

Pursuant to Article 109 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska", No.: 4/17), Article 5, Paragraph 1, Item д, Article 20, Paragraph 2, Item б 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 б and Article 19, Paragraph 1, Item б of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17), Management Board of the Banking Agency of Republika Srpska, at its session held on September 19, 2017, adopted the following

**DECISION ON LARGE  
EXPOSURES  
CHAPTER I  
GENERAL PROVISIONS**

**Subject**

**Article 1**

- (1) The Decision on Large Exposures (hereinafter: Decision) shall prescribe the minimum requirements in the management of large exposures to which the bank is exposed in its business operations, and which shall include the following: definition of exposures, the calculation of exposure values, definition of large exposures, limitations of large exposures, harmonization with requirements for large exposures, the calculation of additional capital requirement for large exposures arising from items in the trading book, procedures that prevent banks avoiding additional capital requirements, recognized credit risk mitigation techniques, exemptions and the calculation of the effects of applying credit risk mitigation techniques, swap methods, the determination of total exposure to one person or a group of related persons in relation to transactions with respective assets, the determination and management of large exposures and reporting requirements.
- (2) This Decision shall apply to all banks seated in Republika Srpska to which the Banking Agency of Republika Srpska (hereinafter: Agency) has issued an operating license.
- (3) Issues relating to the management of large exposures in banks, which are not defined under this Decision, but are defined under a law or another by-law regulation, shall be subject to the application of the provisions of that law or another by-law regulation.
- (4) Bank shall be under obligation to supervise and control their large exposures in accordance with this Decision.

**Definitions**

**Article 2**

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

- a) **Controlling (qualifying) share** – in accordance with Article 2, Paragraph 1, Item 12 of the Banking Law of Republika Srpska.
- b) **Group of related persons (clients)** - in accordance with Article 2, Paragraph 1, Item 24 of the Banking Law of Republika Srpska.

Notwithstanding Sub-Items 1) and 2) of the definition of a group of related persons referred to in Article 2, Paragraph 1, Item 24 of the Banking Law of Republika Srpska, when the Council of Ministers of Bosnia and Herzegovina (hereinafter: BiH), the Government of Republika Srpska, the Government of the Federation of BiH and the Government of Brčko District of BiH have control/qualifying share in legal person or are directly interrelated to another one or more natural or legal persons, a group composed of all above mentioned entities, which consist of all natural or legal persons in which they, in accordance with Sub-Item 1 have control/qualifying share or are, in accordance with Sub-Item 2 interrelated with them, does not have to be considered a group of related persons. Instead, the existence of a group of related persons shall be determined separately for the Council of Ministers of BiH, the Government of Republika Srpska, the Federation of BiH and the Government of Brčko District of BiH with other natural or legal persons and may be assessed separately for each listed person in which they, in accordance with Sub-Item 1, have qualifying/controlling share or which are interrelated, in accordance with Sub-Item 2, and for all natural and legal persons in which listed entities, in accordance with Sub-Item 1, have qualifying/controlling share or which are, in accordance with Sub-Item 2 interrelated with those entities. For the purpose of determining a group of related persons on the basis of economic or financial relatedness, a bank shall take into account the following qualitative criteria at a minimum:

- 1) when 50% or more of gross income or gross costs of one contractual party (at an annual level) is derived from transactions with another contractual party (e.g. an owner of a residential/commercial building and a lease holder that is paying a significant portion of the lease),
- 2) when one contractual party has, in full or partially, guaranteed for the exposure of another contractual party or is, in another way, accountable, and the exposure is so significant that it is probable that the status of default on liabilities of the provider of the guarantee shall onset,
- 3) when business operations of a person (e.g. a producer) depend on one or more suppliers, i.e. traders, and it would take a long period of time to identify a replacement for them, i.e. when a significant portion of production of a certain producer is intended for one or a smaller number of buyers,
- 4) when a bank is granting a loan to another contractual party and that contractual party (the loan recipient) has no other source of income from which the credit could be repaid in full, except the expected funding source for loan repayment,
- 5) when it is probable that the financial problems of one contractual party would cause difficulties for the other contractual parties in the context of full and timely repayment of liabilities,
- 6) when it is probable that insolvency or the status of default on liabilities of one contractual party would be connected with insolvency or status of default on liabilities of other contractual parties,
- 7) when two or more other contractual parties are relying on the same source for the majority of their financing, even in case of the status of default on liabilities of the common source of financing, and it is not possible to identify an alternative source of financing - in that case, the problems with the financing of one contractual party would probably spread to another contractual party because of one-way or two-way dependence on the same main source of financing.

However, there may be circumstances in which some of the aforementioned criteria would not automatically mean economic or financial interrelatedness that would result in the relatedness of two or more other contractual parties. Under the condition that the bank may prove that one contractual party that is economically closely related with another contractual party may overcome its financial difficulties or even the status of default on liabilities of that other contractual party by identifying alternative business partners or sources of financing within an adequate timeframe, it does not mean that there is automatically relatedness between the persons, but instead it is necessary for the bank to determine whether the financial difficulties may be transferred among persons.

- c) Parent company of a legal person – in compliance with Article 2, Paragraph 1, item 13 of the Banking Law of RS;
- d) Subsidiary of a legal person - in compliance with Article 2, Paragraph 1, Item 14 of the Banking Law of RS;
- e) Eligible capital - in compliance with Article 109, Paragraph 4 of the Banking Law of RS;

- f) Transaction - exposure classified in the exposure class referred to in Article 48, Item 14 of the Decision on Calculation of Capital in Banks, which relates to the exposures in the form of stock or share in investment funds and other transactions that relate to exposures towards respective assets;
- g) Unknown person - one hypothetical person to which the bank assigns all exposures for which it failed to determine a debtor, under the condition that Article 18, Paragraph 2, Items 1 and 2, and Paragraph 3, Item 1 of this Decision are not applicable.

## **CHAPTER II**

### **CALCULATION OF LARGE EXPOSURES**

#### **1. Definition of exposure and calculation**

##### **Definition of exposure**

##### **Article 3**

For the purposes of this Decision, "exposure" shall mean any balance sheet or off-balance sheet item for which credit risk under the standardized approach is being calculated, without the application of risk weights determined on the basis of credit quality level and the conversion factor for off-balance sheet items.

##### **Calculation of exposure value**

##### **Article 4**

- (1) The values of exposures for positions in the banking book shall be calculated for balance sheet positions in a manner that from their bookkeeping value impairment shall be deducted, according to international standards, and shall be reduced or increased for the balance between impairment according to international standards and provisioning calculated under the Agency's methodology and additional value adjustments in accordance with Article 5, Paragraph 3 of the Decision on Calculation of Capital in Banks. The value for off-balance sheet positions shall be calculated in a manner that from their bookkeeping value provisioning calculated according to international standards shall be deducted, and shall be reduced or increased for the balance between provisioning according to international standards and provisioning for loan loss under the Agency's methodology.
- (2) The values of exposures for contracts referred to in Attachment II of the Decision on Calculation of Capital in Banks shall be calculated in compliance with one of the methods referred to in Articles 45-47 of that Decision.
- (3) Banks that calculate capital requirements for their transactions in the trading book in accordance with Chapter IX of the Decision on Calculation of Capital in Banks, relating to the calculation of capital requirement for market risk, i.e. position risk, and in accordance with Chapter VII of that Decision, relating to the calculation of capital requirement for settlement/delivery risk, shall calculate total exposures to individual persons by adding up the following items:
  - 1) surplus of long positions of the bank over its short positions in all financial instruments issued by a certain person, wherein the net position in each individual instrument shall be calculated according to the methods provided in the part of the Decision on Calculation of Capital in Banks relating to the calculation of capital requirements for position risk;
  - 2) net exposure for the activities of providing a sponsorship service for the issuance of debt and equity instruments, which is calculated in such manner that the amount of securities for which the bank has

assumed the obligation of redemption is subtracted from the amount of securities for which the bank has concluded a contract on redemption with a third party, and is reduced by the factors referred to in Article 133 of the Decision on Calculation of Capital in Banks.

The bank shall establish systems for monitoring and control of its exposures resulting from the activities of providing sponsorship service for the issuance between the moment of onset of the liability and the following working day in connection with the nature of risks that arise from doing business at relevant markets;

- 3) exposures that arise from transactions with that person and relate to settlement/delivery risk, wherein the value of the exposure shall be calculated in compliance with Chapter VII of the Decision on Calculation of Capital in Banks, which relates to the calculation of capital requirement for settlement/delivery risk;
- (4) Total exposures towards individual persons or groups of related persons shall be calculated by adding up exposures in the trading book and the banking book.
- (5) Exposure towards groups of related persons shall be calculated by adding up exposures towards individual persons from the group.
- (6) Exposures shall not include the following:
  - 1) in case of currency purchase and sale transactions, exposures incurred during the regular period of settlement, not longer than two working days after the date of execution of the payment,
  - 2) in case of securities purchase or sale transactions, exposures incurred during the regular period of settlement, not longer than five working days after the date of execution of the payment or the date of delivery of securities, whichever takes place earlier,
  - 3) in case of provision of cash transfer services, including services of payment operations, clearance, and settlement in all currencies and correspondent banking or clearance, settlement, and custody services relating to financial instruments, deferred inflows of assets, and other exposures arising from client business operations, but which do not last longer than the next working day,
  - 4) in case of provision of cash transfer services, including the provision of services of payment operations, clearance, and settlement in all currencies and correspondent banking services, within daily exposure towards banks providing the aforementioned services;
  - 5) exposures that constitute a deductible item from regulatory capital under Articles 9, 19 and 25 of the Decision on Calculation of Capital in Banks.
- (7) In order to define total exposure towards one person or a group of related persons towards which the bank has exposures on the basis of transactions in the form of stocks or shares in investments funds or on the basis of other contracts under which there is exposure towards respective assets, the bank shall assess its respective exposures depending on the structure of transaction and the risk of respective exposure of that transaction, and for the purposes of determining whether it represents an additional exposure or not.

## **2. Definition of large exposure and calculation**

### **Definition of large exposure**

#### **Article 5**

Exposure of a bank towards one person or a group of related persons shall be deemed a large exposure if its value is equal to or exceeds 10% of its eligible capital.

## **Restriction for large exposures**

### **Article 6**

- (1) Bank exposure towards one person or a group of related persons after application of credit risk mitigation techniques under Articles 10 to 13 of this Decision must not exceed 25% of its eligible capital.
- (2) According to Article 7 of the Decision, the bank shall comply with the relevant restriction referred to in paragraph (1) of this Article, at any given moment.
- (3) The restrictions referred to in paragraph (1) this Article can be exceeded only in extraordinary cases for exposures in the bank trading book, provided that the following conditions are met:
  - a) the excess of the restriction referred to in paragraph (1) of this Article arises completely from the trading book,
  - b) the bank shall meet the additional capital requirement in relation to the excess of the restriction referred to in paragraph (1) of this Article, which shall be calculated in accordance with Articles 8 and 9 of this Decision,
  - c) if 10 days or fewer have passed since the excess, the exposure in the trading book towards that person or that group of related persons must not exceed 500% of the bank's eligible capital,
  - d) all excesses lasting longer than 10 days must not jointly exceed 600% of the bank's eligible capital.
- (4) The sum of exposures to the Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska, the Government of the Federation of BiH and the Government of Brčko District of BiH must not exceed 300% of the bank's eligible capital.
- (5) In any of the cases of restriction excess, the bank shall immediately notify the Agency on the amount of the excess and the name of person the excess relates to, and, when applicable, on the name of the group or related persons the excess relates to.
- (6) For the purposes of large exposures, guarantees issued by the parent company of the bank or any related person of the parent company shall not be recognized as unfunded credit protection.

## **Compliance with requirements for large exposures**

### **Article 7**

If, in an exceptional case, exposures exceed the restriction referred to in Article 6 of this Decision, the bank shall immediately notify the Agency on the value of excess, and the Agency may, if circumstances justify it, grant the bank a certain period of time to comply with these restrictions.

## **Calculation of additional capital requirement for large exposures arising from trading book items**

### **Article 8**

- (1) The excess referred to in Article 6, Paragraph (3), Item 2) of this Decision shall be calculated by selecting those items of total exposure in the trading book towards a certain person or a group of related persons, which carry the highest requirements for specific risk referred to in Chapter IX of the Decision on Calculation of Capital in Banks, relating to the calculation of capital requirements for market risk, i.e. capital requirements for position risks and requirements in Chapter VII of that Decision, relating to the

capital requirement for settlement/delivery risk, whose sum equals the excess referred to in Article 6, Paragraph (3), Item 1) of this Decision.

Table 1.

Column 1. Restriction excess (based on percentage of eligible capital)	Column 2. Factors
Up to 40%	200%
From 40% to 60%	300%
From 60% to 80%	400%
From 80% to 100%	500%
From 100% to 250%	600%
More than 205%	900%

- (2) Unless the excess lasted longer than 10 days, the additional capital requirement shall amount to 200% of the amount of the requirement referred to in Paragraph (1) for the aforementioned items.
- (3) In the period of 10 days from the onset of excess, the items comprising the excess, selected pursuant to Paragraph (1) of this Article, shall be distributed into appropriate rows in Column 1 of Table 1, in ascending order of capital requirements for specific risk referred to in Chapter IX of the Decision on Calculation of Capital in Banks, which relates to the calculation of capital requirements for position risks and in Chapter VII of that Decision, which relates to the calculation of capital requirements for settlement/delivery risk. The additional capital requirement shall be equal to the sum of the capital requirements for specific risk referred to in Chapter IX of the Decision on Calculation of Capital in Banks which relates to the capital requirement for market risk, i.e. position risk and in Chapter VII of that Decision which relates to the capital requirement for settlement/delivery risk for those items, multiplied by the corresponding factor from Column 2 of Table 1.

### **Procedures to prevent banks from avoiding additional capital requirements**

#### **Article 9**

- (1) Bank must not avoid the additional capital requirements referred to in Article 8 of this Decision, to which it is subject in relation to exposures that exceed the restriction referred to in Article 6, Paragraph (1) of this Decision, when the aforementioned exposures last longer than 10 days, in such manner that it temporarily transfers the aforementioned exposures to another company, regardless of whether it is from the same group or not, or by undertaking fictitious transactions to close such exposures during the aforementioned 10-day period, or by generating new exposures.
- (2) Bank shall have systems that would ensure that the Agency is immediately notified of any transfer referred to in Paragraph (1) of this Article.

### **Recognized credit risk mitigation techniques**

#### **Article 10**

- (1) If the recognition of funded or unfunded credit protection is permitted under Articles 11, 12, and 13 of this Decision, it shall have to meet the recognition requirements and other requirements referred to in Chapter VI of the Decision on Calculation of Capital in Banks, relating to credit risk mitigation techniques.

- (2) Bank shall analyze, to the extent possible, its exposures towards collateral issuers, unfunded credit protection providers, and respective assets in accordance with Article 4, Paragraph (7) of this Decision, for the purpose of determining potential concentrations and, if necessary, undertake measures and notify the Agency of the aforementioned.

## **Exemptions**

### **Article 11**

The following exposures shall be exempt from the application of Article 6, Paragraph (1) of this Decision:

- (1) assets items that represent receivables from central governments, central banks and regional government, which would be assigned 0% risk weight in accordance with Articles 50 and 51 of the Decision on Calculation of Capital in Banks, which relates to the calculation of capital requirements for credit risk.
- (2) assets items that represent receivables from international organizations or multilateral development banks, which would be assigned 0% risk weight in accordance with Articles 53 and 54 of the Decision on Calculation of Capital in Banks, relating to the calculation of capital requirements for credit risk,
- (3) assets items that represent receivables secured by explicit guarantees of persons referred to in Items 1) and 2) of this Article,
- (4) other exposures towards persons referred to in Items 1) and 2) of this Paragraph, or guaranteed by such persons,
- (5) assets items and other exposures secured with collateral in the form of cash deposits deposited in the creditor bank,
- (6) assets items and other exposures secured with collateral in the form of a deposit certificate issued by the creditor bank and which is deposited in the creditor bank,
- (7) exposures that arise from undisbursed credit lines which are classified as low-risk off-balance sheet items in Attachment 1 of the Decision on Calculation of Capital in Banks, provided that an agreement is concluded with a person or a group of related persons pursuant to which agreement the undisbursed portion of the credit line can be withdrawn only if it is established that it would not cause an excess of the restriction referred to in Article 6, Paragraph (1) of this Decision.

## **Calculation of effects of applying credit risk mitigation techniques**

### **Article 12**

- (1) When calculating the value of an exposure for the purposes of Article 6, Paragraph (1) of this Decision, the bank can apply “the fully adjusted exposure value (E\*)”, calculated pursuant to Chapter VI of the Decision on Calculation of Capital in Banks, which relates to credit risk mitigation techniques, corrective factors, and adjustments for potential maturity mismatch.
- (2) The bank that applies a complex financial collateral method, when calculating the value of the exposure for purposes of Article 6, Paragraph (1), shall run periodic stress-testing of its credit risk concentrations, taking into account the value that could be obtained by collection of accepted collateral. The periodic stress testing referred to in this paragraph shall relate to the risks arising from potential changes of market conditions that could have an adverse effect on the bank regulatory capital adequacy, as well as on the risks arising from the realization of collection from collateral in stress situations.

The implemented stress tests shall have to be adequate for assessing such risks. In case that such periodic stress-testing shows that the amount collected in case of realization of the collateral would be lower than the amount which would be recognized in case of the complex financial collateral method, the value of collateral which can be recognized when calculating the exposure value for the purposes of Article 6, Paragraph (1) of this Decision shall be reduced by the calculated difference.

The bank that applies the complex financial collateral method shall include the following in its strategies for concentration risk management:

- 1) policies and procedures to manage risks arising from maturity mismatch between exposures and all credit protections of such exposures,
- 2) policies and procedures in case the stress-testing shows that the amount collected based on the realization of collateral would be lower than the amount which would be recognized in case of the complex financial collateral method,
- 3) policies and procedures related to concentration risk arising from the application of credit risk mitigation techniques, and particularly large indirect credit exposures, for example towards a single issuer of securities that are taken as collateral.

## **Swap method**

### **Article 13**

- (1) If a third party guarantees for an exposure towards a client or if the exposure is secured with collateral issued by a third party, the bank can:
  - 1) deem the portion of exposure that is secured with a third-party guarantee as an exposure towards that third party, rather than to the client, in case when the guarantee was issued by the bank parent company or the bank parent company related person, provided that the unsecured exposure towards the protection provider would, pursuant to Chapter IV of the Decision on Calculation of Capital in Banks, relating to capital requirements for credit risk, be assigned an equal or lower risk weight than the one assigned to the unsecured exposure to the client,
  - 2) deem the portion of exposure secured with the market value of recognized collateral as an exposure towards that third party, rather than to the client, provided that the exposure is secured with collateral and provided that the secured portion of the exposure would, pursuant to Chapter IV of the Decision on Calculation of Capital in Banks, relating to capital requirements for credit risk, be assigned an equal or lower risk weight than the one assigned to the unsecured exposure to the client. The bank must not apply this approach if there is a mismatch between exposure maturity and protection maturity.
- (2) The bank shall apply Paragraph (1), item 1):
  - a) if the guarantee is denominated in a currency different from the one in which the exposure is denominated, the amount of exposure which is deemed to be covered shall be calculated in accordance with the provisions on currency mismatch treatment for unfunded credit protection referred to in Chapter VI of the Decision on Calculation of Capital in Banks, relating to credit risk mitigation techniques,
  - b) mismatch between exposure maturity and protection maturity shall be treated in accordance with the provisions on maturity mismatch treatment in Chapter VI of the Decision on Calculation of Capital in Banks, relating to credit risk mitigation techniques.



## **CHAPTER III**

### **DETERMINATION OF TOTAL EXPOSURE TOWARDS ONE PERSON OR A GROUP OF RELATED PERSONS IN RELATION TO TRANSACTIONS WITH RESPECTIVE ASSETS**

#### **Determination of total exposure**

##### **Article 14**

- (1) In order to determine the total exposure towards a certain debtor, which arises from the exposure of the bank to a certain transaction with respective assets, it shall be necessary to first determine the value of exposure for each of those exposures individually. The total value of exposure shall represent the sum of individual exposures, but it must not exceed the value of exposures that arises from the very respective assets.
- (2) Conditions and methodologies that shall apply to the calculation of exposures towards transactions with respective assets shall have to be identical regardless of whether the exposures are in the trading book or in the banking book.

#### **Determination of exposures arising from transactions**

##### **Article 15**

- (1) The bank shall determine the impact of a specific transaction on the total exposure to one person or a group of related persons in compliance with the methodology specified in Articles 16, 17, and 18 of this Decision. The bank shall, for each respective asset, determine its exposure towards that respective asset separately, in compliance with Article 17 of this Decision.
- (2) The bank shall assess whether a specific transaction represents an additional exposure in accordance with Article 19 of this Decision.

#### **Respective exposures to transactions with respective assets of their own**

##### **Article 16**

- (1) When assessing respective exposures of a transaction (transaction A) that has its own respective exposure to another transaction (transaction B), the bank shall, for the purposes of Articles 17 and 18, treat the respective exposure to transaction B as a replacement for the exposure towards transaction B.
- (2) Paragraph (1) shall apply as long as the respective exposures represent exposures to transactions with respective assets.

#### **Calculating values of exposures**

##### **Article 17**

- (1) Exposure of a bank towards respective assets of a transaction shall correspond to whichever is lower of the following values:

- 1) the value of exposure arising from the respective assets,
  - 2) the total value of exposure of the bank towards respective assets arising from all the exposures of the bank towards the transaction.
- (2) For each exposure of the bank towards the transaction, the value of exposure towards the respective assets shall be determined as follows:
- 1) if the exposures of all investors in that transaction are ranked equally, the value of exposure towards respective assets shall be equal to the proportional portion of the exposure of the bank towards the transaction multiplied by the value of the exposure that arises from the respective assets,
  - 2) with the exception of the cases referred to in Item 1), the value of exposure towards respective assets shall be equal to the proportional portion of the exposure of the bank towards the transaction multiplied by whichever is the lower of the following values:
    1. the value of exposure arising from the respective assets,
    2. the total value of exposure of the bank towards the transaction, together with all other exposures towards that transaction that are ranked equally as the exposure of the bank.
- (3) The proportional portion of the exposure of the bank towards the transaction shall be the value of exposure of the bank divided by the total value of exposure of the bank and all other exposures towards that transaction, that are ranked equally as the exposure of the bank. In case that the status of default on liabilities onsets for the respective assets, the losses shall always be allocated between the exposures that are ranked equally, i.e. in proportion to the share of each of those exposures. The total loss of the bank shall be limited to the total loss of the respective assets, which corresponds to the share of the exposure of the bank in the total value of all exposures that are ranked equally. The value of exposure towards respective assets shall depend exclusively on the proportional share of the exposure of the investor in relation to the exposure of all investors.

### **Procedure for determination of impact of respective exposures to total exposures**

#### **Article 18**

- (1) For each exposure to credit risk for which the identity of debtor has been determined, the value of the exposure towards the corresponding respective assets shall be included by the bank in the calculation of total exposure towards that debtor as an individual or a group of related persons to which that debtor belongs.
- (2) If the bank has failed to determine the identity of debtor of the respective exposure to credit risk, or if the bank cannot confirm that the respective exposure does not represent an exposure to credit risk, the bank shall assign that exposure as follows:
  - 1) If the value of exposure does not exceed 0.25% of eligible bank capital, the bank shall assign that exposure to the transaction, as a separate person.  
If the bank is not in a position to determine all debtors of the respective assets of transactions in which it is investing, and if the exposure to respective assets is sufficiently small for its impact not to be significant for the total exposure to one person or a group of related persons, such exposure should be assigned to the transaction, as a separate person. The total value of such exposures towards respective assets of the same transaction shall continue to be subject to the restriction for large exposures that is being applied to that transaction. The impact of respective assets to the total exposure shall not be

significant if it would take a minimum of 100 exposures to respective assets of the transaction to reach the restriction of 25% of eligible bank capital. The value of exposure should not exceed 0.25% of eligible bank capital.

- 2) If the exposure amounts to 0.25% of eligible bank capital or exceeds that value, and if the bank may ensure that the respective exposures of transaction are not connected with other exposures in its portfolio, including the respective exposures from other transactions, the bank shall assign that exposure to the transaction, as a separate person.
  - 3) Except in cases referred to in items 1) and 2), the bank shall assign that exposure to an unknown person. In order to prevent unlimited total exposure as a result of a lack of information, exposures whose values exceed 0.25% of eligible bank capital and for which data on the debtor are not available, should be assigned to a hypothetical person (unknown person) to which the restriction of large exposures of 25% should apply.
- (3) If the bank cannot differentiate the respective exposures of transaction, the bank shall assign the total value of its exposures to the transaction as follows:
- 1) if the total value of exposure does not exceed 0.25% of eligible bank capital, the bank shall assign that total value of exposure to the transaction, as a separate person,
  - 2) except in the case referred to in item 1), the bank shall assign that total value of exposure to the unknown person.
- (4) For the purposes of Paragraphs (1) and (2), the bank shall regularly, and at least once a month, monitor such transactions due to potential changes in the composition and relative share of respective exposures.

#### **Additional exposure representing transaction structure**

#### **Article 19**

- 1) The structure of a transaction shall not represent an additional exposure if the transaction meets both of the following conditions:
  - 1) legal and operating structure of the transaction is defined in such manner that it does not allow the person that is managing the transaction or a third person to redirect any cash flow that arises from the transaction towards persons that, in compliance with the terms of transaction, are not entitled to receive those cash flows,
  - 2) it cannot be required neither from the issuer nor from any other person to perform, within the framework of transaction, payments to the bank additional to the cash flows from the respective assets or as an advance for them.
- (2) Additional exposure shall not be recognized for investment funds that are investing in transferrable securities, because the cash flows must not be redirected to persons that are not entitled to receive them.

#### **Capacity for determination and management of large exposures**

#### **Article 20**

- (1) Bank shall establish adequate administrative and accounting procedures and appropriate internal control mechanisms for the purposes of identification, management, monitoring, reporting and recording of large exposures and their subsequent changes in accordance with this Decision.

- (2) Bank shall establish the internal control system that would prevent temporary transfer of existing exposures to another person for the purpose of fictitious closing of existing exposures and generating new ones.
- (3) Bank shall establish a system that would ensure that the Agency is immediately notified of the transfers of exposures referred to in the previous paragraph of this Article.
- (4) Internal audit shall continuously evaluate the effectiveness and application of policies and procedures as well as the effectiveness of internal control system referred to in this Article.

### **Reporting requirements**

#### **Article 21**

- (1) Bank shall submit to the Agency the following information on all large exposures, including large exposures that are not subject to Article 6, Paragraph (1) of this Decision:
  - 1) data on person or group of related persons towards which the bank has a large exposure,
  - 2) the value of exposure before the application of credit risk mitigation techniques, if applicable,
  - 3) if applicable, type of funded or unfunded credit protection;
  - 4) the value of exposure after the application of credit risk mitigation techniques, calculated for the purposes of Article 6, Paragraph (1) of this Decision.
- (2) Reporting shall be performed on a quarterly basis.

### **Transitional and final provisions**

#### **Article 22**

- (1) This Decision shall enter into force on the eighth day following its publication in the “Official Gazette of the Republika Srpska”.
- (2) Bank shall align its business operations with the provisions of this Decision within 9 months from the date of the Banking Law of Republika Srpska (“Official Gazette of the Republika Srpska”, No.: 4/17) coming into force.
- (3) For any excess of the restrictions stipulated under this Decision, which occurred before the entry into force of this Decision, the bank shall obtain the opinion of the Agency on the plan for adjustments of excess of exposures.
- (4) The Agency shall prescribe the Instructions for reporting on large exposures and concentration risk.
- (5) As of the date of entry into force of this Decision, the Decision on Minimum Standards for Management of Concentration of Risks in Banks (“Official Gazette of Republika Srpska”, No.: 12/03, 31/04, 1/06, 115/06, 70/11, 91/11, 127/11 and 49/13) shall cease to be valid.

No.: UO-312/17  
Date: 19 September, 2017

PRESIDENT  
OF THE MANAGEMENT BOARD

Mira Bjelac