

Pursuant to Article 100 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 04/17 and 19/18), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 59/13 and 4/17), and Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, Item b of the Statute of Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 63/17), the Management Board of the Banking Agency of Republika Srpska, on its 11th session held on 28 May, 2019 issued the

**DECISION
ON THE INTERNAL LIQUIDITY ADEQUACY
ASSESSMENT PROCESS IN A BANK**

Subject of Decision

Article 1

- (1) This Decision shall stipulate:
 - 1) minimum requirements for banks in terms of the implementation of Internal Liquidity Adequacy Assessment Process, hereinafter: *ILAAP*),
 - 2) manner and deadlines of reporting to the Banking Agency of Republika Srpska (hereinafter: Agency) on the implementation of *ILAAP*.
- (2) This Decision shall apply to the banks seated in Republika Srpska, for which the Agency has issued an operating license.
- (3) A bank shall apply provisions of this Decision on an individual and consolidated basis.
- (4) For issues related to the risk management in banks which are not defined by this Decision, but are defined by the law or other by-laws, the provisions of that law or other by-law shall apply.

Term and objective of *ILAAP*

Article 2

- (1) *ILAAP* is the process of internal adequacy assessment of liquidity and funding sources which the bank conducts independently and on a continuous basis, and which represents the assessment of strategies, policies, procedures and systems for identification, measurement, management and monitoring of risks that affect the bank’s liquidity.
- (2) *ILAAP* shall ensure that the bank has in place strategies, policies, procedures and systems for identification, measurement, management and monitoring of liquidity risk in appropriate time intervals, also including intra-day liquidity, which must ensure that the bank maintains adequate levels of liquidity reserves.

Characteristics of *ILAAP*

Article 3

Characteristics of *ILAAP* shall be as follows:

- 1) The significance of *ILAAP* is conditioned by the significance of liquidity for the bank’s business operation continuity,
- 2) *ILAAP* should ensure adequate liquidity of the bank in any moment of time,
- 3) *ILAAP* is a documented process in which all activities and the results of such activities are conditioned by accompanying documentation,
- 4) *ILAAP* is an internal process which the bank conducts independently in a proportional and credible manner, whereas the proportionality implies compliance of *ILAAP* with the nature, size, scope and complexity of the bank’s business operations,
- 5) *ILAAP* is a process which the bank conducts on a continuous basis, especially in cases of significant changes in strategic commitments and objectives of the bank, changes in business policy or business plan, status changes, significant changes in business, regulatory or broader macroeconomic environment or other factors which have a material effect on used assumptions or methodologies in *ILAAP*.

Principles of *ILAAP*

Article 4

- (1) *ILAAP* is based on seven principles, that is:
 - 1) the supervisory board and management of the bank are responsible for the establishment and implementation of adequate *ILAAP*,
 - 2) *ILAAP* is an integral part of the overall management system in the bank,
 - 3) *ILAAP* provides key contribution to the continuity of bank's business operations by ensuring the adequate liquidity from different aspects,
 - 4) all significant risks are identified and included in *ILAAP*,
 - 5) internal liquidity reserves and stable funding sources are precisely determined, whereas liquidity reserves are of high quality,
 - 6) methodologies for quantifying risks in *ILAAP* are adequate, consistent, and independently validated,
 - 7) regular liquidity stress testing should ensure adequate liquidity also in extraordinary situations.
- (2) Bank shall act in accordance with the principles referred to in Paragraph 1 of this Article.

Responsibility of the bank supervisory board and management in implementing *ILAAP*

Article 5

- (1) The bank supervisory board and management are obliged to ensure the implementation of *ILAAP* in accordance with the provisions of this Decision.
- (2) The bank supervisory board and management are obliged to ensure the implementation of *ILAAP* at least on an annual basis, or more frequent if circumstances require, on which the Report on *ILAAP* is being drafted.
- (3) The supervisory board provides the assessment of adequacy of the bank liquidity in the Report on *ILAAP* and explaining its assessment by means of the *ILAAP* results.
- (4) The bank supervisory board is obliged to, upon the proposal of the bank management, adopt the act for the implementation of *ILAAP*, which contains at least the following:
 - 1) framework for the implementation of *ILAAP*, along with precise defining of activities and division of tasks and responsibilities, also including the obligation of regular internal review and validation within the framework of *ILAAP*,
 - 2) the list of internal documentation used during *ILAAP*,
 - 3) the manner of verification of input and output data, as well as the manner of control of quality of individual procedures and processes in *ILAAP*,
 - 4) other requirements the bank deems as necessary in the implementation of *ILAAP*.
- (5) The bank supervisory board shall be obliged to:
 - 1) adopt proposal of the management on the *ILAAP* structure,
 - 2) supervise and approve the adjustment of *ILAAP* when the bank is exposed to new risks and significant changes in its strategic commitments and operational plans, and business environment,
 - 3) ensure that the *ILAAP* is an integral part of the management system in the bank,
 - 4) ensure that the *ILAAP* results are being used in the decision-making process, and in accordance with adopted strategies and policies,
 - 5) analyze achievement of the strategy for risk management in relation to required liquid assets of the bank in accordance with the *ILAAP* results,
 - 6) define competences and responsibilities assigned to individual functions and organizational units, in such a manner which ensures clear division of competences and clear responsibility lines,
 - 7) establish appropriate system of internal controls of *ILAAP*,

- 8) ensure regular review and re-consideration of *ILAAP*,
 - 9) adopt the Report on *ILAAP*, and ensure reliable, accurate and timely reporting to the Agency, in accordance with Article 15 of this Decision and
 - 10) adopt internal enactments governing the content, manner, deadlines and reporting lines to the supervisory board on *ILAAP*.
- (6) The bank management shall be obliged to:
- 1) ensure implementation of *ILAAP* and its compliance with the provisions of law, this Decision, and bank internal enactments adopted in accordance with this Decision,
 - 2) ensure that all significant risks are included in *ILAAP*,
 - 3) ensure the usage of appropriate methods for measurement/assessment of significant risks,
 - 4) stipulate in detail procedure for the implementation of *ILAAP* (methods being applied, assumptions, assessment procedure, the manner of maintaining an adequate liquidity level),
 - 5) ensure recording on *ILAAP*,
 - 6) ensure adequate resources for the implementation of *ILAAP* and full understanding by all employees included in such procedure and
 - 7) ensure timely and comprehensive reporting on implemented *ILAAP*, in accordance with enactments adopted by the supervisory board.

ILAAP as an integral part of the management system in the bank

Article 6

- (1) The bank shall ensure inclusion of *ILAAP*, as an integral part, in the overall management system in the bank.
- (2) *ILAAP* must be appropriately included in business operation procedures, decision-making processes and risk management processes.
- (3) In order to include *ILAAP* in the bank management system, the bank shall ensure adequate relatedness and compliance of *ILAAP* with:
 - 1) the bank management system, strategy and business policy of the bank,
 - 2) strategy, policy, procedures and processes of risk management, including system, strategies, policies, procedures and processes of liquidity risk management,
 - 3) liquidity plan, also including funding source plan,
 - 4) liquidity contingency plan,
 - 5) the bank recovery plan, including the bank liquidity recovery plan,
 - 6) reporting system,
 - 7) *ICAAP*,
 - 8) remuneration policy and practice in the bank,
 - 9) as well as with other processes and bank enactments significant for the implementation of *ILAAP*.

Contribution of ILAAP to the bank business continuity

Article 7

- (1) *ILAAP* contributes to the bank business continuity by ensuring the adequacy of liquidity from two aspects:
 - 1) economic aspect and
 - 2) normative aspect.
- (2) Economic aspect of *ILAAP* implies ensuring of the bank business continuity by identification and quantifying of all significant risks to which the bank is or might be exposed in its business operations, also including risks arising from macroeconomic and business environment of the bank and which may have a negative effect on the bank liquidity.
- (3) Normative aspect of *ILAAP* implies ensuring of the bank business continuity by meeting all regulatory requirements and the Agency's requirements related to the bank liquidity.

**Identification and inclusion of all
significant risks in *ILAAP***

Article 8

- (1) The bank shall establish and implement regular process of identification of all significant risks to which the bank is or might be exposed in its business operations, taking into account the type, nature and complexity of the bank activities and markets on which it operates.
- (2) The bank shall in the course of process of identifying all significant risk also take into account economic and normative aspect of *ILAAP*.
- (3) The process of identifying all significant risks includes, *inter alia*, the following:
 - 1) identifying all risks which have a negative effect or could affect the level and structure of liquid assets and funding sources,
 - 2) recordings of all identified risks and all identified significant risks,
 - 3) criteria for identifying significant risks,
 - 4) reasoning why identified risks are not deemed as significant risks,
 - 5) obligation of consideration of the process of identifying significant risk on a continuous basis, at least once a year, if needed more frequent,
 - 6) gross approach in identifying significant risks.
- (4) Gross approach in identifying significant risks implies determination of significance of particular risk without considering the application of mitigating techniques for such risk. The application of mitigating techniques for significant risks are subject of a separate assessment in *ILAAP*.
- (5) The bank shall ensure the level of internal liquidity reserves and the level of stable funding sources sufficient for the coverage of significant risks.

**Determination of internal liquidity reserves
and stable funding sources**

Article 9

- (1) The bank shall determine, assess and maintain internal liquidity reserves and stable funding sources in accordance with the economic aspect of *ILAAP*.
- (2) Internal liquidity reserves shall be determined based on the calculation of required liquid funds for the coverage of all significant risks by the application of methodologies for quantifying risks and stress testing.
- (3) Internal liquidity reserves must be of high quality and include assets and future inflows which are, according to the bank's assessment, suitable for ensuring adequate liquidity in ordinary and extraordinary situations.
- (4) Stable funding sources are funding sources that the bank assesses as stable and sustainable in ordinary and extraordinary situations, based on the analysis of factors that influence the changes of funding sources.

**Methodologies for quantifying risks
in *ILAAP***

Article 10

- (1) The bank shall apply methodologies for quantifying risks which correspond to its risk profile and risk appetite, as well as to the type, nature, scope and complexity of its activities.
- (2) The bank shall apply methodologies for quantifying risks in order to quantify potential future changes in liquidity and funding sources, in accordance with the economic and normative aspect of *ILAAP*.
- (3) Methodologies for quantifying risks are methodologies by means of which the bank calculates internal liquidity requirements for individual significant risks, that is for:

- 1) risks that are subject of minimum liquidity requirements in accordance with the provisions of the Decision on bank liquidity risk management (risk of impossibility of coverage of requirements for liquidity in stress scenario for the period of 30 calendar days and maturity mismatch risk) and
 - 2) risks the bank identified as significant risks, and which are not subject of minimum liquidity requirements (e.g. risks arising from the concentration of fund sources, increased outflows or underestimated inflows, decreased inflows or overestimated inflows, decreased market value of liquid assets, reputation risk, operational risk, and similar).
- (4) For risks referred to in Paragraph 3, Item 1 of this Article, the bank, in accordance with the proportionality principle, may calculate internal liquidity requirements by applying the methodology from the Decision on bank liquidity risk management or own methodology. If the bank is applying own methodology, it shall be obliged to deliver to the Agency documentation and argumentation on its adequacy of application for internal purposes, i.e. for the purpose of *ILAAP*, ensuring adequate reasoning of methodological differences and overviewing possible underestimation of liquidity requirements in relation to the regulatory requirements.
 - (5) When calculating internal liquidity requirements for the *ILAAP* purposes, the bank shall include all significant risks in business operations, which determine its liquidity risk profile or exert influence on it.
 - (6) Methodologies for quantifying risks may not exclude the assessment and quantifying of risks which are considered as difficult to measure or for which no relevant data exist. In such cases, quantifying is conducted based on all available information, and by applying experienced professional opinion, which ensures the compliance and comparativeness with quantifying of other risks.
 - (7) The bank shall conduct stress testing for the *ILAAP* purposes at least once a year, in order to calculate internal liquidity requirements of individual risks.
 - (8) Internal liquidity requirements are, first of all, requirements in relation to the level and structure of internal liquidity reserves and stable funding sources required for the coverage of all significant risks.
 - (9) Total internal liquidity requirements include:
 - 1) internal liquidity requirements for risks for which the obligation of calculating minimum liquidity requirements is stipulated and
 - 2) internal liquidity requirements for other significant risks in the bank business operations, and which are not covered by Item 1 of this Paragraph.
 - (10) Total internal liquidity requirements also include the effects of stress testing. The bank shall adjust internal liquidity requirements for individual risks and total internal liquidity requirements towards “top”, given the results of appropriate stress tests, which it has conducted for the *ILAAP* purposes.
 - (11) The bank shall maintain the level of internal liquidity reserves and stable funding sources at least in the amount of total internal liquidity requirements, and such amount must never be lower than the total minimum liquidity requirements calculated in accordance with the regulatory requirements.
 - (12) The bank shall apply adequate processes and control mechanisms for the control of quality of input data and information used for quantifying of significant risks.
 - (13) The bank shall establish adequate and efficient procedures and processes for regular validation of methodologies for quantifying risks.
 - (14) The results of validation of methodologies for quantifying risks shall be delivered to the senior management, board of directors, supervisory board of the bank and other relevant bodies for the purpose of consideration of potential amendments to these methodologies within the *ILAAP* framework.

Regular liquidity stress testing

Article 11

The bank shall regularly, and at least once a year, conduct liquidity stress testing for all significant risks in accordance with stipulated regulatory requirements for risk management in banks, and shall use the results of such testing for *ILAAP* purposes.

Feedback documentation

Article 12

The bank shall deliver to the Agency, along with the Report on *ILAAP*, also all relevant information and feedback documentation which also includes minutes from relevant sessions of the management and supervisory board of the bank, by means of which the adequacy, efficiency and prudence in establishing, i.e. organizing and implementing *ILAAP* is being proved. Such information and documentation particularly include the following aspects, relevant for the bank's assessment of *ILAAP*:

- 1) approval for the establishment of overall *ILAAP* framework in the bank, in accordance with the provisions of Article 5 of this Decision,
- 2) approval of main elements of *ILAAP*, such as funding source plan, liquidity contingency plan, distribution mechanism, assumptions and conclusions on the results of liquidity stress testing, liquidity risk appetite and funding source risk appetite, targeted level and structure of internal liquidity reserves, and similar,
- 3) methodologies for quantifying all significant risks, including all operational documentation related to the calculation of internal liquidity requirements,
- 4) evidence on conducted discussions on changes of the bank risk profile in terms of market liquidity risk and funding source risk, limitation exceeding, including decisions on managerial measures or decisions on not undertaking any measures,
- 5) examples of significant decisions on approval of new products, along with the evidence on potential utilization of liquid transfer prices, as well as on the assessment of risk in these decisions,
- 6) evidence on conducted discussions on the analysis of funding source plan feasibility based on the size and changeability of the market,
- 7) documentation on decision on managerial measures, related to the intra-day liquidity risk, due to the deterioration of liquidity,
- 8) documentation proving that the discussions were held on the liquidity stress test results, and the decision-making procedure on undertaking or not undertaking of managerial measures in accordance with such results,
- 9) documentation on consideration of regular testing of liquidity contingency plan, as well as decisions on amendments of managerial measures stated in that plan,
- 10) decision related to the level and structure of internal liquidity reserves,
- 11) evidence on consideration of testing of market value of liquid assets, as well as time needed for the sale of assets included in internal liquidity reserves,
- 12) internal *ILAAP* self-assessment, by means of which the bank may provide argument for the level of compliance in relation to stipulated elements of risk management which influence *ILAAP* and
- 13) report of internal audit on independent assessment of established risk management system in the bank, adequacy of established *ILAAP*, and other.

Reader's Manual

Article 13

- (1) The bank shall draft the Reader's Manual which is an accompanying document of the Report on *ILAAP* (hereinafter: Manual).
- (2) The Manual is a comprehensive document which facilitates the understanding and monitoring of the Report on *ILAAP*, ensuring the overview of all accompanying documents related to *ILAAP*, and clear links of reporting information and data with accompanying documentation.
- (3) The Manual contains complete and updated data on the status of accompanying documentation (e.g. adoption date, application date, date of last amendments, scope of amendments in comparison to the

previous document, date of last review conducted by internal audit, and similar).

Role of control functions in *ILAAP*

Article 14

- (1) The bank shall, within the scope of risk management function, conduct analysis, monitoring and reporting on *ILAAP*, and verification and reviewing of *ILAAP* and its components.
- (2) The bank shall, with the scope of function of monitoring of business operation compliance, conduct verification of compliance of *ILAAP* and its components with the law, this Decision, and internal enactments adopted in accordance with this Decision.
- (3) The bank shall, within the scope of internal audit function, conduct the assessment of *ILAAP* and its components.
- (4) The bank control functions, stated in Paragraphs 1-3 of this Article, shall be obliged to conduct activities related to *ILAAP* at least once a year.

Reporting to the Agency

Article 15

- (1) The bank shall deliver to the Agency the Report on *ILAAP* in hard-copy and electronic form, with the condition as of 31/12 of the previous year no later than 30/04 of the current year.
- (2) The content and form of the Report on *ILAAP* are defined in the Attachment 1, which is an integral part of this Decision.
- (3) The Agency holds right to request additional information and documentation related to *ILAAP*, apart from those submitted by the bank.
- (4) The adequacy of established *ILAAP* in the bank is a subject of supervisory review and assessment, based on which the Agency, when needed, issues the decision on further supervisory measures in accordance with the law and the Agency's by-laws.

Information support to *ILAAP*

Article 16

The bank shall, within the scope of strategy of the bank information system development, also define adequate information support to *ILAAP*, which shall ensure comprehensive, reliable, timely and accurate data processing, i.e. information base for adequate implementation of *ILAAP* and reporting to the Agency on *ILAAP*.

Coming into force

Article 17

- (1) This Decision shall come into force on the 8th day from the date of its issuance in the "Official Gazette of Republika Srpska".
- (2) The bank shall deliver to the Agency the first Report on *ILAAP* in hard-copy and electronic form with the condition as of 31/12/2019 no later than 30/04/2020, and accompanying documentation shall deliver in electronic form.

Number: UO-83/19

Date: 28 May, 2019

PRESIDENT OF THE
MANAGEMENT BOARD
Bratoljub Radulović

ATTACHMENT 1.

REPORT ON INTERNAL LIQUIDITY ADEQUACY
ASSESSMENT PROCESS (ILAAP)

1. GENERAL INFORMATION

1.1. General information and brief description

Full name of the bank	
Period to which the report refers	
Report drafting date	
Person drafting the report/ Persons drafting the report	
The name of job position of the person drafting the report / persons drafting the report	
Organizational unit	
Contact person telephone number and e-mail	
Assessment of adequacy of established ILAAP conducted by internal audit	<i>[date of the last audit report]</i>
Approval by the bank management (board of directors)	<i>[date and signature]</i>
Approval by the bank supervisory board	<i>[date and signature]</i>
1.2. Application scope	
ILAAP application scope in the bank (1 – bank applies ILAAP only on individual basis, 2 – ILAAP is being applied also on consolidated basis)	<i>[Put 1 if the bank applies ILAAP only on individual basis, put 2 if the bank applies ILAAP also on consolidated basis.</i> <i>The bank which applies ILAAP on consolidated basis shall be obliged to deliver to the Agency the Report on ILAAP both on individual and consolidated basis, and along with the report that the bank drafts on consolidated basis, it shall also deliver the list of subordinated entities included in ILAAP.</i> <i>The Report on ILAAP on consolidated basis shall be drafted and deliver to the Agency by the parent bank within the banking group and the bank which is under the control of a holding or ultimate parent company within the banking group to which the Agency issued an operating license.]</i>

2. ILAAP RESULTS AND ASSESSMENT

2.1. ILAAP results
<i>[The bank shall provide an assessment of liquidity adequacy, which includes the following as a minimum:</i>
<ul style="list-style-type: none">- <i>overall assessment whether the current liquidity ensures the continuity of bank's business operations or it is jeopardized, and in which manner,</i>- <i>assessment of the compliance with regulatory requirements in terms of liquidity risk management,</i>- <i>assessment of the level and structure of internal liquidity reserves and stable funding sources in terms of their adequacy for the coverage of all significant risks related to the bank liquidity,</i>- <i>assessment of the adequacy of strategies, policies, procedures, methodologies and processes the bank utilizes in liquidity risk management,</i>- <i>assessment of the activities and practices of employees, organizational units, and senior management in liquidity risk management,</i>- <i>assessment of the internal control systems.]</i>
<i>[In case irregularities, shortcomings and weaknesses are identified, the bank shall state the activity plan with deadlines for elimination of thereof.]</i>

2.2. ILAAP assessment
<i>[The bank shall provide an assessment of the ILAAP procedure itself, which includes the following as a minimum:</i>
<ul style="list-style-type: none">- <i>assessment of the ILAAP procedure made by the bank management and supervisory board (e.g. adequacy of organizational establishment of ILAAP, functioning of ILAAP, accompanying competences and responsibilities, reporting lines, implementation of corrective activities, and similar),</i>- <i>findings of the internal audit on the assessment of adequacy of establish ILAAP]</i>
<i>[In case irregularities, shortcomings and weaknesses are identified, the bank shall state the activity plan with deadlines for elimination of thereof.]</i>

3. ILAAP ORGANIZATION AND SUPERVISION OVER ILAAP

3.1. ILAAP organization
<i>[The bank shall provide the description of organization of ILAAP procedure, also including the following information:</i>
<ul style="list-style-type: none">- <i>description of the type and scope of activities being implemented within ILAAP framework,</i>- <i>description of the organizational establishment of ILAAP, together with detailed organizational chart and description of positions and accompanying obligations and responsibilities of the bank governing bodies, boards, senior management and the bank organizational units,</i>- <i>description of the reporting lines within ILAAP with relevant diagram,</i>- <i>how often ILAAP is being executed, with the overview and description of factors on which the frequency depends,</i>- <i>description of the competences and responsibilities of control functions in ILAAP,</i>- <i>description of the manner of determining and implementing corrective actions based on the ILAAP results,</i>- <i>description of the manner in which the bank has ensured the inclusion of ILAAP in overall management system in the bank, whereby stating especially the connection with strategic and business planning, the bank financial plans, recovery plans¹, internal reporting, business decision-making and daily operational activities of the bank which result in risk assuming.]</i>

3.2. Supervision over ILAAP
<i>[The bank shall provide the description of supervision over ILAAP, also including the following information:</i>
<ul style="list-style-type: none">- <i>description of the manner of conducting supervision procedure over ILAAP, i.e. assessment of its adequacy made by the bank management and supervisory board,</i>- <i>description of the manner of conducting supervision procedure over ILAAP, i.e. assessment of its adequacy made by the senior management, especially formed committees and other expert bodies included in the supervision and assessment of ILAAP in the bank,</i>- <i>description of the manner of conducting supervision procedure over ILAAP, i.e. assessment of its</i>

adequacy made by the internal audit and other control functions.]

¹ The bank shall ensure the compliance and consistence between *ILAAP* and recovery plans in terms of early warning system indicators, liquidity indicators, informing process and decision-making process in case of achieving the level of defined indicators.

4. DETERMINING SIGNIFICANT RISKS

4.1. Risks to which the bank is or might be exposed
<i>[The bank shall describe the manner and dynamics of identifying risks, and state factors which it considered in that procedure.]</i>
<i>[The bank shall state risks to which it is exposed, and state whether the definition of particular risk includes certain subsets of risks (Table 1).]</i>
<i>[The bank shall state internal enactments defining risks, and procedures for drafting the list of risks to which it is or might be exposed.]</i>

Table 1. The list of risks to which the bank is or might be exposed

Risk	Risk definition

4.2. Risk profile and risk significance
<i>[The banks shall describe the manner of determining risk significance.]</i>
<i>[The bank shall state the factors based on which the risk significance is being determined, and shall describe the manner of assessing such risk factors.]</i>
<i>[The bank shall state significant risks (Table 2) and non-significant risks, stating reasons why it considers the bank exposure to such risks is not significant (Table 3).]</i>

Table 2. Significant risks

Significant risks	Risk significance assessment	Risk significance assessment explanation

Table 3. Non-significant risks

Non-significant risks	Explanation of reasons due to which the bank considers that exposure to such risks is not significant

5. METHODOLOGIES FOR QUANTIFYING RISKS

5.1. Methodologies for determining internal liquidity requirements
<i>[State whether the bank, for calculating internal liquidity requirements in <i>ILAAP</i>, uses methodologies stipulated for calculating minimum liquidity requirements or its own methodologies.]</i>

[If the bank uses its own methodologies, state differences between used methodologies and stipulated methodologies.]

5.2. Determining internal liquidity requirements

[Describe the manner of determining internal liquidity requirements for risks subjected to stipulated minimum liquidity requirements.]

[Describe the manner of determining internal liquidity requirements for significant risks not subjected to stipulated minimum liquidity requirements.]

[Describe the manner of determining internal liquidity requirements by means of inclusion of stress test results.]

6. INFORMATION ON THE FRAMEWORK FOR LIQUIDITY RISK MANAGEMENT AND FUNDING SOURCE RISK MANAGEMENT

[The bank shall state, inter alia, the following information:

- *description of the ILAAP scope, including the overview and explanations of all deviations in relation to the risks it is or might be exposed in its business operations,*
- *description of established ILAAP, along with the explanations of relation between its all components and explanation in which manner the adequate bank liquidity is ensured by described process,*
- *criteria which the bank applies for the selection of significant factors of liquidity risk and funding source risk, including the selection of significant currencies for monitoring of liquidity and funding source positions,*
- *criteria which the bank applies for the selection of appropriate methods and assumptions in ILAAP, such as the method of measurement and projection of current and future cash flows of assets, liabilities and off-balance sheet items in the course of a given time period,*
- *assessment of liquidity flows and funding source positions within a group, including potential legal or regulatory limitations for the transfer of liquidity within the group,*
- *explanation for the selection of significant factors of risk and quantitative overview of these factors, which shall be periodically updated,*
- *quantitative overview of funding source profile and its stability in all significant currencies,*
- *evidence on the monitoring of compliance with minimum and additional regulatory requirements in relation to the liquidity and founding source risks, also including the assessment of compliance with these requirements in different scenarios and in given time periods which the ILAAP covers.]*

7. INFORMATION ON STRATEGY AND PLAN OF FUNDING SOURCES

[The bank shall state, inter alia, the following information:

- *description of the funding source plan, including the type of funding sources, maturity, key markets, products utilized, and similar,*
- *maintaining presence on the market in order to ensure and periodically test the market approach and the bank's capacity to collect new funding sources,*
- *description of the funding source concentration risk, including principles for measuring and monitoring of correlation between the funding sources and economic relatedness of deponents and other creditors,*
- *description of the funding sources in foreign currencies, including the most relevant assumptions in relation to the availability and convertibility of these currencies,*
- *applicable funding source plan,*
- *quantitative overview of the characteristics such as amounts, prices and interest of investors in the last collection of funding sources, and the analysis of possibility of funding source plan implementation, taking into account market volatility,*
- *projection of the funding source position in the next three years,*
- *assessment of the funding source position and funding source risk, after the implementation of funding source plan,*
- *results of retroactive testing of funding source plan.]*

8. INFORMATION ON STRATEGY RELATED TO LIQUID ASSETS AND COLLATERAL MANAGEMENT

[The bank shall state, inter alia, the following information:

- *description of the methodology for determining internal liquidity reserves, including their definition, criteria being applied for determining market value of liquid assets, and limitations in terms of concentration and other risk characteristics related to liquid assets,*
- *collateral management, including principles related to the location and transferability of collateral, as well as their role in meeting minimum regulatory requirements,*
- *pledges over liquid assets, including principles for measuring and monitoring of pledged and non-pledged assets, and linkage of framework for limits and control of assets' encumbrance with the bank's liquidity and funding source risk appetite,*
- *principles for testing of assumptions relating to the market value (in the sale period) of assets included in liquid assets, as well as the results of analysis of this testing,*
- *liquidity concentration risk in liquid assets, including principles for measuring and monitoring of potential losses of available liquidity due to this concentration,*
- *quantifying of a minimum level of liquid assets which is considered adequate for meeting internal requirements,*
- *quantifying of liquid assets, including its distribution towards products, currencies, debtors, regions, entities within a group, and similar,*
- *projection of internally required minimum level of liquid assets and available liquid assets in particular time intervals in ordinary and extraordinary situations,*
- *quantitative overview and analysis of current and projected level of assets' pledgeability, including details on pledged and non-pledged assets which could be used for generating liquidity,*
- *assessment of the period necessary for transfer of liquid assets into cash funds, taking into account legal, operational and regulatory limitations for the utilization of liquid assets for the coverage of cash outflows.]*

9. INFORMATION ON DISTRIBUTION MECHANISM

[The bank shall state, inter alia, the following information:

- *description of the distribution mechanism, as well as criteria for the selection of elements of liquidity and funding sources which ensure that all relevant benefits and costs were taken into account, as well as the frequency of price changeability,*
- *description of the compliance and relatedness of distribution mechanisms, risk management and overall management system in the bank,*
- *description of the applicable distribution mechanisms with quantitative overview of its current calibration (for example: interest rate curve, internal referent rates for main categories of assets and liabilities used, etc.),*
- *description of the inclusion of distribution mechanism in measurement of profitability in creating new assets and liabilities, both in balance sheet assets and off-balance sheet items,*
- *description of the inclusion of distribution mechanism in business operation result management (if necessary, conduct division per different business lines/organizational parts or regions).*

If the bank has in place a mechanism for determining liquidity transfer prices (LTP), the bank shall also state the description of LTP setting and functioning, especially relatedness of LTP with adopting strategic decisions, as well as adopting decision of those organizational parts involved in generating assets and liabilities.

Also, the bank shall state the relatedness between LTP and key risk indicators.]

10. INFORMATION ON INTRA-DAY LIQUIDITY RISK MANAGEMENT

[The bank shall state, inter alia, the following information:

- *description of the criteria and methods of measuring and monitoring of intra-day liquidity risk,*
- *description of informing of the bank's competent bodies and procedures for adopting decisions in case of lack of intra-day liquidity, which shall ensure that matured liabilities are executed in time both in ordinary and extraordinary situations,*
- *quantitative overview of intra-day liquidity risk in the course of previous year,*
- *total number of non-executed payments and overview (with explanation) of all significant non-executed payments and significant liabilities the bank failed to execute in time.]*

11. INFORMATION ON LIQUIDITY STRESS TESTING

[The bank shall state, inter alia, the following information:

- *general description of the program of liquidity stress testing, including types of stress tests conducted, frequency of conducting, methodological details and models used, the range of assumptions used, relevant infrastructure,*
- *description of the mechanism of implementation and management of the program of liquidity stress testing, with a special look on stress tests whose results are used for ILAAP purposes,*
- *description of interaction and integration of particular types of stress testing, as well as the roles of feedback stress test, in accordance with the provisions of Article 11 of the Decision on ILAAP,*
- *description of the application of stress testing and its integration in the management system in the bank,*
- *description of applied unfavorable scenarios and assumptions used in liquidity stress testing, including all relevant details, such as: the number of scenarios used, range, dynamics of internal reporting to the bank management and supervisory board, risk factors (macro and risks specific for a particular bank), applied time intervals, and if relevant, separately for currencies/regions/business units,*
- *description of criteria for scenario calibration, by selecting appropriate time intervals (including intra-day, if relevant), as well as quantification of the stress impact on the market value of liquid assets, and similar,*
- *quantitative results of stress testing, including the analysis of all results (and main factors influencing them), as well as the explanation of significance of these results for internal limits, liquid assets, reporting, modelling, and the bank's risk appetite,*
- *quantitative and qualitative analysis of stress test results in relation to the funding source profile.]*

12. INFORMATION ON LIQUIDITY CONTINGENCY PLAN

[The bank shall state, inter alia, the following information:

- *description of responsibility lines for drafting, monitoring and implementing liquidity contingency plan,*
- *description of strategies for reacting on lacking of liquidity in emergency situations,*
- *description of methods of monitoring market conditions which enables the bank to timely determine whether the reporting to bank competent bodies and/or measure execution is necessary,*
- *description of testing procedures, if available (e.g. sale of new types of assets and similar),*
- *applicable liquidity contingency plan,*
- *information on potential managerial measures, including the assessment of their feasibility and capacity to generate liquidity in different stress scenarios,*
- *the bank management opinion on how its all published information related to liquidity influence the feasibility and timeliness of managerial measures included in the liquidity contingency plan,*
- *the newest analysis of testing, including conclusions on feasibility of managerial measures*

- included in the liquidity contingency plan,*
- *description of an internal opinion on the impact of execution of managerial measures included in the liquidity contingency plan, e.g. on the bank's approach to relevant markets and on overall stability of its funding source profile in shorter and longer time intervals.]*

13. INFORMATION ON DATA ON RISKS, AGGREGATION OF DATA ON RISKS AND IT SYSTEMS

[The bank shall state, inter alia, the following information:

- *description of established framework and procedures for collection, archiving and aggregation of data on risks in the bank, also including the flow of data from subordinated companies to the bank, which then consolidates them in the Report on ILAAP at the group level,*
- *description of the flow and structure of data on risks used for the ILAAP purposes,*
- *description of the verification of data applied on data on risks, which are being used for the reporting on implementation of ILAAP,*
- *description of IT systems being used for collecting, archiving and distributing data on risks for the ILAAP purposes.]*

14. OTHER INFORMATION

14.1. Inclusion in consolidated ILAAP

[If the bank is a member of the banking group from the EU or other country, it is required, apart from this report, to also deliver the Report on ILAAP, which is delivering for the purpose of consolidated reporting at the level of a parent bank, and to describe differences in these two reports.]

14.2. Other

[The bank shall also state other information and results on ILAAP, which are not covered by other parts of this report.]