

Official Gazette of the FBiH, number 3/03

Based on articles 4, 9, and 25 of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina ("Official Gazette of Federation Bosnia and Herzegovina" No. 9/96, 27/98, 20/00, 45/00 and 58/02) and articles 38, 42 and 43 in relation to article 69 of the Law on Banks ("Official Gazette of Federation of Bosnia and Herzegovina" No. 39/98, 32/00, 48/01, 27/02, 41/02 and 58/02) Managing Board of the Banking Agency of Federation of Bosnia and Herzegovina declares

DECISION ON MINIMUM STANDARDS FOR RISK CONCENTRATION MANAGEMENT IN BANKS

Article 1

This Decision closely establishes minimum of standards which bank is obliged to enable and implement in exposing repayment risk, that is risk on possible loan losses, other placements, investments performed, and potential off-balance sheet risks (hereinafter: loan risk), that is minimum standards for bank's biggest exposure volume allowed to loan risk toward a client, debtor or other legal entities (hereinafter: a client), and group of related clients in relation to article 6 of this Decision (hereinafter: group of related entities), as well as biggest allowed total of all large exposures to loan risk (hereinafter: ZVIKR, that is - TLELR - total of all large exposures to loan risk).

Article 2

Sound and rational managing and control of corresponding balance sheet assets items and same off-balance sheet items (hereinafter: loan portfolio) has to represent main instruments of banks for minimizing of risk concentration through specific polices and procedures to ensure diversification of loan portfolio.

Article 3

The Supervisory Board of a bank has final responsibility to provide that a bank observes only a risk which can be successfully managed and that can fulfill the conditions from the provisions of Law on Banks (hereinafter: Law), this Decision, and other regulations of Banking Agency of Federation Bosnia and Herzegovina (hereinafter: FBA).

In order to fulfill its minimum responsibilities from paragraph 1 of this article, the Supervisory Board is obliged to:

1. order management of a bank to present a proposal for establishment and development of bank policies in accordance with the Regulation;
2. based on proposal and policies of previous section, to provide a Program for risk concentration management of a bank (hereinafter: the Program) including policies of risk concentration management (hereinafter: the Policies), procedures for establishment and implementation of follow up process for risk concentration of bank (hereinafter: the procedures), and plans for current and future bank capital needs (hereinafter: Plans) which are related to above mentioned concentrations;

3. provide for all necessary requirements in accordance with the Law, this Decision, Program, policies and plans;
4. periodically reevaluate the Program, at least once per six months;
5. evaluate loan portfolio items which represent large exposures to loan risk (hereinafter: VIKR, that is LELR - large exposure to loan risk) of a bank, from article 7 of this Decision, toward debtors - clients and groups of related entities, including related policies;
6. evaluate loans which bank has approved to employees or loans guaranteed by them, including related policies;
7. evaluate loans approved to members of the Supervisory Board or enterprises that they have significant ownership interest in, or which are significantly influenced by them and loans guaranteed by them, including related policies;
8. evaluate loans approved to enterprises in which a bank has significant ownership interest, or which are significantly influenced by it, including related policies.
9. evaluate loans approved to shareholders with significant ownership interest or loans guaranteed by them, enterprises which they have significant ownership interest in, or which are significantly influenced by them, including related policies;
10. evaluate deposited funds, originated loans and investments in related banks; and
11. define major elements of content and frequency of reporting the Board on risk concentration management for different groups of debtors - clients and groups of related entities which are above mentioned.

Article 4

Management of a bank is responsible to provide that bank limits credit risk concentrations in accordance with the Law, this Decision, the Program and Policies approved by the Supervisory Board.

Management of a bank is responsible to, as a minimum:

1. create and propose the Program, Policies, Plans and Procedure to the Supervisory Board;
2. implement the Program, Policies, Procedures and other regulations of a bank related to credit risk concentration and enables that their implementation is monitored and controlled within the Law, this Decision, the Program and Policy;
3. ensure the implementation and development of specific reporting systems on loan risk concentration of a bank respecting the elements approved by the Board;
4. maintain successful method providing overview and classification of information regarding credit risk exposure of a bank to one borrower-beneficiary or group of related entities, upon type of loan, industrial concentration, geographical regions, type of collateral and financial guarantors and
5. at least every three months, to report the Board and FBA in detail about significant risk concentration, that is about VIKR, its components and form.

Article 5

Regarding this regulation, Total loan risk exposure (hereinafter: UIKR, that is TLRE - Total loan risk exposure) of a bank or one borrower-beneficiary or group

of affiliated entities is total of all already existing (in balance sheet items) and all potential (in off-balance sheet items) loan risk exposures related to one beneficiary or one group of related entities, including total bookkeeping balance:

1. of all receivables from debtors or group of affiliated entities in respect to principal of all approved loans, that is other placements, matured and non matured;
2. all accrued and matured interests and fees of the beneficiary and group of related entities;
3. all securities (debtors and ownership) issued by a borrower-beneficiary or group of affiliated entities;
4. all irrevocable liabilities to repay or to execute, which bank has taken in the behalf of and for the beneficiary or group of affiliated entities for the third persons benefit.
5. other elements specially determined by FBA.

Article 6

Two or more beneficiaries represent “group of affiliated entities”, if, due to their interrelated relationships, bank’s exposure toward them represents united exposure to loan risk, that is if one of them, or both, has direct or indirect possibility to control the other, in the case of financial uncertainties of one of them could cause a financial problems for all. Bank is obliged to consider following grounds of affiliation for the identification of the above mentioned affiliations:

1. mutual and/or joint ownership and/or co-ownership and ownership by one of them;
2. ownership and/or co-ownership of immediate family members, up to the third generation by blood relationship or matrimony, or persons who live in the same household, or have related or mutual investments;
3. mutual members of supervisory board and/or management;
4. crossed guarantees;
5. direct production and/or commercial and/or financial (directly business) relation and interrelation.

The bank is obliged to consider UIKR to one borrower-beneficiary just as:

- 1) sum of sole loan risk exposures to borrower-beneficiaries mentioned in paragraph 1 of this article, and
- 2) sum of loan risk exposures to the entities mentioned in Decision on minimum standards for bank’s activities with related entities (“Official Gazette of the FBiH”, No. 3/03).

Article 7

Regarding the provisions of article 42, paragraph 2 of the Law and this Decision, bank’s VIKR represents all UIKR which exceeds 15% of core capital of the bank, which is regulated in the Article 8, Decision on minimum standards for managing bank’s capital (Official Gazette of the FBiH, No. 3/03) (hereinafter: core capital of the bank).

Article 8

UIKR of the bank to individual borrower-debtor or group of affiliated entities should not exceed 40% of total core capital of the bank, which represents Total

biggest allowed loan risk exposure (hereinafter: NIKR - total biggest allowed loan risk exposure - TBALRE). Bank can attain NIKR toward individual beneficiaries or groups of related entities, only if it ensures the following structure and limits:

1. bank's loan risk exposure to one borrower-debtor or group of affiliated entities, which is not covered with received collateral (hereinafter: collateral), will not amount over 5% of core capital of the bank;
2. risk exposure of the bank for one borrower-debtor or group of affiliated entities that exceeds 5% up to maximum of 25% of core capital of the bank has to be covered with received collateral; and
3. risk exposure of the bank for one borrower or group of affiliated entities that amounts over 25% of core capital of the bank up to the amount of NIKR has to be covered with received securities which are high quality, easy marketable and priced upon reliable and stable prices, which exceeds the amount of such a exposure of the bank, that is first class collateral according to the provisions of article 14, Decision on minimum standards for managing loan risk and classification of bank's assets (Official Gazette of the FBiH, No. 3/03)
4. that total bank's exposure to loan risk based on guarantees issued to individual beneficiaries or groups of related entities, except the guarantees for good performance, should not be over 20% of total core capital of the bank.

Bank's UIKR does not include letters of credit and guarantees covered by cash up to the amount of their coverage.

Article 9

Bank must not deposit funds, originate loans and perform investments in a related bank in total amount higher than 25%, or in all related banks in total amount higher than 40% of its core capital.

Article 10

Bank's ZVIKR, also including all NIKR, should not exceed 300% of core capital of the bank.

Total of all bank's loan risk exposures based on guarantees issued, with exception of the guarantees for good performance, should not exceed 100% of core capital of the bank.

Article 11

Regarding this Decision, the bank is obliged to submit quarterly report its loan risk exposure to the FBA.

Report mentioned in section 1 of this article is to be presented to the FBA the latest 30 days after the end of the quarter and, it has to have form regulated by FBA.

Report for the end of the year, prepared upon preliminary data, is to be delivered to the FBA the latest 30 days after the end of the year.

Report from paragraph 3 of this article, based on the final data, is to be delivered to FBA the latest on March 5th of the current year.

Bank's reports need to be signed by two individuals authorized and responsible to represent the bank.

The prescribed report of the bank has to be adopted by its Supervisory Board and submitted to FBA in accordance with the Decision on Reporting Forms that Banks Submit to the Federation of BiH Banking Agency.

Article 12

Supervisory Board of the bank is obliged to establish and maintain information system which is adequate for follow up and management of categories from this Decision and to inform the Board on them regularly.

Article 13

The Board of the bank is obliged to prepare Program, formal written business policies and procedures of the bank which define internal limits of the bank, at least to full fill this Decision and, that they are updated regularly.

The bank is obliged to turn in formal items from previous section of this article to FBA as soon as they are approved.

Article 14

The bank is obliged to establish limits from this Decision in accordance with law.

If the bank is in noncompliance of any of these limits on the day, after the approval date of this Decision, the bank cannot increase mentioned amounts as they were on the day.

Article 15

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

Article 16

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. 01-1-1190-5/02
Sarajevo, 19th of December 2002

CHAIRMAN OF
THE MANAGEMENT BOARD

M.A. Eldar Arnautović