

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 electronic meeting dd 20.03.2020, the following

**DECISION
ON TEMPORARY MEASURES OF BANKS TO MITIGATE
NEGATIVE ECONOMIC CONSEQUENCES CAUSED BY „COVID-19”**

Article 1

Subject

- (1) This Decision determines temporary measures aimed at mitigating negative economic consequences caused by a pandemic of the virus disease “COVID-19” 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 directly or indirectly impacted by the negative effects,
 - b) special rules of credit risk management rules that banks implement upon approval of special measures to customers,
 - c) preventive 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 solve 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 and holding a license issued by the Federation of Bosnia and Herzegovina Banking Agency (“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 every private individual or legal entity with worsened credit worthiness, meaning whose repayment sources have decreased to the extent that debt settlement to the bank has been prevented or will be prevented if this comes as a result of the negative effect of the “COVID-19” 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, “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 circumstances that may result in

difficult settlement of their loan and other obligations to banks. This shall also include performance of all other measures regarding credit risk management for purpose of mitigating negative consequences to credit worthiness and repayment capacity of such customers, as well as sustainability of both, operations of customers and banks alike.

Article 3 Special Measures

- (1) Special measures that banks can approve to customers from Article 2, Paragraph (1), Item b) are as follows:
 - a) moratorium, i.e. postponement of loan repayments,
 - b) „grace“ period over repayment of loan principal for loans being repaid in annuities for a period of up to 6 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 6 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) other bank measures aimed at relaxing loan settlement by customers and 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 from Article 2, Paragraph (1) Item b) of this Decision.
- (3) Special measures from Paragraph (1) 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 COVID-19 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 or portfolio risk and/or product risk, as well as sector structure of exposures, as this analysis further led to an assessment whether approved measures would lead to regular loan settlement over the future period
- (5) Banks shall approve special measures only to customers from Article 2, Paragraph 1, Item b) of this Decision.
- (6) Banks shall publish information on special measures for loan obligations on their official web page.

Article 4 Modality

- (1) For customers from Article 2, Paragraph (1), Item b) of this Decision, 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 their credit analysis, this modality may include one special measure or combination of several such measures. It is based on this that banks may assess whether approved measures would help customers to regularly settle obligations over the future period.

- (3) Modalities may be defined by individual customers or on portfolio basis.
- (4) 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.
- (5) Before they define an adequate modality and for purpose of preparing necessary credit analysis and identifying appropriate modality for customers, banks may approve them with a maximum moratorium until the state of “natural or other disaster in the territory of Bosnia and Herzegovina” gets revoked.
- (6) This moratorium shall not constitute a significant modification from Article 6, Paragraph (1) of this Decision and shall not have effect on maximum duration of the moratorium from Article 5, Paragraph (2) herewith.

Article 5 Moratorium

- (1) According to this Decision, the moratorium shall mean postponement of loan repayments from Article 2, Paragraph (1), Item a) of this Decision.
- (2) Being one of special measures in a modality, the moratorium may last up to 6 months.
- (3) During the moratorium, banks shall not calculate default interest related to past due receivables.

Article 6 Other Modifications

- (1) An exposure modification refers to partial or full change of an original agreement’s terms and is to be considered 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 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.

Article 7 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) of the Decision on Credit Risk Management.
- (2) Banka modifikacije kreditnih obaveza koje su bile raspoređene u nivo kreditnog rizika 1 ili 2 na dan modifikacije označava u svom informacionom sistemu kao modifikacije uzrokovane tekućim potrebama dužnika, a modifikacije izloženosti koje su raspoređene u nivo kreditnog rizika 3 na dan modifikacije označava u svom informacionom sistemu kao restrukturirane

izloženosti. 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.

- (3) 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, any further allocation of exposures into credit risk grades during validity of this Decision shall depend solely on the criterion of days past due in materially significant amount. Accordingly, a criterion of significant increase of credit risk shall not be considered here („watch“ list, criteria for deterioration of debtors’ financial ratios defined in banks’ internal regulations and alike).
- (4) 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, any further allocation of exposure into credit risk grades during validity of this Decision shall depend solely on the criterion of days past due in materially significant amount. Accordingly, during validity of this decision, banks do not have to consider the condition of debtor’s likeliness of full debt settlement as per Article 20, Paragraph (3) of the Decision on Credit Risk Management. An exception is with the criteria related to initiation of bankruptcy or liquidation proceedings over a debtor. 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.
- (5) 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.
- (6) Within three months since the effect date of this Decision, banks may use 29.02.2020 as a reference date for determining credit risk grade and days past due count instead of modification date.
- (7) Banks shall not reduce the percentage of expected credit loss coverage without repayment of the modified or restructured exposure

Article 8

Approval of Special Measures

- (1) Banks may implement special measures either based on requests by private individuals and legal entities as a part of their regular process of monitoring default exposures or at their own initiative, considering therein (direct and/or indirect) negative economic consequences of “COVID-19”.
- (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 signed acceptance of the offer, that is, if they in fact accept it.
- (3) Accepting the offer from Paragraph (2) of this Article shall be considered as a statement of will by a customer that he/she agrees with the changed lending terms. Under extraordinary circumstances caused by „COVID-19“, this statement of will may be, temporarily accepted in an electronic form until the original document has been obtained.
- (4) As an exception, if banks determine that a private individual would not be able to provide an answer to the offer for technical or other difficulties, they may activate the moratorium from

Article 4, Paragraph (5) of this Decision based on subsequent notification of such customer and documenting reasons for such an action by the banks' competent approval authority.

- (5) Banks are required to define how they shall keep records of activities performed regarding this Article and ensure full documentation such implemented activities.

Article 9

Preservation of Banks' Capital

- (1) Banks shall pay special attention to monitoring changes in their own business models, liquidity and risk profiles, especially if the possibility from Article 8, Paragraph (4) of this Decision is applied. Therefore, banks are to 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 all necessary measures such as:
 - a) retaining profit from 2019,
 - b) Over validity of this Decision, postponing and/or cancelling disbursement of dividend, as well as variable compensations to management board and supervisory board members and to employees whose professional activities have major impacts on the bank's risk profile,
- (3) During the state from Article 4, Paragraph (5) 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 10

Reporting

- (1) Banks are required to 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 effects of special measures using forms and deadlines to be prescribed by the Agency director within a period of 10 (ten) days since effect date of this Decision.

Article 11

Obligatory Activities of Banks

- (1) Banks are required to develop a Program of Special Measures and submit this to the Agency within 15 (fifteen) days since the effect date of this Decision.
- (2) Prior to being delivered to the Agency, the Program of Special Measures and the reports must be approved by the banks' management board.
- (3) Banks shall define the following in their Program of Special Measures:
 - a) authorisations and responsibilities regarding the implementation of measures and activities,
 - b) monitoring and reporting system in the bank and towards the Agency regarding activities and measures from this Decision, as well as relevant results,
 - c) types of temporary measures and reliefs, as well as their implementation preconditions,
 - d) lending activities documentation method,
 - e) communication with customers in sense of this Decision and other elements of relevance for implementation of this Decision,
 - f) special measures of internal control system.

Article 12
Validity

This Decision is of temporary character and is to be implemented until being revoked by the Agency.

Article 13
Entry into Force

This Decision enters into force on the day following its publication in the Official Gazette of FB&H.

No. U.O.-41-01/20
Sarajevo, 20/03/2020

CHAIRWOMAN OF THE
MANAGEMENT BOARD

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