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Trg hrvatskih velikana 3, HR-10002 Zagreb · T. +385 1 4564 555 · F. +385 1 4610 551  
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**Decision on liquidity risk management of credit unions  
(Official Gazette 71/2007)**

**Zagreb, March 2023**

## **Decision on liquidity risk management of credit unions**

### **CROATIAN NATIONAL BANK**

**2189**

Pursuant to Article 39, paragraph (2), under (i) of the Act on the Croatian National Bank (Official Gazette 36/2001 and 135/2006) and Article 39, paragraph (2) in conjunction with Article 41 of the Credit Unions Act (Official Gazette 141/2006), the Governor of the Croatian National Bank hereby issues the following

### **Decision on liquidity risk management of credit unions**

#### **I GENERAL PROVISIONS**

(1) This decision prescribes the criteria and elements required for liquidity risk identification, assessment and management of credit unions.

(2) Liquidity risk identification, assessment and management within the meaning of this Decision shall include liquidity risk management in the manner that will enable a timely and regular settling of obligations under usual and unusual conditions of operation of credit unions.

(3) Liquidity risk, within the meaning of this Decision, means the risk of loss resulting from existing or expected inability of a credit union to settle its cash liabilities when they fall due.

(4) The liquidity indicator (liquidity ratio) of a credit union means the ratio of credit union's liquid assets to liabilities as they fall due.

#### **II REQUIREMENTS FOR EFFICIENT LIQUIDITY RISK MANAGEMENT**

(5) For the purpose of efficient liquidity risk management, the credit union shall have:

a written liquidity risk management policy;

up-to-date records and an adequate organisational structure for liquidity risk management.

##### *1 Written liquidity risk management policy and procedures*

(6) The written liquidity risk management policy should contain the following elements:

procedures related to planning known and expected, as well as unexpected cash outflows and cash inflows;

procedures for regular monitoring and reporting to the management board on liquidity;

primary sources to ensure liquidity;

liquidity reserves and their level determined in accordance with the adopted liquidity strategy;

liquidity risk management instruments;

measures to prevent and eliminate the reasons for illiquidity;

the system for monitoring contingent liabilities based on the off-balance sheet operation of the credit union and the potential effect of such liabilities on liquidity;

identified liquidity indicators.

(7) Liquidity risk management policy must be harmonised with other business policy documents of the credit union.

(8) The liquidity risk management policy should be revised at least once a year.

## *2 Adequate organisational structure for liquidity risk management*

(9) The adequate organisational structure for liquidity risk management shall include a clear organisational set-up with well-established competences and responsibilities of the credit union's management board members and other employees for liquidity risk management of the credit union.

(10) The credit union's management board shall adopt the liquidity risk management policy.

(11) The credit union's management board shall be competent for the monitoring and implementation of the liquidity risk management policy and the organisation of the relevant reporting system that will enable the timely monitoring of exposure to liquidity risk.

(12) The credit union shall establish up-to-date records that will enable timely and continuous planning, monitoring, control and reporting for the adequate implementation of the decision making process with regard to liquidity risk management.

(13) The organisation, adequate records, data and reports prepared for the purposes of liquidity management should enable:

- planning and monitoring of credit union's liquidity both on a daily basis and for longer periods (e.g. for a year and for monthly and quarterly periods);
- monitoring and complying with the established limits for liquidity risk management;
- generating data for the establishment of liquidity indicators and preparing reports for the needs of the management board and other persons included in the liquidity risk management process;
- analysis of the movements of received deposits.

## III LIQUIDITY RISK MANAGEMENT

(14) Liquidity risk management shall include:

- establishment and maintenance of an adequate maturity structure of the credit union's assets and liabilities;
- planning and management of inflows and outflows of funds and ensuring an adequate amount of liquid assets for the settlement of liabilities according to the dynamic of their maturity;
- monitoring the concentration of the sources of funding;
- ensuring adequate liquidity reserves.

### *1 Establishment and maintenance of adequate maturity structure*

(15) Credit unions shall monitor the maturity structure of their assets and liabilities with regard to the adjustment of asset and liability items against remaining maturities.

Remaining maturities of individual claims and liabilities within the meaning of this Decision shall include the remaining period from the date of the balance sheet or another report until the contractual maturity date of the claims and liabilities.

When allocating the assets of a credit union according to the maturity ladder, account should be taken of the reality of collection of claims on maturity and of the usual time limits of delays in the collection of individual claims.

(16) For the purpose of monitoring the maturity adjustment of its claims and liabilities, the credit union shall prepare and submit to the Croatian National Bank the relevant reports in monthly intervals, in which it shall include its claims and liabilities falling due within a period up to one month counting from the report date. This report shall include those claims for which it is expected to be collected and those liabilities that the credit union must settle until a certain date.

The form and the content of liquidity reports as well as the time limits for their submission are prescribed by the Decision on supervisory reports of credit unions.

## *2 Planning and management of inflows and outflows of funds and ensuring an adequate amount of liquid assets*

(17) Credit unions shall plan liquidity inflows and outflows of funds and manage them. The planning should include all expected inflows and outflows of funds having effect on the capacity of the credit union to settle its contractual obligations, based on the degree of probability for the realisation of the transaction.

(18) Credit unions may deposit their surplus liquid assets with domestic banks.

(19) The expected inflows of funds shall include inflows from all types of deposits, the recoverability of loans and the use of loans and other inflows for which it is reliably expected to be realised within a certain period.

(20) The expected outflows of funds shall include outflows from the repayment of deposits, the repayment of due obligations on loans received, accounts payable and other outflows for which it is reliably expected to be executed within a certain period.

(21) Credit union's liquid assets shall include:

cash (cash in vaults);

demand deposits with banks;

time deposits with banks which can be withdrawn unconditionally;

other credit union's assets that can be converted into cash within a short period.

(22) Credit union's due obligations shall include:

due obligations on deposits;

due obligations on loans received;

due obligations on interests and fees;

other due obligations.

## *3 Liquidity indicator*

(23) Liquidity indicator is the ratio of total daily liquid assets to total daily due obligations. The liquidity indicator at the end of each day must have the value of at least 1.

(24) Credit unions shall calculate the liquidity indicator for every business day for their own needs of monitoring the realised liquidity indicators on the LIK form in Annex 1 to this Decision. The data from the above form should serve to the credit union as the basis for preparing the Monthly report on daily liquidity indicators (PL-MS-KU), which is delivered to the Croatian National Bank and prescribed by the Decision on supervisory reports of credit unions.

Where the liquidity indicator has the value less than 1, the credit union shall be considered illiquid and shall notify the Croatian National Bank thereof in writing without delay. In addition to the above notification, the credit union shall enclose the LIK form for that day as well as a written explanation of the reason of illiquidity and the planned measures to resolve illiquidity.

(25) In order to ensure the monitoring of liquidity, the credit union shall plan any potential known inflow and outflow of funds on the first business day in the week for the current week.

(26) A business day within the meaning of this Decision shall be considered every calendar day except Saturday, Sunday and holidays.

#### *4 Monitoring the concentration of the sources of funding*

(27) Credit unions shall establish an adequate system for monitoring their sources of funding, primarily by monitoring the significant depositors. Significant depositors shall be all those depositors to which the amount of credit union's obligations accounts for 10% or more of the total credit union's obligations. Credit unions shall monitor the concentration of obligations according to the data at the end of each month.

(28) Monitoring the concentration of the sources of funding shall include:

determining the degree of stability of deposits of significant depositors (members) with regard to their economic characteristics;

determining and monitoring of the movements of other types of the sources of funding.

#### IV TRANSITIONAL AND FINAL PROVISIONS

(29) A credit union shall deliver to the Croatian National Bank its bylaw on liquidity management prepared in accordance with this Decision after it starts operating as a credit union, i.e. on the day of entry of the credit union in the register of companies.

(30) This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette.

No.: 424-020/06-07/ŽR

Zagreb, 28 June 2007

Croatian National Bank

Governor

**Željko Rohatinski, m.p.**

**Calculation of liquidity indicator of credit  
union – daily**

*(in thousands)*

Name of credit union		
Report date		
No.	Description	Amount
<b>I N F L O W</b>		
1	Cash (cash in vaults)	
2	Demand deposits with banks	
3	Time deposits with banks which can be withdrawn unconditionally	
4	Other credit union's assets that can be converted into cash within a short period	
5	<b>TOTAL INFLOW</b>	
<b>O U T F L O W</b>		
6	Due obligations on deposits	
7	Due obligations on loans received	
8	Due obligations on interests and fees	
9	Other due obligations	
10	<b>TOTAL OUTFLOW</b>	
<b>LIQUIDITY INDICATOR (5/10)</b>		