

Pursuant to Article 161 of the Credit Institutions Act (Official Gazette 117/2008, 74/2009 and 153/2009) and Article 43, paragraph (2), item (9) of the Act on the Croatian National Bank (Official Gazette 75/2008), the Governor of the Croatian National Bank hereby issues the

**Decision
on liquidity risk management**

1 GENERAL PROVISIONS

**General provisions
Article 1**

(1) This Decision prescribes minimum qualitative requirements for liquidity risk management of credit institutions and quantitative requirements for the purposes of reporting to the Croatian National Bank.

(2) The provisions of this Decision shall apply to credit institutions with registered offices in the Republic of Croatia which have obtained authorisation from the Croatian National Bank, except electronic money institutions.

(3) The provisions of this Decision shall apply, *mutatis mutandis*, to:

- branches of credit institutions from Member States providing mutually recognised services within the territory of the Republic of Croatia; and
- branches of third-country credit institutions which have obtained authorisation to provide services from the Croatian National Bank.

**Definitions
Article 2**

For the purposes of this Decision, the following terms shall have the following meaning:

(1) **Stress testing** shall be a risk management technique used in the assessment of potential effects of specific events and/or changes in several financial factors on the financial condition of a credit institution. Stress testing may be divided into scenario and sensitivity analysis.

(2) **Scenario analysis** shall be the assessment of the effects of simultaneous changes in several risk factors on the financial condition of a credit institution under clearly defined stress conditions.

(3) **Sensitivity analysis** shall be the assessment of the effects of a specific risk factor on the financial condition of a credit institution, where the cause behind the stress is not identified.

(4) **Working days** shall be the days from Monday to Friday except those falling on a national holiday.

(5) **A week** shall mean the first seven calendar days following the reporting date.

(6) **A month** shall mean the first calendar month following the reporting date.

(7) **Professional participant in the money market** shall be a financial institution, pension fund, investment fund and insurance company. A professional participant in the money market may also be some other legal person, except credit institutions, which, for the purpose of managing own resources, had a turnover of minimum HRK 25m, or minimum HRK 7m per transaction in transactions with credit institutions in the past three months.

(8) **Corrected amount** shall be the amount of assets (readily marketable assets included) and liabilities corrected by the appropriate haircut.

(9) **Convertible currencies** shall be currencies of the G-10 countries (Belgium, France, Italy, Japan, Canada, the Netherlands, Germany, the USA, Sweden and Switzerland), the European Economic Area (the EEA consisting of EU Member States and Iceland, Liechtenstein and Norway), Australia and New Zealand.

(10) **Funding liquidity risk** shall be the risk that a credit institution will not be able to meet successfully both expected and unexpected current and future cash flow and collateral needs without affecting its regular daily operations or its financial performance.

(11) **Market liquidity risk** shall be the risk that a credit institution will not be able to simply offset or eliminate a position at the market price because of inadequate market depth or market disruption.

(12) **Risk profile** shall be the measure or assessment of all the risks to which a credit institution is or might be exposed during its business operations.

2 MINIMUM QUALITATIVE REQUIREMENTS FOR LIQUIDITY RISK MANAGEMENT

Article 3

(1) A credit institution shall set up a liquidity risk management system which will be adequate in terms of the type, scope and complexity of business operations of a credit

institution and risk profile of the credit institution.

(2) A liquidity risk management system of a credit institution shall ensure that the credit institution maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events (of varying intensity and duration), including those involving the loss or impairment of unsecured, otherwise available funding sources. There should be no legal, regulatory or operational impediment to using these assets to obtain funding.

(3) A credit institution shall have a clearly defined tolerance towards liquidity risk exposure which shall be determined in accordance with business plans, adopted strategy, overall risk appetite and the role of the financial institution in the financial system. Liquidity risk tolerance shall be the level of exposure to liquidity risk which the credit institution is prepared to assume and which must enable the credit institution to manage its liquidity under normal conditions in such a way as to withstand protracted periods of stress.

(4) A credit institution's management board shall develop a strategy, policies and other internal bylaws for liquidity risk management which will be adequate in terms of the risk profile of the credit institution and its liquidity risk tolerance. The liquidity risk management strategy shall as a minimum comprise objectives and the basic principles for assuming liquidity risk and its management.

(5) Policies and other internal bylaws of a credit institution for liquidity risk management shall comprise as a minimum:

1. corporate management,
2. policies and procedures which regulate the establishment of an adequate and efficient internal control system,
3. structure of assets and liabilities and assumptions on the liquidity and marketability of assets,
4. liquidity risk reporting system,
5. policies and procedures with foreign currencies,
6. measuring and monitoring net cash flows, including intra-day liquidity management,
7. cross-border liquidity management as well as liquidity management across different business lines, branches and subsidiaries,
8. diversity and stability of funding sources and market access,
9. stress testing and scenario analyses,
10. contingency planning and financing.

(6) A credit institution shall actively manage liquidity risk exposures and funding needs within and across legal persons, business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

(7) A credit institution operating with foreign currencies shall conduct liquidity analysis in foreign currencies and an analysis of convertibility of foreign currencies.

(8) In new product pricing, a credit institution shall take into account the liquidity component, i.e. liquidity cost of each significant business activity (balance and off-balance).

Corporate management

Article 4

(1) A credit institution's management board shall set up an organisational structure and define the tasks and scope of responsibilities of the body and/or senior management in charge of identifying, measuring, assessing, controlling, monitoring and reporting on liquidity risk and shall be accountable for their work. The adopted policy for liquidity risk management shall include, where applicable, liquidity management within a group of credit institutions in the Republic of Croatia and ensure that any impediments to international transfer of surplus liquidity are accounted for in the policy and liquidity risk management.

(2) A credit institution's management board shall ensure:

1. that the credit institution develops adequate strategies, policies, internal bylaws and liquidity management practices which are reviewed at least annually, or more frequently if deemed necessary;
2. that the credit institution can meet its daily obligations and that it can withstand periods of liquidity stress by maintaining an adequate liquidity cushion in the form of readily marketable assets;
3. usability and timeliness of liquidity risk reports;
4. appropriateness and efficacy of internal controls embedded in liquidity and liquidity risk management system;

(3) The body referred to in paragraph (1) of this Article and/or senior management of a credit institution shall:

1. implement the adopted liquidity risk management strategy;
2. develop and implement appropriate procedures for liquidity risk management which are in line with the strategy;
3. set up and maintain the efficacy of the system for identifying, measuring, assessing, controlling, monitoring and reporting on liquidity risk in kuna and in all foreign currencies;
4. set and regularly review limits for liquidity risk management of a credit institution in accordance with the accepted level of liquidity risk exposure and the nature, scope and complexity of business operations of a credit institution as well as limits for cash flow authorisation above certain amounts;
5. set up an adequate system of reporting on breaches of liquidity limits and procedures in case of breaches; and

6. set up appropriate procedures for the assessment of the effects of new products or systems on liquidity risk exposure of a credit institution.

Liquidity assumptions

Article 5

In liquidity risk management policies, a credit institution shall define the assumptions underlying liquidity risk management system in the following way:

- 1) prescribe and regularly review assumptions used for liquidity management of a credit institution (assumptions related to the behaviour of assets, liabilities, off-balance sheet items of a credit institution and some other assumptions) to ensure their appropriateness in terms of activities of a credit institution and market conditions,
- 2) prescribe procedures for the management board and senior management in cases of adverse stress test results; and
- 3) examine and regularly review different possibilities or instruments for liquidity risk mitigation, including systems of limits and liquidity buffers, changes in the structure of financing and access to financing, to enable functioning under various stress events.

Information management system

Article 6

(1) A credit institution shall set up an adequate system of reporting that shall, depending on the nature, scope and complexity of business of the credit institution, be adequate for identifying, measuring, assessing, controlling, monitoring and reporting liquidity risk.

(2) The system of reporting shall ensure as a minimum:

1. timely and relevant provision of information to the management board, authorised body and/or senior management about the liquidity position of a credit institution;
2. monitoring compliance with adopted policies, internal bylaws and limits;
3. monitoring liquidity position on an aggregate basis in kuna and in foreign currencies; and
4. monitoring stress test results.

Net cash flow measuring and monitoring

Article 7

(1) A credit institution shall set up as a minimum a system for assessing all current and future inflows and outflows of a credit institution, including the assessment of the funds needed for off-balance sheet items. A credit institution shall take into account the accepted clearing and settlement standards and the timeframe used in determining cash flows on individual dates.

(2) A credit institution shall regularly examine the close links between funding liquidity risk and market liquidity risk. The credit institution shall also consider the close links between liquidity risk and other risks to which it is exposed, such as interest rate risk, credit risk, operational, legal and reputational risks.

(3) A credit institution shall ensure identification, measuring, assessment, control, monitoring and reporting liquidity risk in different timeframes. In doing so, it shall consider changes in intraday, short-term and medium-term liquidity needs of a credit institution and how these needs are met, as well as its longer-term (structural) liquidity needs and how these needs are met and vulnerabilities to events, activities and strategies of a credit institution. A credit institution shall regularly check accuracy of input data used in liquidity position calculation.

(4) A credit institution shall actively manage its collateral positions, differentiating between encumbered and unencumbered assets and monitor the amount of available collateral by natural and legal persons and physical location of such collateral to ensure its timely use.

Market access

Article 8

(1) In the context of liquid assets management, a credit institution shall ensure access to different sources of financing on the financial market and manage available market sources of liquidity by ensuring that its liquidity policy comprises as a minimum:

- 1) procedures which ensure continuous active management of market sources of liquidity;
- 2) procedures for the establishment and maintenance of cooperation with providers of sources of funding, including monitoring the frequency of use of available sources of funding;
- 3) assessment of access to financial markets and available funding under normal and stressed conditions;
- 4) monitoring the concentration of sources in terms of the assessment of liquidity of individual instruments, geographical locations and providers of sources of funding; and
- 5) identification and procedures regarding the use of alternative sources of finance.

(2) A credit institution shall draw up a methodology for identification, measuring, assessment, control, and monitoring of financing which shall comprise current and future materially significant cash flows which arise from assets, liabilities and off-balance sheet items, including contingent liabilities and possible impact of the reputational risk.

Stress testing

Article 9

(1) In its liquidity risk management policy, a credit institution shall define stress testing (scenario and sensitivity analyses), in the following way:

- 1) prescribe and adopt procedures for the implementation and analysis of different stress testing and their frequency (minimum annually), taking into account credit institution-specific (internal) and market-wide (outside) factors;
- 2) prescribe that liquidity be tested depending on adverse conditions and their intensity: under usual (foreseeable or normal) conditions and under unusual (extreme) conditions;
- 3) prescribe that testing be conducted under shorter and protracted stressed conditions;
- 4) enable analysis of test results by the competent body and/or senior management of a credit institution;
- 5) prescribe procedures for activities to be taken in cases of adverse stress test results;
- 6) determine a schedule of stress testing when making plans for the following year and ensure reporting to the credit institution's management board about the results of planned tests on an annual level, and
- 7) foresee alternative scenarios, relating in particular to off-balance sheet items and contingent liabilities, including securitisation special purpose entities or other special purpose entities, in relation to which a credit institution acts as a sponsor or ensures material liquid assistance.

(2) When conducting stress testing, a credit institution shall take into account the sources with an agreed early withdrawal option.

(3) When conducting stress testing, a credit institution shall calculate the impact on liquidity of all positions with possible additional margin calls.

(4) When conducting stress testing, a credit institution shall take into account mutual convertibility and liquidity of different convertible currencies and their availability on the foreign exchange markets.

(5) The results of stress testing shall be used as a basis for taking corrective measures against a credit institution or activities for mitigating exposure of a credit institution, ensuring liquidity cushion and adjustment of the liquidity profile of a credit institution to its risk tolerance.

(2) A credit institution shall use stress test results to adjust its liquidity risk management strategies, to adopt policies and positions, set limits and to develop effective contingency funding plans.

Contingency funding plan of a credit institution

Article 10

A credit institution shall prepare a contingency funding plan which will constitute an integral part of the liquidity risk management policy of the credit institution. The contingency funding plan shall include as a minimum:

1. early warning indicators which serve to identify the emergence of a crisis and persons responsible for monitoring and reporting on these indicators (e.g. breaches of internal limits, a fall in deposits, a fall in stock price, rising funding costs compared to other

credit institutions, credit rating downgrading, difficulty accessing funding in the money market, asset quality or profitability worsening);

2. duties and responsibilities of individual employees in case of liquidity problems in a credit institution (such as those in charge of client and public relations, relations with key market participants, shareholders and central banks);
3. procedures which ensure timely and relevant provision of information to senior management and management board of a credit institution for the purposes of decision-taking in crisis situations;
4. procedures ensuring liquidity to cover current liquidity deficits and the timeframes within which individual activities have to be taken (e.g. sale of assets, establishment of new funding lines) under normal and stressed conditions;
5. identification, size and reliability of all sources of funding with indicated order of use under different stress situations; and
6. circumstances warranting contingency funding plans and contact data (address, telephone, e-mail address and similar data) and the location of persons responsible for plan execution.

3 QUANTITATIVE REQUIREMENTS FOR THE PURPOSES OF REPORTING TO THE CROATIAN NATIONAL BANK

Article 11

(1) A credit institution shall calculate maturity mismatch of assets and liabilities according to the estimated or remaining agreed maturity, by using the last possible date for the settlement of claims, for assets, and the earliest possible date for the payment of liabilities, for liabilities. By way of exception, in accordance with Articles 15 and 16 of this Decision, a credit institution may, when calculating maturity mismatches, use own assumptions on the behaviour of these positions instead of the prescribed haircuts.

(2) When calculating maturity mismatch of assets and liabilities, cash inflows and cash outflows shall be distributed in time zones up to one week, i.e. one month, in the manner determined under this Decision and the Instructions. The calculation shall include both inflows and outflows arising from off-balance sheet contingent liabilities and derivative financial instruments.

(2) A credit institution shall submit to the Croatian National Bank the following reports, using the listed forms: *Readily marketable assets - form TUI*, *Expected inflows - form OP*, *Expected outflows - form OO*, *Liquidity coefficient - form KL*, *Assumptions on positions behaviour - form POP*, and *Concentration of sources - form KI* (hereinafter: Reports, forms).

Readily marketable assets and treatment of assets

Article 12

(1) Readily marketable assets shall be those liquid assets of a credit institution which stands at a disposal of a credit institution and which may be quickly (within four working days) and easily (without significant losses) turned into cash.

(2) Readily marketable assets shall include:

- cash;
- deposits with the Croatian National Bank;
- deposits/loans available on demand, overnight deposits/loans, deposits/loans with remaining maturity up to four working days and funds of a credit institution in current accounts with credit institutions and/or professional participants in the money market;
- T-bills of the Ministry of Finance of the Republic of Croatia and CNB bills of the Croatian National Bank, and
- securities.

(3) When determining marketability of securities which may be considered readily marketable assets, a credit institution shall take into account the following:

1. asset concentration: e.g. where a credit institution holds in its portfolio a significant share of a certain issue of securities and where it may not be possible for it to utilise the portfolio assets within 4 working days, the credit institution shall determine an appropriate time frame within which it estimates that such assets can be converted into cash;
2. market depth: there shall be an active market which will enable the credit institution to convert its assets into cash within 4 working days; and
3. the risk which emerges with forced sale of liquid assets: for each type of liquid assets where such risk exists, the credit institution shall apply haircuts to calculate readily marketable assets. Haircuts are defined in Article 16 of this Decision.

(4) Liquid assets shall include:

- assets listed in paragraph (2) of this Article,
- checks and other monetary instruments,
- loans,
- deposits,
- claims under repo/reverse repo transactions and securities lending transactions,
- gold,
- claims under derivative financial instruments, and
- other claims (under interest and other).

(5) Notwithstanding item (3), paragraph (3) of this Article, a credit institution may include in the reports securities with remaining maturity up to one week or one month, respectively, in their 100 percent amount.

(6) Securities distributed in the held-to-maturity portfolio shall not be considered readily marketable assets and can therefore not be included in expected inflows in the

maturity period up to one week, except in case referred to in paragraph (5) of this Article, but a credit institution may consider them inflows in the maturity period up to one month.

(7) A credit institution shall not consider securities which a credit institution has taken over based on underwriting activities as an unsubscribed part of their issue as readily marketable assets, and cannot include them under expected inflows in the maturity period up to one week.

(8) Holdings in open-end investment funds shall be considered readily marketable assets if, pursuant to the provisions of the fund's prospectus, the holding in the fund can be converted into cash within 4 working days. If this is not the case, they shall not be considered readily marketable assets and shall not be included in expected inflows in the maturity period up to one week. However, a credit institution may consider them an inflow in the maturity period up to one month.

(9) Holdings in closed-end investment funds shall be considered readily marketable assets provided they are listed on a regulated market and provided they meet all the conditions as listed shares as laid out in this article.

Liabilities and treatment of liabilities

Article 13

(1) Liabilities of a credit institution shall include:

- liabilities towards the Croatian National Bank;
- liabilities arising from instruments issued by the credit institution;
- liabilities arising from deposits;
- liabilities arising from loans, unused granted loans or lines of credit;
- liabilities arising from repo/reverse repo transactions and securities lending transactions;
- liabilities arising from derivative financial instruments;
- liabilities arising from other standard off-balance sheet items; and
- other liabilities (e.g. liabilities arising from interest, restricted deposits, etc.).

(2) Liabilities arising from unused granted loans shall be off-balance sheet irrevocable liabilities of a credit institution involving payments to be fully made to the client within the agreed timeframe. Liabilities arising from granted loans shall be classified as outflow in accordance with the timeframe granted to the client for the withdrawal of such funds, i.e. in accordance with announced withdrawals. If the time remaining until the withdrawal of such funds exceeds one month, 50 percent of the funds shall be classified as expected outflow.

(3) Restricted deposits shall be different temporary (restricted) deposits which may be transferred from current and giro accounts (e.g. funds set aside pursuant to a court

order) for a particular purpose. A credit institution shall include restricted deposits in their 100 percent amount in cash outflows up to one week.

(4) In agency and underwriting cases where a credit institutions undertakes to subscribe/take over the remaining unsubscribed part of an issue, a credit institution shall include in the report as an expected outflow from the beginning of subscription of their issue minimum 25 percent of the remaining unsubscribed amount provided the remaining time for subscription exceeds one week, or 100 percent of the remaining unsubscribed amount if the remaining time for subscription is one week or less.

Assets and liabilities positions under a special treatment

Article 14

(1) A credit institution shall include in the reports securities not actively traded and which do not have an easily ascertainable market price according to their remaining maturity.

(2) Securities pledged under a repo transaction or lent, shall not be considered readily marketable assets from the date of agreement to four working days to transaction completion, but they may be considered inflow in a period up to one month in case of transaction maturity of up to one month. During the period of four working days before transaction completion, these securities shall be considered readily marketable assets and shall be reported in forms TUI and OP.

(3) Securities received under a reverse repo transaction or a securities lending transaction, may be considered readily marketable assets, provided they meet the conditions referred to in Article 12 of this Decision and shall be reported in forms TUI and OP from the date of agreement to four working days before completion of such a transaction. During the period of four working days before transaction completion, they shall be considered loan receivables. Where a credit institution, during a reverse repo transaction and lending transaction transfers the received securities onto a third person (ownership and/or pledge), such securities shall not be included in readily marketable assets during that period.

(4) A credit institution shall distribute all cash flows which arise from transactions with derivative financial instruments across appropriate time zones. Cash flows which arise from transactions with derivative financial instruments shall be distributed in the actual amount of the cash flow arising from that transaction. Inflows or outflows which arise from options shall be distributed into appropriate maturity from the moment when it becomes probable that the option will be exercised.

(5) A credit institution shall include in the reports or exclude from the reports, respectively, the amounts of currency or securities purchase or sale transactions in the manner prescribed under the Instructions.

(6) Reports for minimum liquidity coefficient calculation shall not include:

- 1) reserve requirements set aside with the Croatian National Bank and similar monetary policy instruments as well as other deposits set aside which are not available for use to the credit institution (NCS accounts);
- 2) compulsory CNB bills pursuant to the Decision in force;
- 3) different monetary funds which a credit institution has received and which it manages in the name and for the account of another party (e.g. funds associated with mandated operations, funds for the purchase of securities for the account of a client),
- 4) assets for which a credit institution has made value adjustments on an individual basis;
- 5) deposits and securities set aside which are not available to the credit institution as they serve as collateral for the provision of individual services by a credit institution to the clients (e.g. guarantee deposits for payment cards operations, guarantee deposits used for trading in financial instruments) and these services are provided by a credit institution as part of its regular activities;
- 6) securities not available while being used as an instrument of collateral;
- 7) securities and investments in the capital of a company in which a credit institution has a qualifying holding or a participation;
- 8) purchased issued own securities;
- 9) inflows from assets which is principally paid on demand, except sight deposits in central banks, credit institutions and professional participants in the money market; assets which is principally paid on demand are assets which do not have a contractually set maturity but whose maturity depends on the needs and possibilities of the parties to such transactions, e.g. account overdraft loans, credit card loans, initial margin and variation margin deposits; and
- 10) holdings in open-end investment funds which are characterised by restricted possibility for withdrawing funds from such funds (e.g. venture capital investment fund with a private offering).

Own assumptions on the behaviour

Article 15

(1) In case of certain positions for which a haircut has been prescribed under the Decision, a credit institution may use own assumptions on their behaviour. By way of exception, in case of securities and gold positions and positions stated in Article 13, paragraphs (2) to (4) of this Decision, a credit institution shall use the prescribed haircuts.

(2) A credit institution shall fully document own assumptions on the behaviour referred to in paragraph (1) of this Article, prescribe them under its internal bylaws and include them, together with their financial impact on cash flows, in regular reports submitted to the Croatian National Bank. A credit institution shall submit to the Croatian National Bank own assumptions on the behaviour of at the latest one month prior to the first day

of the reporting month in which it will draw up reports based on own assumptions on the behaviour of individual positions and shall inform the Croatian National Bank, within the same timeframe, about any changes in own assumptions on the behaviour. A credit institution shall prove legitimacy of the use of the adopted assumptions, substantiate them with data on the historical behaviour of individual cash flows and ensure their regular review.

(3) Where a credit institution uses its own assumptions on the behaviour of individual items when determining a final amount of cash flow that is to be included in the reports, it shall take a conservative approach and correct (increase or reduce) the obtained percentage by the additional haircut as prescribed under this Decision.

(4) Once a credit institution begins using own assumptions on the behaviour of cash flows of individual positions, it shall continuously use such assumptions and review them and as such include them in regular reports submitted to the Croatian National Bank.

Haircuts **Article 16**

(1) A credit institution shall use haircuts (prescribed or obtained on the basis of own assumptions on the behaviour) for specific categories of assets and liabilities, in the manner determined under this Article

(2) In case of securities positions, a credit institution shall use the following haircuts for each period:

- debt securities of the central government: short-term 5 percent and long-term 10 percent;
- debt securities of the local and regional self-government, public sector entities, credit institutions and professional participants in the money market: short-term 10 percent and long-term 15 percent;
- other undertakings: short-term 15 percent, long-term 20 percent;
- equity securities 20 percent;
- units in open-end investment funds 5 percent; and
- units in closed-end investment funds 20 percent.

(3) In case of gold positions, a credit institution shall correct the total balance sheet position in gold by a 10 percent haircut and include it in such a corrected amount in the report as an inflow up to one week.

(4) Credit lines. A credit institution shall take a conservative approach when determining the assumptions on drawing down unused received and granted credit lines and report them in appropriate time zones in the reports. Received credit lines available to the credit institution for drawing down funds shall be legally binding, unconditional

and accessible on time. As regards credit lines granted, a credit institution shall assess the possibility of their drawdowns and, where their non-performance would imply a significant reputational risk and legal risk for a credit institution include them in the calculation of expected outflows. Where a credit institution uses own assumptions on the behaviour of granted credit lines, it shall apply a 2 percent haircut to the obtained result on the behaviour of cash flows. Where a credit institution does not use own assumptions on the behaviour of unused credit lines granted to legal and natural persons (account overdrafts) other than credit institutions or professional participants in the money market, of the total amount of credit lines granted, a credit institution shall report as cash outflow in each report time zone, 10 percent of the amount of credit lines granted to natural persons and 20 percent of the amount of credit lines granted to legal persons. A credit institution shall report as cash outflow credit lines granted to credit institutions and other professional participants in the money market in a 100 percent amount in time zones up to one week.

(5) Other standard off-balance sheet items. A credit institution may use own assumptions on the behaviour of other standard off-balance sheet items. A credit institution shall take a conservative approach and apply an additional 0.75 percent haircut to the obtained result on the behaviour of such positions. Where a credit institution, in calculating the amount of cash outflows under other standard off-balance sheet items, does not use own assumptions on their behaviour, it shall report as cash outflows in each time zone 2.5 percent of the total other standard off-balance sheet items.

(6) Received sight deposits and savings deposits. A credit institution may use own assumptions on the behaviour of received sight deposits and savings deposits. A credit institution shall take a conservative approach and apply an additional 2 percent haircut to the obtained result on the keeping of deposits, or their spillover to other time zones. Where a credit institution does not use own assumptions on the behaviour of these categories of liabilities, it shall report as cash outflows, in each report time zone 10 percent of the said total deposits of legal persons other than credit institutions or professional participants in the money market or 5 percent of the said total deposits of natural persons. A credit institution shall report received deposits of credit institutions and other professional participants in the money market as cash outflow in their 100 percent amount in time zone up to one week.

(7) Margin calls. Where a credit institution estimates materiality of potential outflows arising from additional margin calls, it shall report such outflows under appropriate maturity classes.

(8) Time deposits. A credit institution may use own assumptions on time deposits spillover provided it applies an additional appropriate haircut to the obtained result before distributing it into an appropriate time zone. The haircut for legal persons other than credit institutions or professional participants in the money market and natural persons shall be 2 percent. A credit institution, other than a housing savings bank, which

does not use own assumptions on the spillover of time deposits, shall report, as cash outflow according to the remaining contractually agreed maturity in each time zone of the report, 20 percent of the total amount of time deposits of legal persons other than credit institutions or professional participants in the money market and 15 percent of the total amount of time deposits of natural persons. Of the total amount of time deposits, a credit institution not using own assumptions on the spillover of time deposits, shall report as an outflow 100 percent of these deposits of credit institutions and other professional participants in the money market, distributing them into appropriate time zones according to the remaining agreed maturity. A housing savings bank shall, instead of using an assumption on the spillover of time deposits, report as an outflow 100 percent of the total amount of time deposits of natural persons, distributing them into appropriate time zones according to the remaining agreed maturity.

Minimum liquidity coefficient

Article 17

- (1) Minimum liquidity coefficient up to one week shall be the ratio of cash inflows (readily marketable assets included) up to one week and cash outflows up to one week.
- (2) Minimum liquidity coefficient up to one month shall be the ratio of cash inflows up to one week and up to one month and cash outflows up to one week and up to one month.
- (3) Minimum liquidity coefficient of a credit institution on each day of the reporting month for periods up to one week and up to one month shall be minimum 1.

Article 18

- (1) A credit institution shall monitor and report to the Croatian National Bank on the minimum liquidity coefficients in kuna, all convertible currencies combined and in non-convertible currencies on an individual basis.
- (2) Notwithstanding paragraph (1) of this Article, a credit institution with outflows in a non-convertible currency which amount to less than 1 percent of its total assets, shall not have to report to the Croatian National Bank on minimum liquidity coefficient for that currency.

4 CONCENTRATION OF SOURCES

Article 19

(1) A credit institution shall monitor the concentration of sources in total liabilities. For the purposes of this Decision, the concentration of sources of a credit institution shall be deemed to exist if the total amount of funds received from a single client or a group of connected persons, accounts for over 2 percent of the total liabilities of a credit institution.

(2) A single client shall mean one natural or legal person (credit and financial institutions included) or undertakings linked by management on a unified basis in accordance with the Credit Institutions Act or a group of connected persons in accordance with the Credit Institutions Act.

5 REPORTING TO THE CROATIAN NATIONAL BANK

Article 20

(1) A credit institution shall submit to the Croatian National Bank the reports referred to in Article 11, paragraph (3) of this Decision on a monthly basis with balance on the last day of the month. The time limit for the submission of the reports shall be 8 working days from the last day of the month.

(2) In addition to the obligation referred to in paragraph (1) of this Article, a credit institution shall also submit the reports referred to in Article 11, paragraph (3) of this Decision with balance as at 31 December based on unconsolidated audited reports within 15 days from the date of issue of the audit report, at the latest until 30 April of the current year for the preceding year.

(3) A credit institution shall maintain minimum liquidity coefficients determined under this Decision between the reporting dates. A credit institution shall, upon request of the Croatian National Bank, enable verification of the compliance of minimum liquidity coefficients with the provisions of this Decision between the reporting dates.

(4) The Reports referred to in Article 11 paragraph (3) of this Decision shall be prepared on an individual basis.

(5) A branch of a credit institution from a Member State shall apply this Decision *mutatis mutandis* and shall report to the Croatian National Bank in accordance with the Instructions. By way of exception, a branch of a credit institution from a Member State may be exempted from reporting in the manner determined under this Decision, provided such exemption has been provided for and regulated by a bilateral agreement

between the Croatian National Bank and the competent supervisory body from the home Member State and provided qualitative and quantitative regulatory requirements of the home Member State relating to liquidity risk management are at least equal to qualitative and quantitative requirements determined under this Decision.

(6) A branch of a credit institution having its registered office in the Republic of Croatia and operating within the territory of a Member State may be exempted from reporting determined under this Decision, provided such exemption has been provided for and regulated by a bilateral agreement between the Croatian National Bank and the competent supervisory body of the host Member State and provided that qualitative and quantitative regulatory requirements of the host Member State relating to liquidity risk management are at least equal to qualitative and quantitative requirements determined under this Decision.

7 TRANSITIONAL AND FINAL PROVISIONS

Article 21

(1) The manner of application of this Decision and the forms for the calculation of liquidity risk exposure of a credit institution referred to in Article 11, paragraph (3) of this Decision have been prescribed under the Instructions for uniform implementation of the Decision on liquidity risk management, which constitute an integral part of this Decision.

(2) The Governor of the Croatian National Bank shall prescribe the Instructions that will govern the manner of submitting the reports of credit institutions based on this Decision by telecommunication means (or on magnetic media).

Article 22

As of the date of entering into force of this Decision, the Decision on liquidity risk management (Official Gazette 1/2009, 41/2009, and 75/2009) will cease to be valid.

Article 23

This Decision shall be published in the Official Gazette and shall enter into force on 31 March 2010, except provisions of Article 1, paragraph (3), first indent and Article 20, paragraphs (5) and (6) which shall enter into force on the date of accession of the Republic of Croatia into the European Union.

No.: 8-020/01-10/ŽR
Zagreb, 4 January 2010

Croatian National Bank
Governor

Željko Rohatinski

Instructions
for uniform implementation of the Decision on liquidity risk management

GENERAL PROVISIONS

1. These Instructions prescribe the manner of uniform implementation of the Decision on liquidity risk management.
2. A credit institution shall submit to the Croatian National Bank the reports prescribed under this Decision and these Instructions in a paper format and through a telecommunications channel (or in a magnetic medium), fully complying with the prescribed format for each individual report. By way of exception, a credit institution shall submit the report entitled Assumptions on the behaviour of individual cash flows (form POP) in a paper format only.
3. A credit institution shall submit the reports defined under this Decision and these Instructions to the Croatian National Bank on a monthly basis with balance on the last (reporting) day of the month. A credit institution shall enter into the forms balances of financial instruments, i.e. cash inflows and outflows of a credit institution determined on the last day of the month. The time limit for the submission of reports shall be 8 working days from expiry of the last day of the month.
4. A credit institution shall be deemed to have submitted the reports within the prescribed time limit if the reports have passed formal and logical control prescribed under the Instructions for the delivery of credit institutions' reports by means of telecommunication.
5. The cover page of the monthly unconsolidated unaudited interim report (MI) and unconsolidated audited report (NR) shall be signed and dated in the designated place by the authorised management official and one member of the credit institution's management board.
6. Any subsequent changes to the monthly unconsolidated, unaudited interim reports (MI) shall be verified and signed by an authorised management official. Any subsequent changes to the unconsolidated audited report (NR) shall be verified and signed by an authorised management official and one member of the credit institution's management board.
7. In the heading of each report the following data shall be given:

Name of credit institution – give a full or abbreviated name of the credit institution

Personal identification number of a credit institution (OIB) – give the personal identification number assigned to the credit institution by the Ministry of Finance, pursuant to the Act on the Personal Identification Number.

Type of Report – indicate one of the following types as relevant:

"MI" for monthly unconsolidated unaudited interim report;

"NR" for unconsolidated audited report.

Date – state the last day of the reporting period using the following format DDMMYYYY.

8. When the reports are submitted in a magnetic media, all the amounts in monetary units shall be listed in the full amount of the monetary unit in which they are expressed (e.g. if the value of the position is HRK 100,000.60, the amount to be entered in the form shall be 100,000.60, which means that the amount in lipa shall be given too).

9. All the monetary amounts in the reports prepared in a paper format in accordance with these Instructions shall be stated in thousand kuna. The balance amounting to HRK 500 or more shall be rounded off to one thousand kuna, while any balance below HRK 500 shall be disregarded. Where an individual report item amounts to below HRK 500, it shall be shown in the report as a zero.

10. As regards the rounding off to thousand kuna of the amounts which are entered into a paper format report forms, a credit institution shall take particular care to conduct this rounding off with precision. This means that a credit institution shall first prepare all the reports under these Instructions in their full amounts (in kuna and in lipa) and then round off the final amounts to be entered under individual line items of the report.

11. The amounts expressed in foreign currencies shall be converted into kuna by applying the midpoint exchange rate of the Croatian National Bank applicable on the reporting date. The amounts expressed in foreign currencies which are not shown in the Exchange Rate List of the Croatian National Bank, shall be converted into the euro or the American dollar by applying the midpoint exchange rate of the reference markets and then into kuna by applying the midpoint exchange rate of the Croatian National Bank applicable on the reporting date.

12. Items in kuna with an agreed currency clause in relation to a specific currency shall be treated as positions in kuna.

13. Grey-marked positions in the forms shall not be completed.

14. A credit institution shall submit reports in the paper format to the following address:

Croatian National Bank
Off-Site Supervision Department
Post office box 603
10002 Zagreb

15. Reports submitted through telecommunications channels (or in a magnetic media) shall be prepared in the manner prescribed by the Instructions for the delivery of credit institutions' reports by means of telecommunication.

MINIMUM LIQUIDITY COEFFICIENT CALCULATION

16. The following forms shall be used for minimum liquidity coefficient calculation:

- Readily marketable assets (form TUI)
- Expected inflows (form OP)
- Expected outflows (form OO)
- Liquidity coefficient (form KL)
- Assumptions on the behaviour of individual cash flows (form POP).

17. Cash inflows and cash outflows of a credit institution shall be reported in their entirety or in their corrected amount in accordance with the remaining agreed or estimated maturity. Positions with remaining agreed or estimated maturity of one week or less shall be included in the time zone up to one week, and positions with the remaining agreed or estimated maturity of over one week or equal to or less than one month shall be included in the time zone up to one month. One month shall mean the calendar number of days in the reporting month.

18. The corrected amounts shall be calculated by means of haircuts. Where a credit institution does not use own assumptions on the behaviour of individual positions, it shall use haircuts given in individual forms, in column "Haircut".

19. In forms OP and OO, the number given in column "Haircut" represents :

- in form OP (when calculating securities and gold), a percentage by which the amount given in column "Total position" is reduced;
- in form OO (when calculating the expected outflows), a percentage of the part of the amount in column "Total position" which is considered an outflow and whose remaining maturity is up to one week and up to one month, respectively.

20. A credit institution using own assumptions on the behaviour shall not apply haircuts given in column "Haircut", but shall enter its own haircuts in this column. By way of exception, for positions in securities and gold, a credit institution shall use haircuts given in column "Haircut" in the manner prescribed in Article 16 of the Decision. A credit institution shall also use haircuts for positions listed in paragraphs (2) to (4) of Article 13 of the Decision.

21. For all other positions where a credit institution cannot use own assumptions on the behaviour of assets and liabilities, i.e. for which in forms OP and OO no haircut is given, cash inflows and outflows of these positions shall be included in their entirety according to the remaining agreed or estimated maturity by using the last possible date of receipt for assets and the earliest possible date for the payment of a liability for liabilities.

Form TUI - Readily marketable assets

22. Column "Total Assets" shall relate to balance sheet/book position in these assets which meet the provisions of Articles 12 and 14 of the Decision. In case of securities, balance sheet/book position of only those securities shall be entered which can be quickly (within four working days) and easily (without significant losses) converted into cash or which fall due up to four working days.

23. In column TUI, the amount from column "Total assets" shall be entered, increased/reduced by the below stated positions and then corrected by a haircut referred to in Article 16 paragraphs (2) and (3), i.e.:

24. Position under number 1 - the amount in column "Total assets" shall be reduced by the amount of cash in circulation and in ATMs.

25. Position under numbers 2, 3 and 4 - the amount in column "Total assets" shall be reduced/increased by:

1. the agreed amount of spot currency purchase/sales transaction from the date of trading to the date of settlement;
2. the agreed amount of spot securities purchase/sales transaction regardless of whether or not such security is considered readily marketable assets;
3. the agreed amount of loans received/granted under repo/reverse repo transactions and lending transactions.

26. Positions under numbers 5 through 9 - the amount in column "Total assets" shall be increased/reduced by the agreed amount of spot securities purchase/sale transaction. Purchased/sold securities shall be included/excluded from the date of trading provided they meet the conditions referred to in Articles 12 and 14 of the Decision. Securities falling due within four working days shall be included in their 100% amount.

27. Position under number 10 shall be included in accordance with Article 14, paragraph (3) of the Decision.

28. Under part "NOTES", a credit institution shall enter:

- securities pledged under a repo transaction/lent, from the date of negotiating up to four working days before transaction completion;
- amounts set aside in the accounts with the Croatian National Bank and securities used to cover loans received from the Croatian National Bank (short-term liquidity loan, Lombard loan);
- securities given as collateral;
- reserve requirements set aside and similar monetary policy instruments and other deposits set aside which are not available for use to the credit institution (NCS accounts); and
- subscribed compulsory CNB bills pursuant to the decision in force.

Form OP - Expected inflows

29. The column "Total position" shall relate to the book (balance or off-balance sheet) part of the position which meets the provisions of Articles 12 and 14 of the Decision for inclusion of individual types of assets in the calculation of inflows.

30. The column "Expected inflows" shall comprise:

- for securities - the amount in column "Total position" increased/reduced by the amount of spot securities purchase/sale transactions and corrected by an appropriate haircut in appropriate periods;
- gold - the amount in column "Total position" corrected by an appropriate haircut in the period up to one week; and
- for other positions - a part of the amount in column "Total position" whose remaining agreed or estimated maturity is up to one week or up to one month, increased by determined expected inflows (e.g. announced early loan repayment) in appropriate periods.

31. The position under number 1 shall relate to cash position under column "Total position" reduced by cash in circulation and in ATMs.

32. The position under number II/1 shall include repo transactions only. If the remaining maturity is up to one week or up to one month, they shall be included in the amount of market value of the pledged security.

33. The position under number II/2 shall not include reserve requirements set aside and other deposits set aside which are not available for use to the credit institution.

34. The positions under numbers IV and V shall relate to readily marketable securities which are actively traded on a daily basis, and to those securities whose remaining agreed maturity is up to one week or up to one month. They shall be included in such a way that a part of the amount under column "Total position" for which an inflow is expected in the period of up to one week or up to one month, is reduced by a haircut.

35. The position under number VI/1 shall not include transactions with the Croatian

National Bank.

36. The position under number VI, subitem "sight deposits and savings deposits" - the amount in column "Total position" shall be reduced/increased by the agreed amount of currency spot purchase/sale transaction in the manner described in item 25 of this Instruction.

37. The position under number VI/2 "Claims on the members of the group" shall mean claims on the parent institution and on the members of the group in which a credit institution or its parent institution/holding have a qualifying holding or a participation and undertakings linked by management on a unified basis. Haircuts for the members of the group shall depend on the legal form of a specific member of the group.

38. The positions under number VII shall be included provided the remaining maturity is up to one week, i.e. up to one month, as follows:

- repo transactions - based on the market value of a security corrected by an appropriate haircut referred to in Article 16, paragraph (2) of the Decision as the amount of inflow in the period from transaction negotiation to four working days to transaction completion;
- reverse repo transactions - the amount of monetary claim under a granted repo loan increased by interest as the amount of inflow;
- securities lending transactions - in the same manner as repo/reverse repo transactions.

39. The position under number VIII/1 shall include, if the remaining maturity is up to one week or one month:

- securities not included in TUI, in the manner determined under Article 14, paragraph (1) of the Decision; and
- other securities (e.g. bills of exchange).

40. The position under number VIII/2 shall only be included in column up to one week, and that in the corrected amount.

41. The positions under number IX shall be included in accordance with the expected cash flow in the manner determined under Article 14, paragraph (4) of the Decision. For one-way currency clause positions, the column "Total position" shall include the amount of the fair value of embedded derivative financial instruments (exchange rate differences), which shall, in accordance with the remaining maturity of the underlying position, be distributed across time zones as the expected inflow.

42. The position under number X shall include all other claims and claims arising from compensations for different brokerage transactions which are certain to be collected in time zones up to one week and up to one month.

Form OO – Expected outflows

43. The column "Total position" shall relate to the total book (balance sheet or off-balance sheet) amount of the position.

44. The column "Expected outflows" shall include:

- for positions for which the credit institution uses haircuts in column "Haircuts" - the percentage of outflow of the amount in column "Total position" of a certain position whose remaining maturity is up to one week or up to one month, increased by other ascertainable expected outflows during these periods;
- for positions where the credit institution uses own assumptions on the behaviour - a part of the amount in column "Total position" which is obtained as a result of assumptions on the behaviour of individual positions; the obtained result, i.e. the obtained estimated percentage of the spillover of individual positions of the credit institution which constitutes an expected outflow, shall be increased by an additional haircut as determined for each individual position in accordance with Article 16 of the Decision and for other ascertainable outflows in the periods up to one week and/or up to one month;
- for other positions - a part of the total book amount of the position whose remaining maturity is up to one week or up to one month, increased by determined expected outflows during these periods.

45. The positions under number I/1 shall include only repo transactions if the remaining maturity is up to one week or up to one month, to the amount of monetary liability under a received repo loan increased by interest as the amount of outflow.

46. The position under number III/1 shall not include transactions with the Croatian National Bank.

47. The position III/3 shall imply liabilities towards a parent institution/holding and towards the members of the group in which a credit institution or its parent institutions/holding have a qualifying holding or a participation and undertakings linked by management on a unified basis. Haircuts for members of the group shall depend on the legal form of an individual member of the group.

48. The Positions under number III, subitem "time deposits" shall include deposits available on demand.

49. Positions under number III, subitem "under granted unused loans " shall relate to the unused part of loans granted to clients which will be fully used within the previously agreed time limit and in the previously agreed manner (e.g. in accordance with a certain dynamics or based on announced withdrawals). If the time left for the withdrawal of these funds exceeds one month, 50% of the funds shall be listed as outflow; i.e. 20% of the amount shall be entered as outflow in the period up to one week and the remaining 30% shall be entered in the period up to one month.

A housing savings bank shall include as an outflow in an appropriate time zone the total amount of time deposits of natural persons according to the remaining maturity. Where loans are to be granted to such natural persons, a housing savings bank shall report outflow under deposits in the position "time deposits" and under the loan granted in the position "under unused credit lines".

50. The position under number III, subitem "granted unused credit lines" shall include various lines of credit, such as liquidity loans, account overdrafts, revolving loans, etc.

51. The positions under number IV shall be included if the remaining maturity is up to one week, i.e. up to one month, in the following manner:

- repo transactions - the amount of monetary liability under a received repo loan increased by interest as the amount of outflow;
- reverse repo transactions - according to market value of a security as the amount of outflow;
- securities lending transactions - in the same manner as repo/reverse repo transactions.

52. The positions under number V shall be included in accordance with the expected cash flow in the manner defined in paragraph (4) of Article 14 of the Decision. As regards one-way currency clause positions, the amount of fair value of embedded derivative financial instruments (exchange rate differences) shall be included in the column "Total position" and shall, in accordance with the remaining maturity of the underlying position, be included in time zones as an expected outflow.

53. The positions under number VI shall be included in such a way that 2.5% of the total amount of an individual standard off-balance sheet item is included as an outflow in the period of up to one week and additional 2.5% of the total amount is included as an outflow in the period of up to one month.

54. The position under number VII/4 shall include fees for brokerage services, restricted deposits and all other liabilities for which it is certain that the credit institution will be obligated to settle in time zones up to one week and up to one month. In accordance with Article 13, paragraph (3) of the Decision, a credit institution shall include restricted deposits in the report in their 100 % amount as cash outflows up to one week.

Form KL – Liquidity coefficient

55. The calculation of minimum liquidity coefficient (MLC) is defined under Article 17 of the Decision. The minimum liquidity coefficient for the reporting date shall be shown in the form KL, under "Liquidity coefficient on the reporting date" in position C and shall represent the ratio:

- for column 2 "up to one week" - of the amount in column 4 of the form OP under "Total expected inflows" (line A) and the amount in column 4 of the form OO under

"Total expected outflows" (line B); and

- for column 3 "up to one month" – of the sum of the amounts in columns 4 and 6 of the form OP under "Total expected inflows" (line A) and the sum total of the amounts in columns 4 and 6 of the form OO under "Total expected outflows" (line B).

56. A credit institution shall report in the part of the form KL under "Date of liquidity coefficient calculation", minimum liquidity coefficient for each calendar day of the reporting month, excluding the reporting date listed in form KL under "Liquidity coefficient on the reporting date".

Form POP – Assumptions on the behaviour of individual cash flows

57. Where a bank uses own assumptions on the behaviour of individual cash flows in the manner defined under Article 15 of the Decision, it shall inform the Croatian National Bank thereof and complete form POP.

58. Where necessary, a credit institution may break up individual categories of assets and liabilities by sectors in accordance with sectoral division listed in forms OP and OO.

59. In the part of the form "Assumptions on the behaviour of positions", a credit institution shall provide a description of the main elements of the system used which shall include as a minimum:

- the scope of positions;
 - methodology and parameters used;
 - the observed time series and the time of using current methodology;
 - sources of data;
 - the frequency and results of stress testing and back testing of the used methodology;
- and
- other information significant for the evaluation of assumptions on the behaviour of positions of a credit institution.

FORM KI – CONCENTRATION OF SOURCES

60. Column "Number" shall be completed in such a way that clients (depositors or creditors) are designated by ascending ordinal numbers from the largest to the smallest client in terms of the size of source. In line "Total client", the total amount of sources of funds of a credit institution received from that client shall be entered, in accordance with the provisions of Article 19, paragraph (2) of the Decision. Account should be taken of connected persons which as a group constitute an entity in respect of which the share in total sources of the credit institution is measured. The members of the group shall be designated by ascending ordinal numbers in increasing order from the largest to the smallest member within a group. At the end of the group, a line item entitled "Total client" shall be given with total amounts of sources for that client.

61. In column "Depositor/Creditor", a credit institution shall enter the name, i.e. the name and the surname of the client of the credit institution. Where connected persons are shown, they shall be listed in descending order from the largest to the smallest in terms of the amount of source. Where a specific depositor/creditor has several different sources of funds or funds with different maturities, a credit institution shall state each transaction and the total sum line item for each depositor/creditor.

62. In column "Transaction type", a credit institution shall enter relevant transaction tag in accordance with the Instructions for the delivery of credit institutions' reports by means of telecommunication, depending on whether the transaction in question is a received deposit, received loan, issued debt security, hybrid instrument or a subordinated instrument.

63. Column "Maturity" shall relate to maturity of the received funds where in relevant sub-columns, the date or tag shall be entered in accordance with the Instructions for the delivery of credit institutions' reports by means of telecommunication, i.e.:

- where a liability's date of maturity has been set contractually, the date shall be entered;
- in case of funds in giro and current accounts and savings deposits, the tag for "sight deposits" shall be entered;
- in case of funds available on demand, the tag for such funds shall be entered.

64. Column "Sources of funds" shall relate to the balance sheet position of the sources of funds on the reporting date in kuna, non-convertible currencies and total.

65. Column "Share" shall relate to the percentage share of the sources of funds in column "Sources of funds - total" in total liabilities of a credit institution on the reporting date.