# Management

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The Croatian National Bank is governed primarily by the principles of liquidity and safety of investment in accordance with the Act on the CNB and internationally recognised principles for management, while attempting to ensure favourable rates of return on its investments.

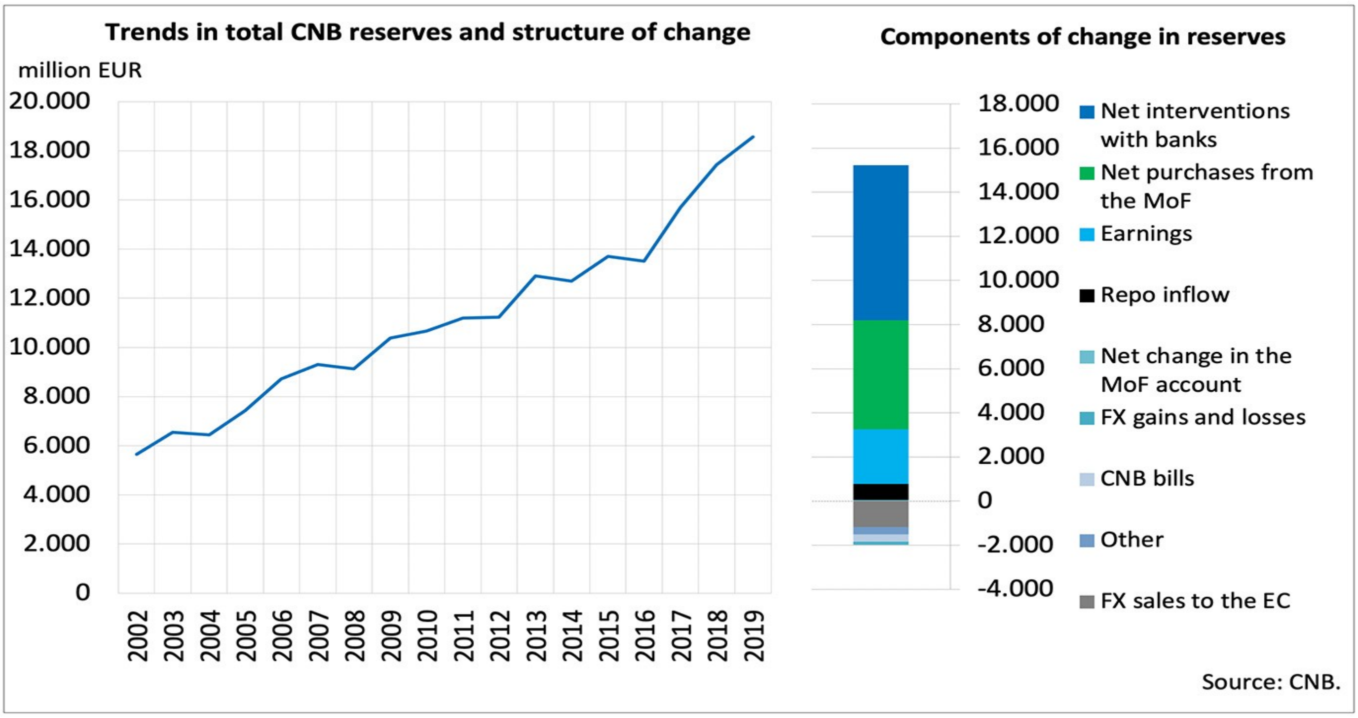
The main principles of international reserves management are safety, liquidity and profitability.

The central bank manages the international reserves of the Republic of Croatia based on the principles of liquidity and safety of investment in accordance with Article 19 of the Act on the Croatian National Bank. In this context, it maintains reserves liquidity and appropriate risk exposure and, within the given restrictions, attempts to ensure favourable rates of return on its investments.

The Croatian National Bank manages international reserves in two ways; one based on its own guidelines and the other on the assumed foreign currency obligations, depending on the way in which international reserves are formed.

The CNB manages the part of international reserves acquired through outright purchase of foreign currency from banks and the MoF, its membership in the IMF and income derived from the investment of international reserves and other CNB assets in line with its own guidelines.

The other component of the reserves, formed on the basis of the Ministry of Finance funds, foreign currency swaps in the domestic market, allocated foreign currency reserve requirements, IMF membership and other assets owned by other legal persons, is managed by the CNB according to the foreign currency obligations assumed, the aim being to ensure protection against currency and interest rate risks.



**Foreign exchange gains and losses on foreign currency portfolios**

The financial performance of the CNB, as of all central banks, depends on the volume and structure of assets and liabilities. The CNB belongs among banks with a large share of international reserves in their assets. As at 31 December 2019, the share of total international reserves in CNB assets was as high as 95.6%, while the bulk of liabilities was denominated in kuna. This currency structure of assets and liabilities exposes the CNB to a significant currency risk, i.e. the risk of a change in the price of currency of investments in relation to the reporting currency – the kuna. Foreign exchange gains and losses arising from fluctuations in EUR/HRK and USD/HRK exchange rates have a direct impact on the income and expense calculation reported in kuna in the CNB Income Statement.

Unrealised foreign exchange gains and losses, i.e. net profit/loss from the value adjustment of balance sheet items to changes in the exchange rate, is allocated to general reserves of the central bank and serve, among other things, as a reserve for potential adverse developments in the exchange rates of international reserves currencies.

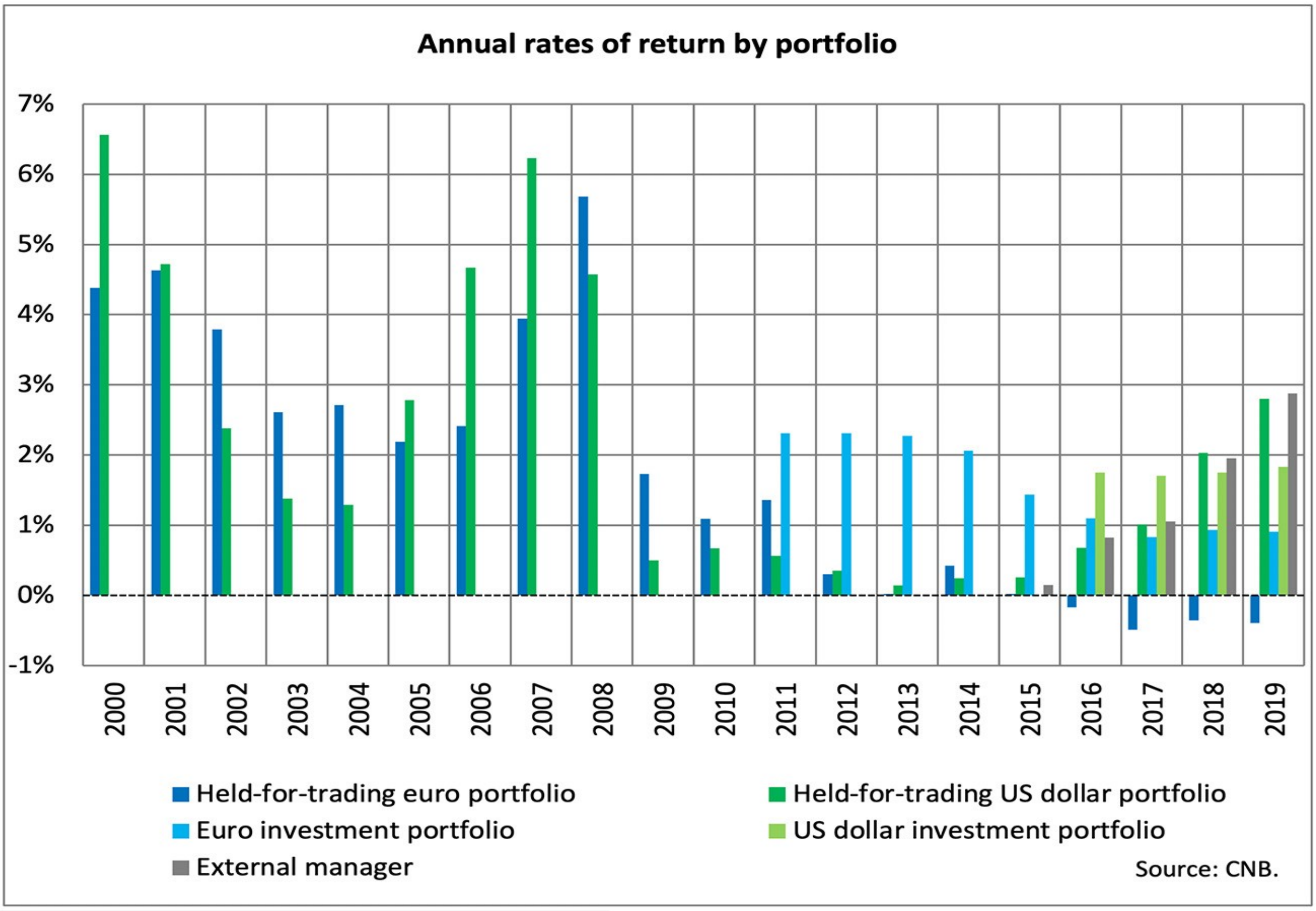
**Results of foreign currency portfolio management**

CNB portfolios are divided into held-for-trading portfolios, investment portfolios and assets managed by external managers. Held-for-trading portfolios are denominated in euro and US dollars and are used primarily for daily liquidity maintenance, while the main purpose of the investment portfolio is the maintenance of stable income in the long run.

As held-for-trading portfolios are used for foreign currency liquidity maintenance their average remaining term to maturity is short so as to limit the risk of change in interest rates.

An investment portfolio is a portfolio consisting of bonds with long remaining term to maturity so as to use the steepness of the yield curve and higher interest rates for longer maturities. The main purpose of this portfolio is to provide a relatively stable source of longer-term income.

Assets managed by an international financial institution provide additional diversification and exchange of expertise in international financial investment management.


Annual rates of return by portfolio
7%
6%
5%
4%
3%
2%
1%
0%
-1%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Held-for-trading euro portfolio
Held-for-trading US dollar portfolio
Euro investment portfolio
US dollar investment portfolio
External manager
Source: CNB.

# Annual rates of return by portfolio

| | Held-for-trading euro portfolio | Held-for-trading US dollar portfolio | Euro investment portfolio | US dollar investment portfolio | External manager |
|---|---|---|---|---|---|
| 2000 | 4,38% | 6,56% | | | |
| 2001 | 4,63% | 4,72% | | | |
| 2002 | 3,79% | 2,38% | | | |
| 2003 | 2,61% | 1,38% | | | |
| 2004 | 2,71% | 1,29% | | | |
| 2005 | 2,19% | 2,78% | | | |
| 2006 | 2,41% | 4,67% | | | |
| 2007 | 3,94% | 6,23% | | | |
| 2008 | 5,68% | 4,57% | | | |
| 2009 | 1,73% | 0,50% | | | |
| 2010 | 1,09% | 0,67% | | | |
| 2011 | 1,36% | 0,56% | 2,31% * | | |
| 2012 | 0,30% | 0,35% | 2,31% | | |
| 2013 | 0,01% | 0,14% | 2,27% | | |
| 2014 | 0,42% | 0,24% | 2,06% | | |
| 2015 | 0,00% | 0,25% | 1,44% | | 0,15% ** |
| 2016 | -0,17% | 0,68% | 1,10% | 1,75% | 0,82% |
| 2017 | -0,49% | 1,01% | 0,83% | 1,70% | 1,05% |
| 2018 | -0,36% | 2,03% | 0,93% | 1,75% | 1,95% |
| 2019 | -0,40% | 2,80% | 0,91% | 1,83% | 2,88% |

* Effect in the period from 23 May 2011 to 31 December 2011.

** Effect in the period from 31 March 2015 to 31 December 2015.