Pursuant to Articles 47 and 72 of the Law on saving-credit organizations ("Official Gazette of Republika Srpska, No. 93/06), Article 4, Paragraph 4, Article 10, Paragraph 2, Item b) and Article 25 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska, No. 10/98, 16/00, 18/01, 71/02, 18/03, 39/03 and 123/06), Article 15, Paragraph 1, Item 2) of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska, No. 67/04), the Management Board of the Banking Agency of Republika Srpska at its session held on 30 March 2007 adopted the

DECISION

ON LIQUIDITY AND FOREIGN EXCHANGE RISK MANAGEMENT IN SAVING CREDIT ORGANIZATIONS

Article 1

By means of this Decision, the Banking Agency of Republika Srpska (hereinafter: the Agency) shall stipulate the standards that the saving-credit organization (hereinafter: SCO) shall be obliged to provide and maintain in the process of managing liquidity and foreign exchange risk. The standards for creating and implementing the liquidity policy should be established in such a way as to ensure the capacity of SCO to execute completely and without delay all obligations on the due date, and standards for creating and implementing the policy of foreign exchange risk management should establish prudent restrictions for assuming and mitigating exposure of SCOs to foreign exchange risk.

Article 2

The SCO supervisory board shall be responsible for the completeness, continuity and efficiency of the function of managing liquidity risk and foreign exchange risk of SCO. To fulfill its responsibility the supervisory board shall be obliged to:

1. adopt in writing policies and procedures for managing liquidity risk and foreign exchange risk, and revise them at least once a year with the aim of adapting them to changes in economic and market conditions;

2. stipulate the content and deadlines for reporting on liquidity and foreign exchange positions of SCO, at least quarterly.

Article 3

The SCO management shall be obliged to:

1. prepare and provide the supervisory board with proposals for policies, procedures and measures for liquidity risk management;

2. implement the policies and measures adopted by the supervisory board, and monitor, manage and control liquidity and foreign exchange positions of SCO;

3. at least quarterly, report to the supervisory board on the condition and perspectives of liquidity and foreign exchange activities of SCO.

Article 4

Liquidity risk management process of SCO includes activities that provide alignment of the structure of assets and liabilities of on-balance sheet and off-balance sheet (hereinafter: assets and liabilities) of SCO, i.e. cash flows (inflows and outflows) and concentration and should be based on continuous planning of potential future liquidity needs taking into account changes in operational, economic, regulatory or other conditions of the business environment of SCO.

Planning the needs of SCO for liquid assets must include identification of known - regular (expected) and extraordinary (unexpected) cash outflows and possible strategy for asset and liability management to ensure capacity of SCO to generate, that is, dispose of cash inflows that are adequate at all times to its current needs.

Article 5

SCO liquidity policies must identify the sources and volume of liquid funds needed to ensure its continuous and stable operations, as well as to meet stipulated requirements. In defining and implementing liquidity policies, SCO shall be obliged to continuously assess:

1. maturity of assets and liabilities of SCO (current and future);

2. the volume in which, in a certain future period, cash outflows are covered by cash inflows with an analysis of asset items due for collection with an assessment of the probability of their collection and available cash funds and other liquid assets in the same period;

3. the extent to which the potential liquidity mismatch could be covered by the capacity of SCO to borrow from available funding sources at the market, and to define protective measures for unexpected situations (adopt a contingency plan);

4. expected cash flows of net profit; and

5. currency structure of assets and liabilities instruments of SCO.

Policies from this Article must include the following requirements:

1. maturity adjustment of the remaining terms until the agreed maturities of assets and liabilities:

   a) to engage at least 90% of funding sources with a maturity of up to 180 days in placements with a maturity of up to 180 days;

   b) to engage at least 95% of funding sources with a maturity of up to 90 days in placements with a maturity of up to 90 days (20% of the deposit at sight, based on determined permanence of withholding in the balance sheet, SCO can direct into placements of up to 90 days); and

   c) to engage funding sources with a maturity of up to 30 days in the full amount into placements with a maturity of up to 30 days.

2. maintenance of the average ten-day (hereinafter: ten-day) minimum liquidity in cash funds in the amount of at least 10% of the amount of short-term funding sources according to the accounting balance on the last day of the previous calendar month, whereby:

a) the following funds are considered cash funds of SCO in the sense of the provisions of this Item:

- KM and foreign currency in the treasury of SCO;

- deposits on transaction accounts with banks.

b) the following liabilities of SCO are considered short-term funding sources of SCO in the sense of the provisions of this Item, namely:

− sight deposits;

- short-term liabilities for term and savings deposits;

- short-term liabilities under bonds;

- other short-term deposits.

c) the average ten-day liquidity minimum of SCO in cash funds is calculated in such a way as to determine the sum of the financial assets of all working days in the ten-day period and divide it by the number of those working days, whereby working days are not considered to be Sunday and public holidays. In this sense, a ten-day period implies from the 1st to the 10th day of the month, from the 11th to the 20th day of the month and from 21st until the last day in the current month.

Article 6

In accordance with this Decision, foreign exchange risk (hereinafter: FX risk) represents: SCO's exposure to the possible impact of changes in exchange rates and the risk that unfavorable changes result in a loss to SCO in KM (domestic currency), whereby the level of FX risk is a function of level and duration of exposure of SCO to possible changes in exchange rates and depends on the amount of debt of SCO in foreign currency and level of currency matching of assets and liabilities of on-balance and off-balance sheet of SCO, i.e. level of alignment of its currency cash flows.

Article 7

Prudent management of FX risk represents the deterrence of SCO from assuming too high liabilities in foreign currency and management of foreign currency positions in such a way that they can be monitored, controlled and that the possible negative effects of exchange rate changes on stability of the financial position of SCO can be eliminated.

Article 8

SCO shall be obliged to carry out FX activities only within the limitations of this Article, calculated in relation to the amount of capital. Limitations of FX activities of SCO in relation to capital amount to:

1. for an individual foreign exchange position, SCO can exceed up to the max. amount of 20%;

2. for an individual foreign exchange position in EUR, SCO can exceed up to the max. amount of 30%;

3. for foreign exchange position, SCO can exceed up to the max. amount of 30%.

Article 9

"Individual foreign exchange position" (open position) represents the difference between items related to a particular foreign currency (hereinafter: items) in assets and liabilities of SCO balance sheet (gold and other precious metals are considered foreign currency), denominated (expressed) in KM, with potential profit or loss (positive or negative exchange rate difference). Potential profit or loss occurs in case when the exchange rate at which the items were posted (in SCO business books) differs from the exchange rate published by the Central Bank of Bosnia and Herzegovina, on the day on which their foreign exchange position is determined.

"Individual foreign exchange position" is calculated as the sum of the amount of asset items taken with + (plus) sign and liabilities items taken with - (minus) sign.

SCO has a "long position" of a particular currency if the value of asset items is greater than the value of liability items, i.e. if their difference is a positive number, i.e. with + (plus) sign.

SCO has a "short position" of a particular currency if the value of asset items is less than the value of liability items, i.e. if their difference is a negative number, i.e. with - (minus) sign.

SCO "foreign exchange position" represents the sum of the values of all long and all short positions of individual foreign exchange positions of SCO.

Article 10

SCO shall be obliged to establish and maintain an information system that is adequate to its need for managing liquidity and foreign exchange risk, according to the scope and complexity of its activities and which must include assets and liabilities of SCO.

SCO shall be obliged to record business transactions on the same day they are executed and to create adequate information that enable the implementation of policies and procedure of SCO, and to organize a constant, regular and reliable flow of information that provides accurate and high-quality information about the SCO liquidity position and foreign exchange position for the SCO supervisory board and management.

Article 11

SCO shall be obliged to submit reports on its liquidity position and foreign exchange position to the Agency in accordance with the Decision on the content and form of reports submitted by SCO to the Agency.

Article 12

This Decision shall enter into force on the eighth day after its publication in the "Official Gazette of Republika Srpska".

Number: UO-322/07
Date: 30 March 2007
Banja Luka

PRESIDENT OF THE
MANAGEMENT BOARD
Prof. PhD Novo Plakalović