

Pursuant to Article 5, paragraph (1) item h) and Article 9, paragraph (1) item c) of the Law on the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH”, No. 75/17) and Article 12, paragraph (1), item d) of the Statute of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH”, No.03/18) and Articles 27,28, 81 and 95 of the Banking Law (Official Gazette of the Federation of BiH, No. 27/17), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina, at its session held on July 10, 2019 adopted

**DECISION ON
AMENDING AND SUPPLEMENTING
THE DECISION ON CALCULATION OF BANK CAPITAL**

Article 1

(1) In the Decision on calculation of bank capital (Official Gazette of the Federation of BiH, No. 81/17) Article 2, paragraph (1) item b) is amended to read:

“b) **Accumulated other comprehensive income** has the same meaning as under International Accounting Standards, excluding revaluation reserves from property, plant and equipment and intangible assets, and in calculation of regulatory capital it shall be expressed same as in the bank financial reports, reduced by related tax effects.

(2) In paragraph (1) item cc) after the word “**Independent valuer**” shall be added words “**(internal or external)**”:

(3) Paragraph (1) item ll) is amended to read:

“ll) **Exposures at default** - the exposures which meet one or both of the following conditions:

1) debtor is in default with repayment of liabilities to the bank for longer than 90 days in a materially significant amount. Materially significant amounts shall pertain to claims from:

- Natural person in the amount exceeding BAM 200 KM and 1% of the total debtor’s on-balance sheet exposure,
- Legal entity in the amount exceeding BAM 1000 and 1% % of the total debtor’s on-balance sheet exposure

2) The bank considers that the obligor is unlikely to pay its credit obligations to the bank, the parent undertaking or any of its subsidiaries in full, without recourse by the bank to actions such as realizing security. The bank shall determines default status for legal entities at the level of the total claims from that entity. Notwithstanding, for exposures to natural persons, banks may determine default status based on individual exposure, and not at the level of total claims against debtor. Thereby, where the gross book value of the exposure to natural person in default status exceeds 20% of the total gross book value of exposure to that natural person, it’s considered that default status occurred for all exposures to that person.

(4) Paragraph (1) item oo) is amended to read:

„oo) **Credit risk value adjustments** – the amount of booked expected credit losses”.

(5) In paragraph (1) item pp), the word „risks” is replaced by „rating“.

Article 2

(1) In Article 7, paragraph (1) item j) the word “insolvency” is replaced by the word “bankruptcy”.

(2) In paragraph (1) item m) the word, “insolvency” is replaced by the word “bankruptcy”.

Article 3

In Article 9, paragraph (1) after the item l), the item m) is added that reads as:

„m) the amount of exposures resulting from securitization operations. Where the bank decide to not present this item as deducted from the own funds, it shall assign it the risk weight of 1250%“.

Article 4

In Article 11, paragraph (6) item a) the word “insolvency” is replaced by the word “bankruptcy”.

Article 5

(1) In Article 16, paragraph (2) item d) the word “insolvency” is replaced by the word “bankruptcy”.

(2) In paragraph (2) item f) the word “insolvency” is replaced by the word “bankruptcy”.

Article 6

In Article 17, paragraph (1) item d) line 1) the word “insolvency” is replaced by the word “bankruptcy”.

Article 7.

(1) In Article 22, paragraph (2) item j) the words “item g) of this paragraph” is replaced by the words “Article 30, paragraph (3) of this Decision”.

(2) In paragraph (2) item l) the word “insolvency” is replaced by the word “bankruptcy”.

Article 8.

In Article 30, paragraph (3) the words “where the following conditions are met:“ are replaced by words „where, in addition to the conditions laid down in paragraph (1) of this Article, also one of the following conditions met: “.

Article 9

(1) Article 34, paragraph (5) is deleted.

(2) The paragraph (6) is now paragraph (5).

Article 10

In Article 39, paragraph (2) the word „total“ is replaced by the word „regulatory“.

Article 11

U Article 40, paragraph (9) the words „from paragraph (1) “are replaced by the words „from paragraph (7) “.

Article 12

U Article 43, paragraph (2) after the words „the FBiH“ the words “and RS“ are added.

Article 13

Article 44, paragraph(1) the first and second sentences are amended to read:

“The exposure value of an asset item shall be its accounting value remaining after provisions, additional value adjustments in accordance with Article 5, paragraph (3) of this Decision and other own funds reductions related to the asset items. The exposure value of an off-balance sheet item listed in Annex I of this Decision shall be its accounting value after deduction of loss provisioning for off-balance sheet exposures, multiplied by the following conversion factors”.

Article 14

In Article 49, paragraph(1) the words „credit risk“ are replaced with the words „the credit rating“.

Article 15

Article 50, paragraph (6) is amended to read:

„(6) For exposures indicated in the previous paragraph, except the exposures to the Central Government of BiH and the CBBH in EUR or with EUR currency clause, a bank shall calculate the risk weighted exposure amount as follows:

- a) in 2019 - 50% of the risk weight assigned to these exposures under paragraph (2) of this Article;
- b) in 2020 and onwards - 100% of the risk weight assigned to these exposures under paragraph (2) of this Article;.

For exposures to the Central Government of BiH and the CBBH in EUR or with EUR currency clause the risk weight of 0% shall be applied during the currency board in BiH.“

Article 16

In Article 52, after the paragraph (5), a new paragraph (6) is amended to read:

„(6) In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central governments or regional governments or local authority due to the legal obligations imposed to central government, regional government or local authority to settle all obligations of entity concerned.

Article 17

Article 59, paragraph (3) is amended to read:

„(3) Exposures that do not meet criteria under paragraph (1) items a) to c) of this Article, and criteria to be classified into other exposure classes in accordance with the decision tree, shall be classified as:

- a) retail exposure class, in case of natural persons, and the risk weight of 100% shall be assigned,
- b) corporate exposure class, in case of small and medium-sized companies, and the risk weight of 100% shall be assigned.”

Article 18.

(1) In Article 60, paragraph(2) is amended to read:

„(2) The part of an exposure treated as fully secured by immovable property shall not be higher than 80% of the market value of residential property i.e. 60% of the market value of the commercial property, and for the part of exposure which exceeds 80% of the market value of residential property or 60% of the market value of commercial property shall be assigned the risk weight applicable to the unsecured exposures of the counterparty involved.”

(2) Paragraph(6) is amended to read:

„(6) For the exposure which under other provisions of this Decision a more favorable risk weight could be assigned, than the one assigned under the exposures secured by immovable property, that more favorable risk weight shall be assigned”.

Article 19.

(1) Article 61, paragraph (1) item a) the word “secured” is replaced by the word “unsecured”.

(2) Article 61, paragraphs (3) to (6) are amended by new paragraphs (3) to (8) to read:

“(3) A default shall be considered to have occurred with regard to a particular obligor when either or both of the conditions under Article 2, paragraph (1) item II) have taken place or when:

- a) the obligor is past due more than 90 days in a materially significant amount, except where a bank proves that default occurred due to technical error,
- b) the bank considers that the obligor is unlikely to pay its credit obligations to the bank, the parent undertaking or any of its subsidiaries in full, without recourse by the bank to actions such as realizing security

(4) Materially significant amount under paragraph 83) item a) of this Article shall pertain to materially significant amount as defined under Article 2, paragraph (1) item II) of this Decision.

(5) For the purpose of paragraph (3) item a) of this Article, counter of days past due shall start on the date when the total claims due from the obligor exceed a materially significant amount under paragraph (4) of this Article, and counting stops when the total claims get down below that level. Thereby, counting of days past due for:

- a) Overdrafts, days past due commence once an obligor has breached an advised limit, has been advised a limit smaller than current outstanding, or has drawn credit without authorization and the underlying amount is material under paragraph (4) of this Article. Thereby, an advised limit comprises any credit limit determined by the bank and about which the obligor has been informed by the bank.

- b) days past due for credit cards commence on the minimum payment due date.
- (6) Banks shall have documented policies in respect of the counting of days past due, in particular in respect of the granting of extensions to settle obligations, renewing exposures and similar. These policies shall be applied consistently over time, and shall be in line with the internal risk management system,
- (7) Default occurred due to technical error under paragraph (3) item a) of this Article and conditions under which is considered that the obligor is unlikely to pay in full its obligations to the bank under paragraph 3) item b) of this Article shall have the same meaning as in the Decision on credit risk management and determination of expected credit losses.
- (8) It shall be considered that condition for exposure classification to default exposure classes ceased to be valid, only after all conditions for exposure reclassification from credit risk level 3 to lower credit risk levels are met, as defined by the Decision on credit risk management and determination of expected credit losses.

Article 20.

Article 87, paragraph (6) the first sentence is amended to read:

“For transactions other than those referred to in paragraphs (4) and (5), banks may assign a 0 % risk weight where the exposure and the collateral are denominated in the same currency, or where the currency of exposure and the collateral is BAM and EUR or vice versa, and during the currency board in BiH if either of the following conditions is met:”

Article 21.

In Article 89, after the paragraph (6) a new paragraph (7) is added to read:

„(7) In the event of currency mismatch between the exposure and deposits used to cover exposure, banks shall apply the volatility adjustments form Table 16 of this Article, only that during the currency board in BiH, the volatility adjustments of 0% shall be applied when the convertible mark or euro are currencies of exposures or vice versa.

Article 22.

U Article 94, paragraph (2) the last sentence is changed to read:

„ Where there is no currency mismatch, “Hfx” is equal to zero, and during the currency board in BiH the zero value shall be applied for the cases when the BAM or EUR, or vice versa is the currency of exposure and of unfunded credit protection“.

Article 23.

- (1) Article 105, paragraph (2) item a) is changed to read: „a) charges for value adjustments and provisioning to cover expected credit losses for off-balance sheet items, or for income based on their reduction, and business operating expenses.”
- (2) Paragraph(3) is amended to read:
- „(3) Exceptionally,when calculating the relevant indicator a bank shall include in operating expenses fees paid for outsourcing services rendered by third parties which are not a parent or subsidiary of the bank or a subsidiary of a parent

Article 24

Annex IV - list of third countries that apply regulatory and supervisory requirements equivalent to those applied in the European Union, the wording below the title is amended to read:

“Regulatory and supervisory requirements for banks (link to Articles 43, 50 and 52 of this Decision)

- (1) Argentina
- (2) Australia
- (3) Brazil
- (4) Canada
- (5) China
- (6) Faroe Islands
- (7) Greenland
- (8) Guernsey
- (9) Hong Kong
- (10) India
- (11) Isle of Man
- (12) Japan
- (13) Jersey
- (14) Mexico
- (15) Monaco
- (16) New Zealand
- (17) Saudi Arabia
- (18) Singapore
- (19) South Africa
- (20) Switzerland
- (21) Turkey
- (22) USA

Regulatory and Supervisory requirements for investment firms (link to Article 43 of this Decision)

- (1) Australia
- (2) Brazil
- (3) Canada
- (4) China
- (5) Hong Kong
- (6) Indonesia
- (7) Japan
- (8) Mexico
- (9) South Korea
- (10) Saudi Arabia
- (11) Singapore
- (12) South Africa

(13) USA

Source:<https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1559203716722&uri=CELEX:32019D0536>

REMARK: While noting that the aforementioned list is subject to changes by the European Commission, the bank shall use an updated list of third countries published by the European Commission, as a relevant source to download updated information.

Article 25.

- (1) This Decision shall enter into force on the eighth day following its publication in the Official Gazette of the Federation of BiH.
- (2) Provisions under Article 1, paragraph (3), 9, 13 and 19 of this Decision shall apply starting as of 01.01.2020.

**No: U.O.-35-1/19
Sarajevo, 10.07.2019**

**CHAIRWOMAN
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