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According to articles 4, 9, and 25 of the Law on Banking Agency of Federation Bosnia and Herzegovina (Official Gazette of the Federation Bosnia and Herzegovina, 9/96, 27/98, 20/00, 45/00 and 58/02) and article 38 in relation to article 69, Law on Banks (Official Gazette of the Federation Bosnia and Herzegovina, No. 39/98, 32/00, 48/01, 27/02, 41/02 and 58/02), the Managing Board of the Federation of Bosnia and Herzegovina Banking Agency declares

DECISION ON MINIMUM STANDARDS FOR BANK'S LIQUIDITY RISK MANAGEMENT

Article 1

This Decision closely determines minimum standards that a bank is obliged to ensure and maintain in the process of managing liquidity risk, that is minimum standards in order to create and implement liquidity policy, which assures bank's capability to fully and without any delay perform its liabilities at maturity date.

The process of managing bank's liquidity risk should be composed of harmonized activities of the bank for balancing balance sheet assets and liabilities, and bank's off-balance sheet items (hereinafter: assets and liabilities), in other words its cash flows (inflows and outflows) and concentrations, but in the way which assures continuous planning of potential future liquidity needs, taking into account changes within operational, economic, regulatory and political conditions of bank's environment.

Liquidity objectives planning, without exception, include the identification of well known, expected and unexpected cash flows, as well as possible changes within the strategy of balance sheet assets and liabilities management, in order to assure outstanding and adequate cash inflows in accordance with current bank's needs.

Article 2

Bank's Supervisory Board is responsible to ensure that a bank has and implements adequate program for liquidity risk management (hereinafter: Program).

Supervisory Board is obliged and responsible, as minimum, to:

1. prepare Program that also includes liquidity policy (hereinafter: Policy) based on bank's management proposal;
2. within liquidity area assure bank's performance in accordance with: law, this Decision and other regulations, Program and Policy;
3. periodically analyze Program and Policy and adjust them in accordance with the changes in economy and market conditions, and at least every six months;
4. based on the proposal of bank's management regarding bank's liquidity

- risk, needs to prescribe the content and frequency of the reporting to the Supervisory Board;
5. assure that management, bank's internal control system and internal auditor gives the Supervisory Board necessary information and reports;
 6. assure selection and appointment of qualified and competent Board members for the performance of bank's liquidity management function;
 7. determine, within the Program, the responsibility of bank's management to implement continuous monitoring, control and adequate management over the structure and bank's assets and liabilities flows.

Article 3

As minimum, bank's management is obliged to:

8. prepare and propose Program and Policy to the Supervisory Board;
9. implement Program and Policy appointed by the Supervisory Board, that is monitor, manage and control bank's liquidity;
10. determine the method for accurate evaluation of current and prospective future liquidity;
11. assure establishment and implementation of adequate information systems, respecting content, form and information period regarding bank's liquidity position, but in the way that gives possibility for successful analysis, reasonable management and control of current and possible potential liquidity needs of the bank;
12. at least quarterly report to the Supervisory Board regarding overall condition and bank's liquidity prospects;
13. follow economic and other operational environment conditions substantial for forecast of potential liquidity needs of the bank; and
14. assure the conditions necessary for bank's internal control system and internal audit to follow, review and evaluate Program and Policy, as well as their implementation.

Article 4

Bank's Program needs to be created in written form that, as minimum, contains:

15. bank's liquidity strategy as main assumption for its viability and success in financial market, based on the content and goals of its business policy and conditions of economic environment, which also includes adequate strategy composition for the implementation and settlement of liquidity issues as follows:
 - a) for the management over assets and liabilities adjustment;
 - b) for the management over assets liquidity;
 - c) for the management over liabilities related to the liquidity.
1. rational and precise bank's policies, policies made for the realization of the strategy from item 1 of this article, and as a minimum in accordance with the provisions of this Decision
2. effective procedures and techniques for the projection, evaluation, and control over bank's liquidity condition.

Article 5

Bank's policies should be directed to determine the sources and liquidity funds bulk, necessary to ensure its continuous and stable operations and satisfaction of appointed requirements, taking into account that while regulating its matured liabilities, bank might also rely on special category of liquid assets, maintained in BiH Central Bank (hereinafter: CB) as required reserve, except as exclusively unexpected and temporary short term measure.

Defining and implementing its liquidity policies that bank is obliged to permanently consider and assess:

3. time-limit profile for current and future assets and liabilities flows;
4. bulk of future cash outflows covered by future cash inflows for some specified future time period, than assets matured within that period with evaluation how possible is to make payment, outstanding cash funds and/or other liquid assets;
5. bulk of potential liquidity disharmony might be covered by bank's possibilities to borrow from outstanding financial sources at market; and
6. expected cash flows of net-income.

Article 6

While implementing liquidity policy, bank's main concern should be to strictly implement the principle of rational diversification of the origin and time-limit structure of its funds sources, from one side, and placements, that is investments, from the other side, taking into account that collected deposits represent primary source of credit potential with highest degree of frequency for inflows and outflows.

Bank is obliged to create, implement and maintain clear and rational policies, enabling its assets items, that is placements and investments (hereinafter: placements) not to be inadequately and excessively concentrated, taking into minimum elements as follows:

7. structure (type) of bank's assets and liabilities instruments;
8. large liabilities items, especially bank's deposits and depositors;
9. structure of stable and unstable liabilities items, especially bank's deposits and depositors;
10. bank's liabilities items with re-agreed maturity date and items where there is a basis to expect further possibility of repeated agreement;
11. structure of prices and existence of liabilities price instruments, especially bank's depositors;
12. currency structure of bank's assets and liabilities instruments; and
13. available (potential) regional and global market sources for the bank.

Policies from paragraph 2 of this article should also include the following requests:

1. time-limit adjustment of agreed maturity dates instruments of assets and liabilities, taking into account that the bank has to:
 - a) include at least 90% of funds sources with the maturity date up to 365 days in placements with the maturity date up to 365 days;

- b) include at least 95% of funds sources with the maturity date up to 180 days in full amount in placements with the maturity date up to 180 days; and
 - c) include at least 90% of funds sources with the maturity up to 90 days in full amount in placements with the maturity date up to 90 days.
2. Maintenance of average ten-day (hereinafter: ten-day period) minimum liquidity in cash funds up to at least 20% of short term funds sources according to the book value at the last day of previous months, taking into account that the level of cash funds cannot be less than 10%, not even for one day, where:
- a) according to the provisions of this item, bank's cash funds include the following funds:
 - i) KM in bank's treasury;
 - ii) Balance of the reserve account at the CBBIH;
 - iii) FC in bank's treasury;
 - iv) Balance of KM and foreign currency demand deposits with correspondent banks.
 - b) according to the provisions of this item, bank's short term funds sources include liabilities from bank's passive balance sheet, as it follows:
 - i) demand deposits;
 - ii) short term liabilities based on time and savings deposits;
 - iii) short term liabilities based on money market funds;
 - iv) short term liabilities based on bonds;
 - v) limited deposits.
 - c) average ten-day period minimum of bank's liquidity in cash funds is accrued in the way to determine sum of cash funds balance of all working days in ten-day period, and divide that amount with that number of working days, taking into account that Sunday and state holidays are not considered as working days. According to this sub-item, ten-day period include the days in a month from 1st to 10th, from 11th to 20th, from 21st to the last day in current month.

Article 7

Bank is obliged to record business transactions in its books on the same day they are performed, and to create adequate information which would allow the implementation of bank's policy and procedures related to the preparation of business development strategy along with funds sources development strategy in order to:

1. avoid growth plans without known and certain financial basis; and
2. limit structural disharmony between different profiles of assets and liabilities maturity dates.

While managing bank's liquidity, bank's management is, besides other conditions from this decision, obliged to continuously prepare the projections for future cash inflows and outflows, which should be based on main assumptions as it follows:

3. updated and accurate record keeping of all bookkeeping operations; and
4. adequate information system mainly based on bank's bookkeeping.

Article 8

Bank is obliged to constantly define, apply and develop effective and detail procedures for bank's liquidity management and control, adjust them to its appointed policies and belonging information systems.

Procedures and systems from paragraph 1 should be proportional to the size and complexity of the bank and its liquidity and placements policies.

Bank with one or more branches in abroad or the one who controls some other bank as its subsidiary unit is obliged to take into account information systems and liquidity policies of those branches or banks.

Bank's liquidity management system should be continuously and from time to time controlled by bank's internal control system and internal audit.

At the same time, bank is obliged to promptly inform FBA regarding the appointment of executive officer with the working experience description and who would be responsible for:

5. proposing and implementing bank's liquidity policy related to bank's current liquidity position and in relation to that, proclamation of day-to-day decisions;
6. development monitoring in the area of bank's liquidity; and
7. control over bank's liquidity management with special attention on cash reserves and/or other high liquid assets that increasing bank's expenses.

Article 9

In order to assure stability in maintaining bank's liquidity, bank's management is obliged to take protection measures in accordance with bank's policies, starting from, as minimum:

8. principle for more reliance on stable funds sources, that is agreed maturity date profiles;
9. principle for funds sources diversification based on maturity date, type and number of beneficiaries, market and instruments;
10. organizational measures for successful liquidity management regarding: appointment of persons in charge in liquidity issue, establishment of effective liquidity control by internal control, that is audit, issues regarding subsidiary unit in country and abroad and branches in abroad, etc.
11. degree of bank's involvement in money market, development of short-term debtor's securities and its marketing;
12. clear definitions of its business policies along with planning of reliable, that is certain sources for development plans and get any structural disharmony between maturity date of assets and liabilities parts to the minimum;
13. regular plans preparation for contingency (unexpected) situations and targets that can endanger bank's liquidity, including main guidelines for the bank, its activities, liquidity reserves and possible procedures to secure liquidity funds based on different alternative scenarios, starting with the successful, and ending with final scenario of contingency crises that can lead the bank to the process of liquidation.

Article 10

Bank is obliged to organize and maintain information system that matches to liquidity management purposes, the one consistent in its extension and complexity of its activities, and which should include bank's assets and liabilities according to the following elements, that is criteria:

14. maturity date of assets and liabilities items with fixed maturity dates;
15. expected movement in assets and liabilities with fixed maturity dates, taking into account that bank really expects from its depositors to refinance their deposits as of the day of its maturity date;
16. experience regarding the behavior of depositors groups under certain conditions;
17. liquidity degree of assets items measured in accordance with the capabilities:
 - to use them as cash available for potential payments;
 - to temporarily transfer them to the money at CB;
 - to temporarily sell them in the financial market based on the prices close to their market value, or on the prices equal or more than their book value;
 - to sell or decrease their value along with decreasing related liabilities (special reserves);
18. type and degree of liabilities of taken off-balance sheet (potential) liabilities;
6. currency of denominated (expressed) assets and liabilities with special attention to their structure: domestic currency, convertible or not convertible foreign currency;
7. assets and liabilities related countries (bank with the branch offices in abroad);
8. identity of account owners, their geography regions and type of instruments of bank's liabilities formation.

It is bank's obligation to organize regular and reliable information flow that for bank's Supervisory Board and management ensures proper and accurate and good quality information regarding bank's liquidity position.

Article 11

Bank is obliged to inform FBA on its liquidity position every ten-day period no later than 5 calendar days from the last day of reporting ten-day period and also to report quarterly on maturity date adjustments of assets and liabilities and on the structure of largest funds sources, at latest 30 days after the last day of the reporting quarter in forms specially prescribed by FBA.

One month after the last reporting quarter, the bank is obliged to submit to the FBA the report on maturity dates adjustment of assets and liabilities and on the structure of largest funds sources for the last quarter of the previous year, which has been prepared on the basis of preliminary information.

The bank is obliged to submit to the FBA the report mentioned in Paragraph 2 of this Decision, which is to be prepared on the basis of final information, no later than 5th of March of the current year.

Article 12

Bank's report is signed by two members of bank's senior management, who are authorized and responsible to represent the bank, and the required component part of quarterly reports on maturity date adjustments of assets and liabilities from Article 11 of this Decision is: a) evidence that it has been accepted by the bank's Supervisory Board; and b) certificate of bank's internal auditor that the reports are completed and accurate.

Article 13

By the day of enactment of this Decision, the Decision on Minimum Standards for Liquidity Risk Management ("Official Gazette of the Federation of BiH" No. 47/98) will cease to exist.

Article 14

This Decision comes into force on the date of its issuance, and it will be published in the "Official Gazette of the Federation of Bosnia and Herzegovina".

No. 01-1-1190-8/02
Sarajevo, 19th of December 2002

CHAIRMAN OF
THE MANAGEMENT BOARD
M.A. Eldar Arnautovic