

In accordance with Article 5, Paragraph (1), Item h) and Article 19, Paragraph (1), Item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 75/17) and Article 12, Paragraph (1), Item d) of the Articles of Association of the Banking Agency of the Federation of Bosnia and Herzegovina (FB&H Official Gazette No. 03/18), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina enacted, at its 48th meeting dd 24.08.2020, the following

DECISION
ON TEMPORARY MEASURES OF BANKS TO ENSURE RECOVERY FROM
NEGATIVE ECONOMIC CONSEQUENCES CAUSED BY „COVID-19”

Article 1

Subject

- (1) This Decision determines temporary measures aimed at recovering the economy from negative economic consequences caused by a pandemic of the virus disease “COVID-19” (hereinafter: the Pandemic) and at preserving stability of the banking sector of the Federation of Bosnia and Herzegovina. These measures include the following:
 - a) approving relief measures to bank customers being impacted by the negative effects of the Pandemic,
 - b) special rules of credit risk management rules that banks implement upon approval of special measures to customers,
 - c) measures of bank capital preservation.
- (2) Banks may approve to customers the relief measures, that is special measures, from Article 3 of this Decision to help them overcome difficulties they are experiencing and ensure easier regular settlement of obligations to banks over the following period.
- (3) This Decision applies to banks having their seat in the Federation of Bosnia and Herzegovina (hereinafter: FB&H) and holding a license issued by the Banking Agency of the Federation of Bosnia and Herzegovina (“the Agency”).

Article 2

Terms

- (1) Individual terms used herewith bear the following meaning:
 - a) **Loan obligations** are banks’ receivables from private individuals and legal entities related to the overall amount of due and non-due principal, accrued but unpaid interest and fees for loans and guarantees, as well as receivable based on financial lease and factoring deals defined by concluded agreements.
 - b) **Bank customer** shall mean, in sense of this Decision, every private individual or legal entity whose income, i.e. repayment sources have decreased to the extent that debt settlement to the bank has been difficult, has been prevented or will be prevented as caused by the effects of the Pandemic.
 - c) **Material amount** shall have the same meaning as in the Decision on Credit Risk Management and Accounting for Expected Credit Losses (FB&H Official Gazette No. 44/19, hereinafter: “the Decision on Credit Risk Management”).
 - d) **Special measures** shall mean temporary measures of loan prolongation, loan restructuring and other relief measures leading to modification of exposures approved by banks to private individuals and legal entities for purpose of their recovery from the

negative effects of the Pandemic, as well as for purpose of ensuring the credit worthiness and repayment capacity by bank customers and ensuring sustainable operations. This shall also include performance of all other measures regarding credit risk management.

Article 3 Special Measures

- (1) Special measures that banks can approve to customers are as follows:
 - a) moratorium, i.e. postponement of loan repayments by up to 6 months,
 - b) „grace“ period over repayment of principal for loans being repaid in annuities for a period of up to 12 months,
 - c) final maturity prolongation for loans being repaid in annuities,
 - d) prolongation of loans with one-off maturity, to include also revolving loans and transaction account overdrafts for a period up to 12 months, thus enabling customers to use the undrawn portion of the exposure as of the modification date during that period,
 - e) approval of an additional exposure amount for bridging over their current liquidity problems,
 - f) adjusting repayment schedule to reduced income or some other relevant parameter defined by a bank, and
 - g) other bank measures aimed at relaxing loan settlement by customers and ensuring their sustainable operations.
- (2) Special measures from Paragraph (1) of this Article may also encompass other modalities of adjusting method and dynamics of loan repayments, adequate relief measures and other forms of banks support to customers.
- (3) Special measures from Paragraphs (1) and (2) of this Article also require from banks to implement all necessary activities of adequate credit risk management and to adjust to current and temporary business circumstances. An objective here is to create conditions for subsequent recovery and mitigation of negative economic consequences caused by the Pandemic to sustainability of customers' business.
- (4) Treatment of special measures from this Article may refer to measures approved by banks that rest on individual analysis of credit risk, as this analysis further led to an assessment that approved measures will lead to regular loan settlement over the future period.
- (5) Banks shall approve special measures only to their customers.
- (6) Banks shall publish information on special measures approved to customers on their official web page.
- (7) The period of special measures from this Article shall not include the period of any previously approved special measures as per the Decision on Temporary Measures of Banks to Mitigate Negative Economic Consequences Caused by “COVID-19” (FB&H Official Gazette Nos. 22/20 and 37/20).

Article 4 Modality

- (1) For their customers, banks shall define appropriate modalities consisting of special measures from Article 3 herewith assisting them to establish a sustainable model of operations and regularly settle loan obligations towards banks over the future period.
- (2) Based on customer requests and the bank's credit analysis, this modality may include one special measure or combination of several such measures. It is based on this that banks have

assessed that approved measures will help customers to regularly settle obligations over the future period.

- (3) In case a modality includes a combination of special measures from Article 3, Paragraph (1), Items a) and b), banks may approve special measures for a period of up to 12 months.
- (4) Banks may define modalities by individual customers.
- (5) In case of defining modalities for legal entities exposed with other banks and non-deposit financial institutions, banks are to actively align activities with other banks and non-deposit financial institutions in order to determine a common modality for subsequent adjustment of actual loan repayment capacities.

Article 5 Modification

- (1) An exposure modification refers to partial or full change of an original agreement's terms and is to be considered by a bank as a significant modification in sense of the Decision on Credit Risk Management. This shall mean that banks would stop recognizing original financial assets items and start posting a new item, whereas they are not required to determine whether this assets item is purchased or originated credit impaired assets item (i.e. POCI assets item).
- (2) When implementing special measures, interest rate on modified exposures may not exceed the rate defined under the existing agreement.
- (3) When arranging special measures, banks shall not charge fees for additional service, meaning fees related to the exposure modification.
- (4) In case of changes to initially arranged loan conditions, banks are to obtain approval from all other parties to the loan agreement.
- (5) For the duration of a moratorium, banks shall not accrue legal default interest on the amount of due receivables.

Article 6 Special Rules of Credit Risk Management

- (1) Banks shall not approve special measures in line with this decision to customers defaulting over 90 days with debt settlement in materially significant amounts. This means that approval of special measures is only allowed to customers with credit risk grade 3 exposures subject to conditions where it is considered likely that a debtor shall not fully settle its liabilities to a bank as defined in Article 20, Paragraph (3), Items a) through d) of the Decision on Credit Risk Management.
- (2) As an exception, banks may approve special measures to customers allocated to the credit risk grade 3 that are found to be in the recovery process as per Article 22, Paragraph (3), Item b) of the Decision on Credit Risk Management and are found to be regular in debt settlement over the past 3 months (up until the request filing date).
- (3) In its information systems, banks shall identify modifications of loans allocated to credit risk grades 1 or 2 on the modification date as modifications prompted by the current debtor needs, while modifications of exposures with credit risk grade 3 as of the modification date shall be marked as restructured exposures.
- (4) An exposure resulting from a modification of customer loan obligations allocated to credit risk grade 1 at the modification date may remain in the credit risk grade 1 as of the modification date. Therein, the main criterion for any further allocation of exposures into credit risk grades shall be the number of days past due in materially significant amount.

- (5) An exposure caused by a modification of customer loan obligations allocated to credit risk grade 2 at the modification date may remain in the credit risk grade 2 as of the modification date. Therein, the main criterion for any further allocation of exposures into credit risk grades shall be the number of days past due in materially significant amount. Banks may assign these exposures to the credit risk grade 1, but only upon expiry of the recovery period defined in the Decision on Credit Risk Management.
- (6) An exposure caused by a modification of customer loan obligations allocated to the credit risk grade 3 as of the modification date may remain in the credit risk grade 3 and may be assigned to lower exposure category only upon expiry of the recovery period defined in the Decision on Credit Risk Management.
- (7) Banks shall not reduce the percentage of expected credit loss coverage without repayment of the modified or restructured exposure.
- (8) Banks shall intensify monitoring of risks resulting from the portfolio of customers being approved with special measures. In particular, banks shall be assessing indicators potentially showing difficulties with loan settlement after expiry of the period of approved special measures from Article 3 hereof.

Article 7

Approval of Special Measures

- (1) Banks may implement special measures based on written requests of customers, considering therein negative economic consequences caused by the Pandemic.
- (2) Before approving any special measures prescribed in this Decision, banks are required to inform customers of this possibility, as well as with all conditions and effects of such measures (in form of an offer). In turn, customers shall decide on the offer and deliver a written acceptance of the offer, that is, if they in fact accept it.
- (3) Banks shall ensure full documentation for such implemented activities.

Article 8

Preservation of Banks' Capital

- (1) Banks shall pay special attention to monitoring changes in their own business models, liquidity and risk profiles and shall accordingly maintain an adequate level and structure of capital to cover all risks they are or might be exposed to under present conditions of their operations.
- (2) Bank activities under Paragraph (1) of this Article include postponing and/or cancelling disbursement of dividend throughout validity of this Decision,
- (3) During validity of this Decision, banks may use a capital buffer based on adherence to Paragraph (2) of this Article and based on previous notification sent to the Agency.

Article 9

Reporting

- (1) Banks shall ensure monitoring of performance of special measures, keep special analytical records ensuring that all activities related to approval and arrangement of special measures from this Decision and their effects can be reviewed and be available for bank purposes and for purposes of Agency examinations.
- (2) Banks are to submit reports to the Agency on implementation of special measures using forms and deadlines to be subsequently prescribed by the Agency director.

Article 10
Program of Special Measures

- (1) Banks shall prepare and update the Program of Special Measures.
- (2) The Program of Special Measures being delivered to the Agency must be adopted by the Management Board of the Bank.
- (3) Banks shall define the following in the Program of Special Measures:
 - a) authorisations and responsibilities regarding the implementation of measures and activities,
 - b) types of temporary measures and reliefs, as well as their implementation preconditions,
 - c) lending activities documentation method,
 - d) communication with customers in sense of this Decision and other elements of relevance for implementation of this Decision,
 - e) system of monitoring and reporting in the bank and reporting to the Agency on activities and measures from this Decision and results of their implementation,
 - f) special measures of the internal control system.

Article 11
Transitional and Final Provisions

- (1) Requests for implementation of measures from Article 3 hereof may be submitted to banks until 31.12.2020.
- (2) Upon its effect date, this Decision supersedes the Decision on Temporary Measures of Banks to Mitigate Negative Economic Consequences Caused by “COVID-19” (FB&H Official Gazette Nos. 22/20 and 37/20).
- (3) This Decision enters into force on the eight day following its publication in the Official Gazette of FB&H.

No. U.O.-48-02/20
Sarajevo, 24/08/2020

CHAIRWOMAN OF THE
MANAGEMENT BOARD

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