

Pursuant to Article 37 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska", No.: 04/17 and 19/18), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b, and Article 37 of the Law on Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 59/13 and 4/17) and Article 6, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17), the Management Board of the Banking Agency of the Republika Srpska, on its 11<sup>th</sup> session held on May 28, 2019, adopted the following

## **DECISION**

### **ON AMENDING THE DECISION ON CALCULATION OF CAPITAL IN BANKS**

#### **Article 1**

(1) In the Decision on the Calculation of Capital in Banks (Official Gazette of the Republika Srpska, No. 74/17 and 114/17), Article 2, Paragraph 1, Item 1 shall be changed and read as follows:

"Accumulated other comprehensive income - has the same meaning as in the International Accounting Standard 1, excluding revaluation reserves for property, plant and equipment and intangible assets, and when calculating regulatory capital is disclosed in the same manner as in the bank's financial statements, netted for related tax effects."

(2) Article 2, Paragraph 1, Item 37 shall be changed and read as follows:

"Defaulting exposures - exposures for which one or both of the following conditions are fulfilled:

- 1) the debtor is late in repayment of overdue liabilities to the bank for more than 90 days in material amount,
- 2) the bank considers it certain that the debtor will not fully settle its obligations to the bank without considering the possibility of collateral (Unlikelihood to pay – UTP).

The materially significant amount referred to in item 1 of this Paragraph shall be understood to mean the total amount receivables due from:

- 1) natural person in the amount of more than 200 KM and 1% of total debtor balance exposure, and
- 2) legal person in the amount of more than KM 1,000 and 1% of total debtor balance sheet exposure.

The Bank shall determine the status of default for legal persons at the level of total receivables from that person. Exceptionally, in the case of exposures to natural persons, the bank may determine the default status at the level of individual exposure and not at the level of the bank's total receivables from

that individual. Moreover, if the gross carrying amount of an exposure to the natural person in default status exceeds 20% of the total gross book value of the exposure to that natural person, the default status of all exposures to that person shall be deemed to have occurred. "

(3) Article 2, Paragraph 1, Item 40 shall be changed and read as follows:

"Credit risk adjustment - the amount of the carrying amount of expected credit losses recorded".

(4) In Article 2, Paragraph 1, Item 41, the wording "risks" shall be changed to "ratings".

## **Article 2**

(1) Article 6, Paragraph 1, Item 4 shall be changed and read as follows:

"4) accumulated other comprehensive income,"

(2) In Article 6, Paragraph 2, the term "other comprehensive result" shall be changed to "accumulated other comprehensive result".

## **Article 3**

In Article 9, Paragraph 1, the following Item 13 shall be added:

"The amount of illiquidity arising from the securitization operations. If a bank chooses not to present this item as a deduction from capital, it shall assign a risk weight of 1,250% to that exposure. "

## **Article 4**

In Article 16, Paragraph 2, Item 4, the wording "insolvency" shall be changed to "bankruptcy".

## **Article 5**

In Article 30, Paragraph 3, the wording "and" shall be changed to "or".

## **Article 6**

Article 34, Paragraph 5 shall be deleted and the previous Paragraph 6 shall become Paragraph 5.

## **Article 7**

In Article 40, Paragraph 5, the wording "referred to in Paragraph 1" shall be replaced by the wording "referred to in Paragraph 3".

## **Article 8**

In Article 44, Paragraph 1, the part of the text in the first sentence shall be deleted that reads: "in accordance with the International Accounting Standards, increases or decreases by the difference between value adjustments and provisions calculated in accordance with the Agency's methodology", and the first part of the second sentence shall be changed and read as follows: "The exposure value of the off-balance sheet items listed in Annex 1 of this Decision represents the amount of its carrying amount reduced by provisions for expected credit losses for off-balance sheet exposures multiplied by the following conversion factors:".

## **Article 9**

The first sentence of Article 50, Paragraph 6 shall be changed and read as follows:

"For exposures referred to in the previous Paragraph, except for exposures to the Council of Ministers of BiH and the Central Bank of BiH in euros or with a foreign currency clause in euros, the bank shall calculate the risk weighted exposure amount as follows:" and the following new sentence shall be added to read:

"For exposures to the Council of Ministers of BiH and the Central Bank of BiH in euros or with a foreign currency clause in euros, 0% risk weight is applied for the duration of the currency board in BiH."

## **Article 10**

In Article 52, the following Paragraph 6 shall be added:

"In exceptional cases, exposures to public sector entities may be treated as exposures to central governments or regional governments and local authorities due to the legal obligation of the central government, regional government or local authority to meet all obligations of that entity."

## **Article 11**

Article 59, Paragraph 3 shall be changed and read as follows:

"Exposures that do not meet the criteria in Paragraph 1, Items 1-3 of this Article, as well as the conditions for allocation to other exposure categories in accordance with the decision tree, shall be allocated to:

- 1) the category of retail exposure, if it is a natural person, and they are assigned a risk weight of 100%,
- 2) the exposure category to companies, in the case of small and medium-sized companies, and assigned a risk weight of 100%. "

## **Article 12**

Article 60, Paragraph 2 shall be changed and read as follows:

"Part of the exposure deemed to be fully secured by real estate may amount to a maximum of 80% of the market value of the residential real estate, i.e. 60% of the market value of the commercial real estate, and for the part of exposure exceeding the stated percentages the same risk weight which is assign to unsecured exposures of that counterparty shall be assigned to this part."

Article 60, Paragraph 6 shall be changed and read as follows:

"Exposure to which, in accordance with other provisions of this Decision, would be assigned a more favorable risk weight than the weighting awarded if the exposure was secured by real estate, a more favorable risk weight shall be assigned."

## **Article 13**

In Article 61, Paragraphs 3-6 shall be replaced by the following Paragraphs 3-8 which read as follows:

(3) The status of default is considered to have occurred when one or both of the conditions referred to in Article 2, Paragraph 1, Item 37 are fulfilled, or when:

- 1) the debtor is late in repayment of overdue liabilities to the bank for more than 90 days in a material amount, unless the bank proves that the delay was due to a technical error,
  - 2) the bank considers it certain that the debtor will not fully settle its obligations to the bank without considering the possibility of collateral collection.
- (4) The materially significant amount referred to in Paragraph 3, Item 1 of this Article shall mean a materially significant amount as defined in Article 2, Paragraph 1, Item 37 of this Decision.

(5) For the purposes of Paragraph 3, Item 1 of this Article, the counter of the day of delay shall be included on the date when the total overdue receivables from that debtor exceed the material amount referred to in Paragraph 4 of this Article, and shall be excluded when the total receivables fall below that level.

Wherein, counting the delay days for:

1) account overdraft starts on the day when the debtor exceeds the approved limit, when it makes payments from the transaction account without coverage or when the approved limit is reduced and is lower than the amount currently used, and their amount is materially significant in accordance with Paragraph 4 of this Article. Wherein, an approved limit is any credit limit specified by the bank and notified to the debtor thereof.

2) credit card exposures begin on the day the minimum payment obligation is due.

(6) The bank is required to have documented policies regarding the counting of delay days, especially with regard to the extension of the deadline for fulfillment of obligations, the renewal of exposures and similar. These policies must be applied consistently over time and be consistent with the risk management system in place.

(7) The delay due to a technical error referred to in Paragraph 3, Item 1 of this Article, and the conditions when it is considered certain that the debtor will not fully discharge its obligations to the bank referred to in Paragraph 3, Item 2 of this Article, have the same meaning as in the Decision on Credit Risk Management and determining expected credit losses.

(8) It is considered that the condition for assigning exposures to the defaulted exposure category is terminated only when all conditions for reclassifying exposures from credit risk level 3 to lower credit risk levels are met as defined by the Decision on credit risk management and determining expected credit losses.

#### **Article 14**

(1) Before Article 77 the title of section "2. Recognition of tangible and intangible credit protection" shall be added and the title "2. Recognition of intangible credit protection" before Article 80 shall be deleted.

(2) Before Article 82 the title of section "3. Requirements for tangible and intangible credit protection" shall be added, and the title "3. Intangible Credit Protection " before Article 84 shall be deleted.

#### **Article 15**

(1) In Article 87, Paragraph 3, the second sentence shall be changed and read as follows:  
"For this purpose, the off-balance sheet exposure of the items listed in Annex 1 of this Decision shall be equal to the net value of the item before applying the conversion factor."

- (2) In Article 87, Paragraph 6, after the wording "currency", the part of the sentence "or when the currency of exposure and collateral is a convertible mark and the euro or vice versa, and for the duration of the currency board in BiH" shall be added.

#### **Article 16**

In Article 89, Paragraph 7 shall be added and read as follows:

"Where there is a foreign currency mismatch between the exposure and the deposit used as exposure collateral, the bank shall apply a corrective factor of 8%, except that for the duration of the currency board in BiH the corrective factor of 0% shall be applied when the currency of the exposure and deposit is a convertible mark and the euro , or vice versa."

#### **Article 17**

In Article 94, Paragraph 2, the last sentence shall be changed and read as follows:

"If there is no foreign exchange mismatch, 'Hfx' equals zero and the value of zero applies during the currency board of BiH in cases where the currency of exposure and intangible credit protection is a convertible mark and the euro, or vice versa."

#### **Article 18**

(1) In Article 105, Paragraph 2, Item 1, after the wording "off-balance sheet items", the wording "as well as income from reductions thereof" shall be added.

(2) Article 105, Paragraph 3 shall be changed and read as follows:

"Exceptionally, when calculating the relevant indicator, the bank shall include the costs of fees for paid outsourced services if the third party is not the bank's parent company, a subsidiary of the bank or a subsidiary of the parent company."

#### **Article 19**

(1) This Decision shall enter into force on the eighth day following its publication in the „Official Gazette of Republika Srpska“.

(2) The bank shall be obliged to apply the provisions of Article 1, Paragraph 2, Article 6, Article 8 and Article 13 of this Decision as of 01/01/2020.

Number: UO-85/19

Date: May 28, 2019

THE PRESIDENT OF  
THE MANAGEMENT BOARD

Bratoljub Radulović