Standard interest rate stress** means parallel, negative or positive, displacement of the interest rate in the reference yield curve of 200 basis points.

1.11. **Basis point** means the unit equal to one hundredth of 1%.

1.12. **Notional Principal Amount** – The principal is notional when it has not been paid nor collected. This value is used only for determining the interest rate and fees to be exchanged for the specific notional amount.

### **Article 3**

#### **Supervision of interest rate risk by the Board and Senior Management**

1. **Board of Directors** holds the ultimate responsibility to understand the nature and level of interest rate risk taken by the bank, which should:

1.1 Approve the business strategy and policies that guide or impact the bank interest rate risk;

1.2 Review bank general objectives in relation to the interest rate risk and ensure clear guidelines in relation to the interest rate risk level acceptable by the bank;

1.3 Approve policies that identify authority and responsibility lines for managing exposures of interest rate risk;

1.4 Approve bank general objective in relation to the interest rate risk and to ensure that the management undertakes the necessary steps to identify, measure, monitor and control these risks;

- 1.5 Review from time to time the sufficiently detailed and timely information to understand and assess the performance of senior management in monitoring and controlling these risks, in compliance with the policies approved by the board of bank. Such reviews should be regularly performed and more often where the bank holds important positions in complex instruments;
  - 1.6 Review important policies for managing the interest rate risk and general business strategy which affects the exposition of bank interest risk rate, at least on annual basis;
  - 1.7 Encourage discussions between the members of the board and senior management, as well as between the senior management and other bank levels in relation to the exposures of bank interest rates risk and its management process.
2. **Senior management** is responsible to ensure that the bank has adequate policies and procedures for managing, both in long-run and on daily basis, the interest rate risk and to ensure clear authority and responsibility lines for managing and controlling this risk.
- 2.1 Senior management should take care of maintaining:
    - 2.1.1 The adequate limits for risk taking;
    - 2.1.2 Adequate systems and standards for risk measurement;
    - 2.1.3 Standards for assessing positions and performance measurement;
    - 2.1.4 A comprehensive report for reporting the interest rate risk and a process for reviewing the management of interest rate risk; and
    - 2.1.5 Effective internal controls.
  - 2.2 Reports on interest rate risk to the senior management should provide aggregate information and sufficient supporting details, in order for the management to assess the sensitivity of the institution to the changes in the market conditions and other important risk factors.
  - 2.3 Senior management, at least once a year, should review the bank policies and procedures in relation to the interest rate risk in order to ensure their adequacy.
  - 2.4 Senior management should encourage and participate in discussions with the members of the board and depending on the size and complexity of the bank, with the risk management staff, in relation to the measurement, reporting and procedures for managing this risk.
  - 2.5 Senior management should ensure that analysis and management of activities in relation to the interest rate risk are performed by the competent staff that has the technical know-how and experience in line with the nature and scope of bank activities. There should be sufficient human resources with deep knowledge to manage these activities and to replace the key staff that is temporary absent.

### **3. Reporting lines and authority for managing the interest rate risk**

- 3.1 Board of Directors should clearly identify the individuals and/or committees responsible to carry out various activities for managing the interest rate risk.
- 3.2 Board of Directors should ensure the adequate allocation of duties in the risk management for key activities, in order to avoid possible conflicts of interest.

- 3.3 Senior management should clearly define the lines of authority and responsibility to implement strategies and risk measurement, as well as to clarify the functions for reporting the process for managing the interest rate risk.
- 3.4 Senior management should also provide reasonable assurances that all activities and all aspects of interest rate risks are included in the bank process for risk management.
- 3.5 Senior management should ensure that sufficient safeguard measures are in place to minimize the opportunity that individuals, who initiate risk taking positions, may improperly impact the key functions of controlling the risk management process, such as drafting and implementing policies and procedures, reporting risks for senior management and performing functions of back office.
- 3.6 Nature and scope of these measures should comply with the bank size and structure. They should also be proportional to the volume and complexity of the interest rate risk incurred by the bank and complexity of its transactions and commitments.
- 3.7 The staff in charge of measuring, monitoring and controlling the interest rate risk should possess genuine knowledge for all types of the interest rate risks faced by the bank.

#### **Article 4**

##### **Adequate policies and procedures for risk management**

1. Bank should have clearly-defined policies and procedures for limiting and controlling the interest rate risk. These policies should be applied on consolidated basis, if necessary, even in special subsidiaries or other units of the bank. Such policies and procedures should define the line of responsibility and accountability on decisions taken for managing the interest rate risk and should clearly determine the authorized instruments, protective strategies and opportunities for taking the positions. Bank policies and procedures should at least contain:
  - 1.1 Policies of interest rate risks should identify quantitative parameters that determine the level of interest rate risk that is acceptable for the bank.
  - 1.2 Limits should be specified in more details for certain types of instruments, portfolios and activities, where necessary.
  - 1.3 All policies of interest rate risk should be revised at least once a year and reviewed where necessary.
  - 1.4 Senior management should determine specific procedures and necessary approvals for exemptions from policies, limits and authorizations.
2. The bank should identify interest rates risks related to the new products and activities and ensure that these risks are subject to the adequate procedures and controls, before their

launching. Major hedging or risk management initiatives should be approved in advance by the Board of Directors or an adequate commission selected by the Board of Directors and the bank should take care to apply, as a minimum, the following requirements when adding new activities:

2.1 New products and activities in the bank should be subject to a careful review before launch or investment in order to ensure that the bank understands the characteristics of their interest rate risk and may include them in the risk management process.

2.2 When analysing whether a product or activity constitutes a new element of exposure to interest rate risk, the bank should be aware of changes in maturity of an instrument, repricing, or terms of repayment/settlement that may materially affect the characteristics of the product to interest rate risk.

2.3 Before launching a new product, taking a hedging position or a certain strategy, the management should ensure the employment of adequate operational procedures and risk control systems.

2.4 Proposals to ensure new instruments or strategies should contain the following characteristics:

2.4.1. Relevant description of the product or strategy;

2.4.2. Identification of necessary resources to employ sound and effective controls to the management of the interest rate risk of the new product or activity;

2.4.3. An analysis of the reasonableness of the proposed activities in relation to the bank's overall financial condition and capital levels; and

2.4.5. Procedures to be used to measure, monitor and control risks of product or proposed activity.

## **Article 5**

### **Functions for risk measurement, monitoring and control**

1. Banks should employ interest rates risk measurement systems that assess the effects of changes in interest rates both in bank revenues and its economic value. These systems should ensure meaningful measures for current levels of exposure of the bank to the interest rate risk and should be adequate systems to identify any excessive exposure that may arise from bank activities.

1.1 Measurement systems should:

1.1.1. assess all material risks of the interest rate related to the assets, liabilities and off-balance sheet items positions of the bank;

1.1.2. employ recognized financial principles and adequate techniques for risk measurement; and

1.1.3. employ well-documented assumptions and parameters.

- 1.2 The system of a bank for interest rate risk measurement should address all material sources of interest rate risk, including repricing risk, yield curve risk, basis risk and option exposure risk.
- 1.3 A special attention should be paid to instruments with characteristics of embedded or explicit options.
- 1.4 When developing interest rate risk measurement systems, the bank should ensure that the level of details on the nature of its sensitive positions to the change in interest rate complies with the complexity and risk transferred to these positions.
2. The bank should establish and apply operational limits and other practices that keep exposures within its levels in compliance with its internal policies, which should meet the following criteria:
  - 2.1 Limits of a bank should comply with its general method for interest rate measurement. Aggregated limits of interest rates risk that clearly articulate the level of acceptable interest rate risk for the bank should be approved by the Board of Directors and reviewed at least once a year. Such limits should be tailored to the size, complexity and adequacy of bank capital, and its ability to measure and manage its risks.
  - 2.2 Depending on the nature of bank assets and the level of its overall complexity, limits may be determined even for individual business units, portfolios, types of instruments, or specific instruments. Level of data of risk limits should reflect the characteristics of bank assets, including various sources of interest rate risk to which the bank is exposed.
  - 2.3 Senior management should immediately inform of exemptions from certain limits. The bank should have a clear policy on how the senior management will be informed what action should be taken by the management in such cases.
  - 2.4 Limits form to address the effect of change of rates in the bank capital economic value should be appropriate to the size and complexity of its positions.
3. The Bank should measure its exposure to the loss in stressed market conditions, including the most difficult scenarios assumed and consider these results when establishing and reviewing its policies and limits set for interest rate risk. To this end, the bank should establish adequate systems and perform stress tests, which should meet the following criteria:
  - 3.1 Risk measurement system should be supported by a reasonable assessment of the effect of stressed market conditions for the bank.
  - 3.2 Stress tests should be developed to ensure information on the types of conditions under which strategies or positions of the bank may be most sensitive and as a result may be suitable for characteristics of bank risk.
  - 3.3 Some of the possible scenarios of stress tests may include immediate changes in the overall level of interest rates, changes in ratios between main market rates (e.g. basis

risk), changes in yield curve risk, changes in liquidity of main financial markets, or changes in the volatility of market rates.

- 3.4 In addition, stress tests scenarios should include conditions under which assumptions and main business parameters fail. In particular, it is critical to use stress tests with assumptions for non-liquid instruments and instruments with uncertain contractual maturity, in order to understand the bank risk profile. When performing stress tests, a particular attention should be paid to the instruments or markets where concentrations exist, as such positions may be more difficult to be liquidated or compensated in difficult situations.
- 3.5 The bank should consider worse-case scenarios, in addition to the scenarios that may occur. Management and Board of Directors should review at least once a year the development and results of stress tests, as well as to ensure that proper plans for risk prediction are in place.
4. The bank should have an adequate information system to measure, monitor, and control and report the exposures of interest rates. Reports should be provided to the Board of Directors of the bank, senior management and, where necessary, individual managers of bank branches in a timely manner. Reports that describe the exposure of bank interest rate risk should be regularly reviewed by the board. As the types of reports prepared for the board and various levels of management differ depending on the bank profile to the interest rate risk, these reports should contain, as a minimum, the following data:
  - 4.1 Summary of bank aggregated exposures;
  - 4.2 Reports proving the compliance of the bank with policies and limits established;
  - 4.3 Main assumption, for instance, behaviour of non-maturity deposits and information on prepayment/settlement;
  - 4.4 Stress tests results, including those that consider the failure of assumptions and main bank parameters; and
  - 4.5 Summary of findings deriving from the review of policies and procedures of interest rate risk and adequacy of interest rate risk measurement systems, including the findings from internal and external auditors.

## **Article 6**

### **Internal controls**

1. The bank should have adequate internal controls to ensure the integrity of their process for interest rate risk management according to the following criteria:
  - 1.1. Internal controls should be integral part of the general system of bank internal control.
  - 1.2. These controls should promote effective and efficient operations, reliable financial and regulatory reporting and compliance with the relevant laws, regulations and institutional policies.

2. An effective system of internal control for interest rate risk should include:
  - 2.1 A strong control environment;
  - 2.2 An adequate process for risk identification and assessment;
  - 2.3 Establishment of control activities, such as: policies, procedures and methodologies;
  - 2.4 Adequate information management systems; and
  - 2.5 Ongoing review of established policies, procedures and methodologies.

### **Article 7**

#### **Capital adequacy**

1. The bank should keep a capital that is proportionate to the level of interest rate risk that it takes.
2. The bank should calculate the ratio between the total weighted value in the banking book (difference in the economic value of the banking book) and amount of the Tier 1 capital and Tier 2 capital (total regulatory capital).
3. Pursuant to paragraph 2 of this Article, if the ratio is higher than 20%, the bank should submit, within three days, to the CBK the draft of action undertaken to reduce this ratio. The CBK may accept actions proposed by the bank and/or determine other measures and terms to reduce the ratio between the total weighted value of positions in the banking book and amount of Tier 1 capital and Tier 2 capital (total regulatory capital).

### **Article 8**

#### **Sources of interest rate risk**

1. Interest rate risk in the banking book may adversely impact the revenues (net interest incomes) or the economic value in the banking book. A bank should assess various forms of interest rate risk to which it may be exposed. They include:
  - 1.1 repricing risk,
  - 1.2 yield curve risk,
  - 1.3 basis risk, and
  - 1.4 option risk.

### **Article 9**

#### **Methodology for calculating the exposure to the interest rate risk in the banking book**



1. To calculate the exposure to the interest rate risk in the banking book, the banks should employ the method for assessing the change in exposure of the banking book by applying a standard interest rate *stressing* in positions of the banking book in all main currencies on individual basis and other currencies on aggregate basis.
2. To calculate according to the method for assessing the change of exposure in the banking book, the banks should slot interest rate-sensitive positions in 13 time bands, as set out in Table 1 of this Article.
3. The banks should slot the positions with fixed interest rates in time bands according to the term to maturity and positions with variable interest rate in time bands, until the next change of the interest rate.
4. The banks should use the risk weighting factors contained in Table 1 of this Article, which are calculated as a result of multiplication of interest rate stress of 200 basis points with modified duration calculated for every time band.
5. When employing the method for assessing the change in exposure of the banking book, the banks should follow these steps:
  - 5.1. Sum, for every main currency on individual basis and for all other currencies on aggregate basis, positions of assets and liabilities and financial derivative instruments (off-balance sheet assets and liabilities) for each time band, in order to calculate net position for each time band;
  - 5.2. Multiply the total net position calculated under sub-paragraph “5.1” of this Article, for every time band, with weights determined in Table 1 of this Article, for every main currency on individual basis and for all other values on an aggregate basis;
  - 5.3. Sum all weighted positions, calculated for all time bands, in order to calculate the net position in purchase or sale for every main currency on individual basis and for all other currencies on an aggregate basis;
  - 5.4. Sum net positions in purchase and sale for all currencies in order to calculate the total weighted net position in the banking book.
6. Total net weighted position of the banking book, determined in sub-paragraph “5.4” of this Article, is expressed in absolute amount and will represent the change in exposure of the banking book as a result of application of standard interest rate stressing.
7. Detailed instructions in relation to the application of the methodology for calculating the interest rate risk in the banking book, aimed at drafting the CBK reporting forms, have been presented in Annex 1 of this Regulation.
8. The CBK, based on the requirements of this Regulation, prepares the reporting forms, which are then submitted to banks. The forms should be completed in compliance with

the requirements of this Regulation and general instructions set out in Annex 1 of this Regulation.

**Table 1: Weights by time bands**

<b>Time band</b>	<b>Middle of time band</b>	<b>Modified duration</b>	<b>Predicted change in yield</b>	<b>Weighting factor</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Up to 1 month</b>	<b>0.5 months</b>	<b>0.04 years</b>	<b>200 bp</b>	<b>0.08%</b>
<b>1 to 3 months</b>	<b>2 months</b>	<b>0.16 years</b>	<b>200 bp</b>	<b>0.32%</b>
<b>3 to 6 months</b>	<b>4.5 months</b>	<b>0.36 years</b>	<b>200 bp</b>	<b>0.72%</b>
<b>6 to 12 months</b>	<b>9 months</b>	<b>0.71 years</b>	<b>200 bp</b>	<b>1.43%</b>
<b>1 to 2 years</b>	<b>1.5 years</b>	<b>1.38 years</b>	<b>200 bp</b>	<b>2.77%</b>
<b>2 to 3 years</b>	<b>2.5 years</b>	<b>2.25 years</b>	<b>200 bp</b>	<b>4.49%</b>
<b>3 to 4 years</b>	<b>3.5 years</b>	<b>3.07 years</b>	<b>200 bp</b>	<b>6.14%</b>
<b>4 to 5 years</b>	<b>4.5 years</b>	<b>3.85 years</b>	<b>200 bp</b>	<b>7.71%</b>
<b>5 to 7 years</b>	<b>6 years</b>	<b>5.08 years</b>	<b>200 bp</b>	<b>10.15%</b>
<b>7 to 10 years</b>	<b>8.5 years</b>	<b>6.63 years</b>	<b>200 bp</b>	<b>13.26%</b>
<b>10 to 15 years</b>	<b>12.5 years</b>	<b>8.92 years</b>	<b>200 bp</b>	<b>17.84%</b>
<b>15 to 20 years</b>	<b>17.5 years</b>	<b>11.21 years</b>	<b>200 bp</b>	<b>22.43%</b>
<b>Over 20 years</b>	<b>22.5 years</b>	<b>13.01 years</b>	<b>200 bp</b>	<b>26.03%</b>

## **Article 10**

### **Financial derivative instruments**

When using financial derivative instruments in the banking book, the banks, in order to manage the interest rate risk in the banking book, should include this (financial derivative) instrument in calculating the ratio of change in exposure of the banking book to regulatory capital.

## **Article 11**

### **Reporting in the Central Bank of the Republic of Kosovo**

1. The bank should include in its report on exposures to interest rate risk in the banking book all positions in the banking book that are sensitive to the changes in the interest rate.

2. The bank should regularly report its exposures to the interest rate risk in the banking book to the CBK.
3. The bank should report on exposures of the interest rate risk in the banking book on individual basis and consolidated basis, the main currencies on individual basis and all other currencies on aggregate basis.
4. The bank should submit to the CBK the reporting forms determined by the CBK, which have been completed under Annex 1 of this Regulation, not later than fifteen (15) days after the end of each quarter, along with regular quarterly reports.

### **Article 12 Transitional provisions**

The Banks should comply with the requirements of this Regulation by 01 January 2017.

### **Article 13 Implementation, remedial measures and civil penalties**

Any violation of the provisions of this Regulation shall be subject to the remedial and punitive measures, as set out in the Law on Central Bank and Law on Banks.

### **Article 14 Annex**

Annex 1 is integral part of this Regulation.

### **Article 15 Entry into force**

This Regulation shall enter into force on 2 May 2016.

Chairman of the Board of the Central Bank of the Republic of Kosovo

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Prof. Dr. Bedri Peci

## **Annex 1**

### **GENERAL INSTRUCTIONS**

1. The purpose of these instructions is to provide instructions for banks in preparing the forms for reporting to the CBK, in compliance with this Regulation.
2. When completing the reporting forms, the banks should convert in EUR the amount in foreign currency by applying the official exchange rate applicable in the reporting date.
3. The banks should include in the reporting forms the exposures to the interest rate risk in the banking book that are considered sensitive to the changes of these rates.
4. Interest rate-sensitive assets or interest rate-sensitive liabilities – assets or liabilities which may be repriced or which mature within a certain time period.
5. Interest rate-sensitive assets, liabilities and off-balance sheet items are those positions which carry interest rate and positions that do not carry interest rate but are sensitive to the interest rate, e.g. financial instruments sold with discounting, such as zero-coupon bonds.
6. Non-interest rate-sensitive assets, liabilities and off-balance sheet items should be reported in the column “Non-interest rate-sensitive assets”.
7. Interest rate-sensitive balance sheet items positions should be reported on net basis (following the discount of allocated reserves) and corrected for the sum of premiums, discounts and changes in fair value.
8. The banks should not consider the balance sheet items, as cash, fixed assets, share capital and other similar items, as sensitive to changes in the interest rate and off-balance sheet items, as bank guarantees, letters of credit, bills of exchange, credit lines and other standard off-balance sheet items, as interest rate-sensitive positions.
9. The bank balance items should be slotted in maturity periods based on the following principles:

10. All assets and liabilities belonging to the banking book and all positions of off-balance sheet items belonging to the banking book, which are sensitive to the changes in the interest rate (including all derivative instruments of interest rate) are slotted in the maturity levels that consist of 13 time bands determined in Table 1 of this Regulation.
11. Maturity levels should be used specifically for each currency that constitutes more than 5% of assets or liabilities in the banking book.
12. Off-balance sheet items should be reported in the notional amount of the principal for each contract of off-balance sheet items.
13. Balance items are treated according to the value in the banking book.
14. All balance items of assets and liabilities that carry interest should be classified in items with fixed interest rate and/or variable interest rate.
15. Items with fixed interest rate are assets and liabilities with fixed interest rate, until their maturity.
16. Items with variable rate means assets, liabilities and off-balance sheet items, where their interest rate may change. Such items may be categorized into 2 types, such as:
17. Items with variable interest rate are items which will be automatically reassessed in the other date set for repricing/reassessment, according to the fluctuations of referral indices “rates used as reference” (such as EURIBOR or LIBOR) and will include those items for which the interest rate may change in the discretion of the counterparty.
18. Items with administered rate are those items with variable interest rate for which there is no fixed date of repricing and interest rates may be changed at any time, under the discretion of the bank. Assets and liabilities with no set time bands of repricing (e.g. deposit or saving accounts) or current maturity that may differ from the contractual maturity (e.g. mortgage loans with opportunity for advance payment) are slotted in time bands of repricing according to the judgment and previous experience of the bank.
19. Econometric or statistical analyses may be used to analyse the behaviour of bank positions, considering the movements of interest rates in the past.
20. Minimum criteria for using the behaviour based on the background experience for the needs of reporting the interest rate risk are as in following:
  - a) Assumptions of the institution should be reasonable and consistent for every interest rate scenario;
  - b) The bank should avoid assumptions that are arbitrary and not verified from the past experience and performance;
  - c) The banks may use statistical prepayment models;
  - d) The banks may use internal information from business and managerial units that may impact the behaviours of future cash flows with undefined maturity positions;
  - e) Background data used in statistical models should include an one-year period, as a minimum;

- f) Assumptions realized in models should be documented.
21. With regards to the assets and liabilities that carry interest rates, the earliest date of interest repricing means:
- a) For items of assets and liabilities with fixed interest rate, consider their date of maturity;
  - b) For items of assets and liabilities with variable interest rate, consider the next repricing date. In case of assets and liabilities for which interest rates may change in the discretion of the counterparty, the earliest repricing date is taken based on the previous experience, whereby the interest rate will be repriced assuming that reference rate in which the interest rate is based in is changed immediately in the other working day, following the reporting date; and
  - c) For items of assets and liabilities with administered interest rate, the earliest date in which the change of assets and liabilities interest rate was possible, assuming that the reference rates (e.g. primary rate or standard rate of savings) in which the interest rate is based in is immediately changed in the other working day, following the reporting date.
22. Assets and liabilities that may be paid in instalments or lump sum in maturity should be divided into individual parts and slotted in adequate time bands according to the repricing date for each part. Example 1. A loan of EUR 100 thousand with fixed interest rate that may be settled with two annual instalments of EUR 50 thousand each should be treated as two loans, namely one that is settled after six months and the other after one year, and be slotted in adequate time bands according to their term to maturity. Example 2. In case of loans of EUR 100 thousand with variable interest rate, which amount is paid with two semi-annual instalments in the amount of EUR 50 thousand each, then it should be treated as two separate loans and be slotted in adequate time bands according to the next repricing date for each part.
23. The banks should slot derivative instruments according to the relevant time bands of instruments based on which these derivative instruments have been issued.
24. Minimum amount of mandatory liquidity reserves should be slotted in the time band up to one month, if sensitive to the change in interest rates.
25. The banks may slot the assets in the current accounts and demand deposits in adequate time bands considering the previous experience of the behaviour or may slot these assets according to the following criteria:
- a) 25% of the total amount assets in the current accounts and demand deposits should be slotted in the column of non-interest rate-sensitive;
  - b) 75% of total amount of the assets in the current account and demand deposits should be slotted in proportion with the number of months in time bands from “up to 1 months” to “4-5 years”.
  - c) Explanation with the following example:

In the time band “up to 1 month” will be slotted 1/60 of the total amount of the assets in the current accounts and demand deposits according to point b) and 6/60 in the time band “6 to 12 month”

We assume that the bank has EUR 100 in current accounts and demand deposits:

EUR 25 are slotted in the column of non-interest rate-sensitive.

EUR 75 x 1/60 = EUR 1.25 to 1 month

EUR 75 x 6/60 = EUR 7.5. In 6 to 12 months, and so on.

More specifically:

	Month	EUR	EUR
Up to 1 month	1/60	75	1.25
1 to 3 months	2/60	75	2.5
3 to 6 months	3/60	75	3.75
6 to 12 months	6/60	75	7.5
1 to 2 months	12/60	75	15
2 to 3 months	12/60	75	15
3 to 4 months	12/60	75	15
4 to 5 months	12/60	75	15

26. Non-performing exposures (e.g. loans more than 90 days overdue) should not be considered as interest-sensitive positions and should not be considered when determining the exposure of risk to the interest rate in the banking book.
27. Assets and liabilities that have no interest, such as zero-coupon bonds, should be slotted in time bands according to the term to maturity.