

Pursuant to Article 5(1)(h) and Article 19(1)(c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of BiH", number: 75/17), Article 12(1)(d) of the Statute of the Banking Agency of the Federation of Bosnia and Herzegovina („Official Gazette of the Federation of BiH“, number: 3/18), Article 37(2) of the Law on Leasing („Official Gazette of the Federation of BiH, numbers: 85/08, 39/09, 65/13, and 104/16) and Article 11 of the Law on Protection of Users of Financial Services („Official Gazette of the Federation of BiH“, number: 31/14), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina adopted, at its session that was held on May 30th, 2018, the following

DECISION

ON A UNIFORM METHOD OF CALCULATING AND DISCLOSING THE EFFECTIVE INTEREST RATE ON FINANCIAL LEASING CONTRACTS

Article 1

Subject Matter of the Decision

- (1) This Decision lays down a uniform method of calculating and disclosing the effective interest rate on financial leasing contracts (hereinafter: EIR, local-language acronym: EKS), as well as closer leasing beneficiary notification requirements and method.
- (2) This Decision shall apply to leasing companies registered in the territory of the Federation of Bosnia and Herzegovina (hereinafter: Federation of BiH), the organizational units of leasing companies headquartered in the Republika Srpska or the Brčko District that operate in the Federation of BiH, as well as banks carrying out financial leasing operations, in accordance with the provisions of Article 6(3) of the Law on Leasing.

Article 2

Definitions

Individual terms used in this Decision shall have the following meanings:

- a) **„effective interest rate (EIR)“** is the end-of-period interest rate calculated on an annual basis, namely by applying the compound interest rate calculation method, by means of which the discounted cash inflows are balanced against the discounted cash outflows from the financing granted through the leasing agreed between leasing providers and leasing beneficiaries, which are known at the time of the disclosure of this rate;
- b) **„end-of-period interest calculation“** is a calculation method where interest is calculated and added to the principal, i.e. paid out, at the end of the accounting period. In such a calculation, interest is calculated at the end of the period with respect to the original amount, i.e. principal at the beginning of the basic capitalisation period;
- c) **„discounting“** is determining the present value of all future inflows and outflows under a particular financial leasing contract;
- d) **„compound interest calculation method“** is an interest calculation method where the calculated interest for the first accounting period is added to the original principal, so in the following accounting period interest is thus calculated on the original principal increased by the amount of interest from the first period. In all subsequent compounding periods, interest is calculated on the remaining principal increased by the interest calculated for the previous compounding period, i.e. interest is calculated on interest as well (the so called anatocism);
- e) **„leasing beneficiary“** is any person who, based on a leasing contract, acquires the right to hold and use the lease asset or a person who approached a leasing provider to use leasing services, but does not fall into the category of users of financial services defined in the provisions of the Law on Protection of Users of Financial Services;

- f) **„user of financial services“** is a natural person who uses or used financial services, or approached a leasing provider to use those services, and who uses financial services for the purposes which are outside his business or other commercial activity;
- g) **„leasing provider“** is a legal entity headquartered in the Federation of BiH and registered to perform leasing operations;
- h) **„financial leasing contract“** is a contract under which the leasing provider undertakes to acquire the lease asset from a supplier of the lease asset and to transfer it to the leasing beneficiary, i.e. the user of financial services, who undertakes to pay the agreed leasing fee to the leasing provider in a manner as defined in the contract;
- i) **„financial leasing contract participation“** means a particular amount of monies with which the leasing beneficiary/user of financial service participates in the financing of the lease asset;
- j) **„financial leasing contract repayment plan“** is a tabular overview of all chronologically shown flows of cash inflows and outflows arising from a financial leasing contract, which is intended for informing the leasing beneficiary/user of financial services, i.e. more up-to-date monitoring of the exercise of their financial rights and obligations;
- k) **„period to maturity“** is the part of the accounting period that remains from the moment of observation of the financing granted until the moment of its final recovery stipulated by the contract between the leasing beneficiary/user of financial services and the leasing provider;
- l) **„relative interest rate“** is the rate that is obtained by dividing the nominal interest rate by the number of the accounting periods and
- m) **„net financing amount“** is the difference between the gross purchase value of the lease asset and the participation.

Article 3

Calculating the Effective Interest Rate

- (1) When discounting, i.e. determining the present value of all future cash inflows and outflows under a financial leasing contract, the calendar number of days in a month and a 365/366-day year shall be applied.
- (2) The effective interest rate shall be disclosed in percentages, with two decimals and the rounding of the second decimal, and shall be valid from the calculation date.
- (3) When disclosing the effective interest rate, leasing providers shall use the term „effective interest rate“ and the acronym „EIR“.
- (4) In relation to translating the effective interest rate to the periods less than one year, the relative interest rate may not be used.

Article 4

Methodology for Calculating the Effective Interest Rate

The elements for calculating the effective interest rate, method of calculating and disclosing the effective interest rate and minimum contents of a financial leasing repayment plan shall be regulated more closely by the Methodology for Calculating and Disclosing the Effective Interest Rate on Financial Leasing Contracts, which forms an integral part of this Decision.

Article 5

Variable Nominal Interest Rate

- (1) Where a leasing provider contracts for the possibility of changing the nominal interest rate (a variable interest rate) in a financial leasing contract, which is an element of calculating the effective interest rate and which affects the amount of the individual leasing fee in the financial leasing contract repayment plan, the leasing provider must clearly define the conditions for those changes in the aforementioned contracts.

- (2) Only one element of the nominal interest rate in a financial leasing contract may be of a variable character, where variable elements shall be those that shall be publicly disclosed (the reference interest rate, consumer price index, etc.).
- (3) The interest rate variability may not be affected by the unilateral will of any of the contracting parties. The provisions on a variable interest rate need to include a bilateral clause.
- (4) The leasing provider shall inform the leasing beneficiary/user of financial services of any changes referred to in paragraphs (1) and (2) of this Article in writing and/or electronically, as well as provide the leasing beneficiary/user of financial services with the changed financial leasing contract repayment plan, no later than within 15 days before the changed interest rate takes effect.

Article 6

Advertising of Services

- (1) Leasing providers shall calculate the effective interest rate and make it available to the leasing beneficiaries/users of financial services (in the offer and other documents preceding the conclusion of the leasing contract) and the public.
- (2) Data on the interest rates on financial leasing contracts advertised by leasing providers in their business premises, as well as commercial messages and advertisements in public media, brochures and the like, informing the public, directly or indirectly, of the interest rates or of any other amount that is considered to be part of the price of a lease asset financed, shall also mandatorily include the effective interest rate.
- (3) The amount of the effective interest rate needs to be indicated, i.e. written in such a way as to be more conspicuous than the other elements.

Article 7

Contracting for Services and Repayment Plan

- (1) A leasing provider shall inform the leasing beneficiary/user of financial services of the effective interest rate before receiving an application for granting of financing through a financial leasing contract in writing, as well as before concluding a financial leasing contract.
- (2) A financial leasing contract must include an appropriate provision which will make it clear that the leasing beneficiary/user of financial services was informed of the terms and conditions of the financial leasing and the effective interest rate.
- (3) Only the value of the effective interest rate whose calculation is compliant with the provisions of this Decision may be shown in leasing contracts (as well as the other contract-related documents).
- (4) A leasing contract must include data on the amount of total leasing fee, which shall be the sum of all fees that will be paid by the leasing beneficiary directly to the leasing provider in the course of regular (agreed) repayment of the leasing contract.
- (5) In the case of user of financial services financing, the total amount of leasing fee shall also include the fee payments to third parties that are directly related to the financing of the lease asset (e.g. Casco insurance) in addition to the fees referred to in paragraph (4) of this Article.
- (6) Data on the disclosed total leasing fee shown in a leasing contract must correspond to all the other documents that form an integral or ancillary part of the leasing contract.
- (7) When concluding a financial leasing contract, the leasing provider shall present with the financial leasing contract a copy of a repayment plan with a clearly stated effective interest rate for the entire period during the duration of the contract to the leasing beneficiary/user of financial services, which shall be deemed to form an integral part of the contract, while the leasing provider shall place another copy of that plan, together with the contract, in the leasing file.

Article 8

Early Financial Leasing Repayment Fee

- (1) In the case of early financial leasing repayment, leasing providers may not calculate and charge a contract termination fee in percentage terms which is higher than the amount that they applied when processing the financial leasing contract.
- (2) The remaining debt (undue principal) as at the early repayment date shall constitute the basis for calculating the fee referred to in paragraph (1) of this Article.
- (3) By way of exemption from paragraph (1) of this Article, the fee for early repayment of a financial leasing granted to users of financial services shall be calculated and charged in accordance with the law that regulates the rights and the protection of users of financial services.

Article 9

Reporting Obligation

Leasing providers shall provide the Agency with monthly reports on weighted nominal and effective interest rates in accordance with the bylaws defining report submission by leasing providers to the Agency.

Article 10

Transitional and Final Provisions

The Decision on a Uniform Method of Calculating and Disclosing the Effective Interest Rate on a Financial Leasing Contract („Official Gazette of the Federation of BiH“, number: 46/09) and Instruction for the Application of the Decision on a Uniform Method of Calculating and Disclosing the Effective Interest Rate on a Financial Leasing Contract number 01-2445/10, dated June 11th, 2010, shall cease to apply as of the date of application of this Decision.

Article 11

This Decision shall enter into force on the eighth day following its publication in the „Official Gazette of the Federation of BiH“ and shall apply 90 days following the entry into force.

Number: U.O.-21-05/18
Sarajevo, May 30th, 2018

CHAIRWOMAN
OF THE MANAGEMENT BOARD

Ljerka Marić, M.Sc., B.Sc. in Economics, sgd

Methodology for Calculating and Disclosing the Effective Interest Rate on Financial Leasing Contracts

I GENERAL PROVISIONS

This Methodology regulates more closely the method and methodology for calculating and disclosing the effective interest rate (hereinafter: EIR) on financial leasing contracts (hereinafter: contract) granted by financial leasing providers according to the Decision on a Uniform Method of Calculating and Disclosing the Effective Interest Rate on Financial Leasing Contract (hereinafter: Decision).

II METHODOLOGY FOR CALCULATING THE EIR

Compound interest rate calculation and end-of-period interest rate calculation constitute the basis of the uniform method of calculating the EIR on financial leasing contracts. The uniform method of calculating the EIR is based on the net present value method.

By applying the EIR, the discounted cash inflows are balanced against the discounted cash outflows relating to financial leasing.

The effective interest rate accounts for the costs of financial leasing and other financial services payable by the leasing beneficiary/user of financial services (hereinafter: beneficiary, unless otherwise indicated), where those costs are expressed as the percentage of the total amount of those services on an annual basis.

For the purpose of this Methodology, cash flows shall be deemed to mean all cash flows between the leasing provider and the beneficiary which are related to a financial leasing contract, i.e. which are part of the terms and conditions of the contract or on which the contract conclusion is conditional. The cash flows from a third party to the leasing provider shall not be included in the cash flow for the EIR calculation since as they are not a direct cash flow between the leasing provider and the beneficiary (e.g. subsidised fee, interest and the like).

Since there are instances when drawing up an offer where the contract conclusion date, date of the payment to the supplier of the lease asset, date of the delivery of the lease asset, maturity date of the first instalment and maturity date of all the other cash outflows of the leasing beneficiary/provider are not known, the EIR shown in the offer does not have to be identical to the EIR shown in the repayment plan that is presented to the beneficiary on the conclusion of the contract and in the contract. When disclosing the EIR, it is important that it is clearly visible on which date of drawing up the contract and the repayment plan the disclosed EIR is valid.

III DRAWING UP THE REPAYMENT PLAN

In the case of the conclusion of a contract, the leasing provider presents to the beneficiary a repayment plan without auxiliary columns for the EIR calculation, together with a clearly stated EIR.

The leasing provider shall place the repayment plan with the auxiliary columns for the EIR calculation in its leasing file for the beneficiary. The auxiliary columns for the calculation of the EIR are:

- 1) net cash flow and
- 2) discounted net cash flow.

The name and address of the leasing provider (contact information) and the beneficiary must precede the heading of the repayment plan. The repayment plan also needs to contain the date of its drawing up and the note stipulating that the disclosed EIR is valid as at the date of drawing up the repayment plan. The repayment plan presented to the beneficiary when concluding a contract must contain the stamp of the leasing provider and the signature of the authorised person of the leasing provider.

Drawing up of the repayment plan is based on the assumed regular flow of all transactions (cash flows), implying regularity of all parties in meeting their obligations arising from the contract. The contract is considered to be valid in the period for which it has been concluded. For the purposes of this Methodology, it is assumed that the leasing provider and the beneficiary meet their obligations under the agreed terms and conditions and at maturity. For instance, if the contract stipulates a higher nominal interest rate in the case the beneficiary fails to duly fulfil their pecuniary obligations, that fact should be disregarded and the repayment plan should be prepared on the basis of the rate of interest envisaged for regular (timely) leasing repayments.

In the case of contracts containing the clauses on variability of the nominal interest rate and fees or commissions included in the EIR calculation, the EIR is calculated under the assumption that the rate of interest and other fees are fixed. The repayment plan, as well as the contract, must state the nominal interest rate, specifying whether it is a fixed or variable interest rate.

If the nominal interest rate changes during the duration of a contract, the fees or commissions included in the EIR calculation, the leasing provider shall notify the leasing beneficiary/user of financial service of the change in writing or electronically before it takes effect.

Contracts with a currency clause are reported in BAM at the exchange rate effective as at the date of the repayment plan preparation. The exchange rate based on which the previous conversion has been carried out must be indicated in the repayment plan. If a leasing provider uses more than one exchange rate (e.g. buying rate when financing a lease asset, selling rate when returning the funds), each of the individual exchange rates and their application should be indicated in the repayment plan.

Exceptionally, contracts with a currency clause may be reported in foreign currency (instead of in BAM) if the same exchange rate is used for the financing and return of the funds (e.g. middle exchange rate of the Central Bank of Bosnia and Herzegovina).

IV CALCULATION OF THE EIR ON FINANCIAL LEASING CONTRACTS USING THE REPAYMENT PLAN

The EIR on financial leasing contracts is calculated on the basis of the repayment plan. An overview of the essential elements of a Financial Leasing Contract Repayment Plan is provided as Template 1 with this Methodology and forms its integral part. A repayment plan may also include other data besides the prescribed essential elements.

Template 1 is to be completed as follows:

1) In the "Time period" column, the ordinal number of the period in which a cash flow is agreed. Time 0 is the period when the first cash flow occurs or the or the contract activation date (the beneficiary's cash flow always occurs at time 0). The takeover of the lease asset by the beneficiary constitutes a cash inflow equalling the net financing amount. The final period is the one in which the final cash flow occurs.

2) In the "Maturity date" column, the date when a particular cash flow is agreed shall be entered. It is important to indicate the exact date, since the actual (calendar) number of days in a month and 365/366-day year are used for calculating the EIR.

3) In the "Net financing amount" column, the beneficiary's cash inflow (the takeover of the lease asset by the beneficiary constitutes a cash inflow equalling the net financing amount) shall be entered.

4) In the "Leasing fees" column, the amount of the leasing fee instalment paid by the beneficiary to the leasing provider in a particular period shall be entered.

5) In the "Amortised value of lease asset" column, the part of the leasing fee instalment in a particular period relating to the repayment of the net financing amount (principal) shall be entered, where the final period in this column also contains the remaining value of the lease asset if it is provided for in the financial leasing contract.

6) In the "Interest" column, the interest amount paid from the leasing fee instalment in each period shall be entered.

7) In the "Other payments" column, all other payments paid by the beneficiary to the leasing provider under the concluded contract shall be entered. For contracts concluded with users of financial services, this column shall also include any payments paid to the leasing provider or a third party, which are directly related to the financing of the lease asset, i.e. constitute a condition for the utilisation of the lease asset, in accordance with the Law on Protection of Users of Financial Services.

These payments for **financing of users of financial services shall include:**

- the processing costs of the application for financing through leasing;
- the interim interest costs;
- the registration costs of the financial leasing contract in the pledge register,
- the value added tax (VAT);
- other costs related to the ancillary services that are the condition for concluding the contract, i.e. the condition for utilising the lease asset (e.g.: the cost of insurance of property and persons), in accordance with the agreed schedule of payments and the Law on Protection of Users of Financial Services.

The following shall be included under **financing of leasing beneficiaries:**

- the processing fee costs of the application for financing through leasing;
- the interim interest costs;
- the registration costs of the financial leasing contract in the pledge register;
- the value added tax (VAT) and
- other similar fees or commissions paid by the leasing beneficiary directly to the leasing provider.

These payments for **financing of beneficiaries shall not include:**

- the default interest or any other costs or penalties incurred as the result of a default on the contractual terms;
- the collateral costs, postage, telegram and telefax charges;
- the costs that are not known at the calculation date, which may be incurred in the course of the performance of the financial leasing contract and

- other similar fees.

8) In the "non-amortised value of lease asset" column, the outstanding part of the net financing amount (principal) shall be entered.

9) In the "Description" column, a short description of the cash flow at a particular period shall be entered.

10) In the "Net cash flow" column, the cash flow consisting of the difference between the sum of the data from columns 5, 6, and 7 and the data from column 3 at a particular period shall be entered.

11) In the "Discounted net cash flow" column, the discounted amount of the net cash flow from column 10 shall be entered, which shall be calculated by applying the following formula:

$$NNT_k \left(1 + \frac{EKS}{100} \right)^{-\left(\frac{d}{t}\right)}$$

Where:

- **NNT_k** is the net cash flow at k period,
- **EKS** is the effective interest rate, which is an approximation of the equation

$$\sum_k \left[NNT_k \left(1 + \frac{EKS}{100} \right)^{-\left(\frac{d}{t}\right)} \right] = 0.$$

while d/t is the sum of (1) number of days from time 0 date to 31 December of the same year, as a proportion of the number of days in the time 0 year, (2) number of years between the year of the cash flow that is being discounted and time 0 year, but excluding these two years, and (3) number of days between the start date of the cash flow that is being discounted, as a proportion of the number of days in the year of that cash flow, and 31 December of the previous year. The mathematical equation for computing d/t shall be expressed as follows:

$$\frac{d}{t} = \left[\frac{yyyy(0).12.31. - dat(0)}{t(0)} \right] + [yyyy(k) - yyyy(0) - 1] + \left[\frac{dat(k) - (yyyy(k) - 1).12.31.}{t(k)} \right]$$

t(0)=1+yyyy(0).12.31.-yyyy(0).01.01.

t(k) = 1+yyyy(k).12.31.-yyyy(k).01.01.

where:

dat(0) - time 0 date and

dat(k) - the date of the period in which the cash flow that is being discounted occurs.

When discounting the net cash flows, the calendar number of days in a month and a 365/366-day year shall be applied;

The obtained EIR must be reported in the repayment plan and must be more conspicuous than the other elements (information). As a rule, the EIR is at least equal to the contractual nominal

interest rate. Exceptionally, if the EIR calculated according to the provisions of this Decision is lower than the contractual interest rate or cannot be calculated, the leasing provider shall notify the beneficiary of this in writing, as well as provide the explanation of why the EIR is lower, i.e. why it does not have an economically meaningful solution (e.g. when it has a negative value or cannot be calculated). The repayment plan must indicate the currency in which the said amounts are reported.

For calculating the effective interest rate according to the formulas from this Methodology, the trial and linear interpolation methods shall be used, along with using an appropriate computing software.

FINANCIAL LEASIGN REPAYMENT PLAN										
Leasing provider				Leasing beneficiary / User of financial services						
(Street)				(Street)						
(City)				(City)						
Tel.:										
Fax:										
Currency		With a currency clause		Leasing fee instalment		Effective interest rate as a % (EIR)				
Net financing amount		Without a currency clause		Nominal interest rate		Fixed/variable				
					%					
Net purchase value										
Participation										

Time period	Maturity date	Net financing amount	Leasing fee instalment	Amortised value of lease asset	Interest	Other payments	Non-amortised value of lease asset	Description	Net cash flow	Discounted net cash flow
1	2	3	4=5+6	5	6	7	8	9	10=(5+6+7)-3	11
0										
1										
2										
3										
4										
5										
Total										

Note: The disclosed EIR is valid as at the date of drawing up the repayment plan.

Repayment plan activation date _____

Signature of authorised person and
stamp