



Pursuant to Articles 9 and 25 of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of B&H No. 9/96, 27/98, 20/00, 45/00, 58/02, 13/03, 19/03, 47/06, 59/06, 48/08, 34/12 and 77/12) and Article 13, Paragraph 3 of the Law on Protection of Guarantors in the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of B&H No. 100/13), as well as Article 18 of the Articles of Association of the Banking Agency of the Federation of B&H (Official Gazette of the Federation of B&H No. 42/04), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina, at its 56. meeting held on 18.03.2014., adopted the following

## **DECISION ON CONDITIONS FOR ASSESSING AND DOCUMENTING A CREDIT STANDING**

### **Article 1**

- (1) This Decision regulates conditions for assessing and documenting a credit standing of a principal debtor, co-debtor and guarantor in relation to loans approved by a bank and where the guarantor appears as a loan security instrument.
- (2) The principal debtor, co-debtor and guarantor may be a private individual or a legal entity.
- (3) In sense of this Decision certain terms shall bear the meaning defined in Article 4 of the Law on Protection of Guarantors in the Federation of Bosnia and Herzegovina (hereinafter: the Law).

### **Article 2**

- (1) The bank shall adopt and implement internal policies and procedures for a credit standing assessment in relation to the principal debtor, co-debtor and guarantors, as well as for documenting lending activities. These documents shall be adopted by the competent bodies of the bank and be subject of occasional evaluations and reviews in line with the assessment results (i.e. at least on an annual level).
- (2) Prior to approval of loans and other facilities, the bank shall run the credit standing assessment of the principal debtor, co-debtor and guarantor considering therein minimum requirements contained herein and contained in the Decision on Minimum Standards for Credit Risk Management and Assets Classification in Banks, as well as in the criteria defined by its internal regulations.

### **Article 3**

- (1) Prior to concluding a loan agreement, the bank shall perform an assessment of credit standing and credit history of the principal debtor, co-debtor and guarantor based on relevant documentation and information obtained from all participants to the lending process, as well as on a review of data in the Central Loan Register (CLR), other loan registers (conditioned by a written consent of a person to which register data refer to) and public registers and databases.

- (2) If contractual parties agree to increase the principal debtor's loan or extend the loan tenor, the bank shall re-assess the credit standing of such principal debtor, as well as any co-debtor and guarantor prior to making any such loan increase or tenor prolongation.
- (3) Prior to the loan agreement conclusion, the bank shall inform and get acquainted the principal debtor, co-debtor and guarantor with documentation and information obtained in the process of credit standing assessment, as based on their previous written consent.
- (4) If a persons disagrees with his/her information and documentation delivered for purpose of the credit standing assessment be disclosed to other parties, the bank shall notify such other parties of this fact. In case the principal debtor disagrees with co-debtor and guarantor being appraised of information and documentation of relevance for the credit standing assessment, the bank shall ensure that relevant loan file contains a written statement from the co-debtor and guarantor respectively that they have been acquainted with this fact and consent with it.
- (5) information on the credit standing of the principal debtor, co-debtor and guarantor must form an integral part of the loan file.

#### **Article 4**

- (1) The bank shall perform the credit standing assessment of the principal debtor – private individual by means of analyzing the following in particular:
  - (a) level of loans incurred by the principal debtor, defined as a ratio between his/her total monthly loan obligations and regular monthly net income (confirmation of monthly income and certified copy of the annual income declaration);
  - (b) his/her credit history, i.e. regular debt settlement under previous loan agreements;
  - (c) assessment of the existing and future financial capacity of the principal debtor, to be based on total household income and average household expenses. Such an assessment should rest upon income and expense amounts that can be verified and documented. In its assessment of the existing financial capacity of the principal debtor, the bank shall demonstrate to having applied sufficiently conservative assessment of variable elements of income considered therein (e.g. variable lease payments and alike should not be accounted for, since there is always an option of their non performance), and
  - (d) possible effect of future contingent liabilities already assumed by the debtor (loans in particular), i.e. where the principal debtor acts as a guarantor or provided some other form of personal guarantee.
- (2) Total monthly loan obligations from Paragraph (1) of this Article shall mean a sum of monthly obligations under loans (to banks, MCOs and other financial institutions) and under credit cards (i.e. a monthly obligation under the total amount of approved credit card limit), as well as monthly obligations under already activated loan guarantees and monthly obligations under leasing facilities. According to its internal regulations, the bank may include therein also any other obligations of private individuals (existing or potential).
- (3) In its internal regulations, the bank shall define a maximum loan exposure limit for the principal debtor – private individual vs. his/her regular monthly net income. Therein, the loan exposure level of the principal debtor – private individual (including also the loan amount being a subject of the credit standing assessment of the principal debtor) may not encumber regular monthly income in an amount exceeding the one defined by the Enforcement Law and the Labor Law.
- (4) In the event that a loan agreement being negotiated entails a principal debtor – private individual and a co-debtor – private individual, the bank shall also perform the credit standing assessment of the co-debtor in line with Paragraph (1) of this Article. In its calculation of the

principal debtor's regular monthly income, the bank may also include regular monthly income of the co-debtor, but consider therein limits from Paragraph (3) of the same Article.

(5) In the event that a loan agreement being negotiated entails a principal debtor – private individual and a guarantor – private individual, the bank shall also perform the credit standing assessment of the guarantor in line with Paragraph (1) of this Article. Therein, in case of loan repayment by the guarantor/-s, relevant installment amount may not exceed one third of regular monthly net income of an individual guarantor.

(6) In the event that a loan agreement being negotiated entails a principal debtor – private individual and a co-debtor and/or guarantor – legal entity, the bank shall also perform their credit standing assessment in line with Paragraph (1) Article 5 herein.

(7) Credit standing assessment of the principal debtor, co-debtor and guarantor accompanied with documentation attesting to the assessment from Paragraphs (1), (4), (5) and (6) of this Article shall form an integral of the loan file of the principal debtor – private individual.

(8) In sense of this Article, principal debtor – private individual is also a private individual taking up a loan for purpose of performing his/her sole trade business.

## **Article 5**

(1) The bank shall perform the credit standing assessment of the principal debtor – legal entity by means of analyzing the following in particular:

- (a) profitability ratios;
- (b) liquidity ratios and adequacy of maturity structure of certain elements of assets and liabilities;
- (c) adequacy of cash flows from the aspect of debt settlement;
- (d) indicators of financial structure, primarily debt ratio;
- (e) industry sector of the debtor, its market position, specific characteristics and other relevant indicators;
- (f) its credit history, i.e. regularity of liabilities settlement under existing loan agreements;
- (g) assessment of the existing financial capacity of the loan beneficiary to be based on verifiable income and expense amounts, whereas an adequately conservative approach should be applied in relation to variable elements of income considered for this purpose, etc.

(2) Based on the credit standing assessment of the principal debtor – legal entity, as in line with Paragraph (1) of this Article, the bank shall attest to and be able to demonstrate that the principal debtor – legal entity is credit worthy in sense of servicing its current and future loan obligations in line with agreed conditions.

(3) In the event that a loan agreement being negotiated entails a principal debtor – legal entity and co-debtor and/or guarantor – legal entity, the bank shall also perform the credit standing assessment of the co-debtor in line with Paragraph (1) of this Article. The bank may perform a joint credit standing assessment for debtor and co-debtor.

(4) In the event that a loan agreement being negotiated entails a principal debtor – legal entity and co-debtor and/or guarantor – private individual, the bank shall also perform the credit standing assessment of the co-debtor and/or guarantor in line with Article 4, Paragraph (1) herein.

(5) Credit standing assessment of the principal debtor – legal entity, accompanied with documentation attesting to the assessment from Paragraphs (1), (3) and (4) of this Article shall form an integral of the loan file of the principal debtor – legal entity.

## **Article 6**

Provisions of this Decision shall also apply to any other private individual and legal entity that has in any way joined or assumed the loan obligation or guarantees for such an obligation.

#### **Article 7**

- (1) Banks shall bring their operations in compliance with this Decision within 90 days upon its effect date.
- (2) This Decision shall enter into force the next day after its publishing in the Official Gazette of the Federation B&H.

No. U.O.-56-8/14  
Sarajevo, 18.03.2014.

**CHAIRMAN  
OF THE MANAGEMENT BOARD**

**Rajka Topčić, B.Sc. (Econ.)**