

Pursuant to Article 89 and 90 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska" No. 04/17, 19/18 and 54/19), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No. 59/13 and 4/17), and Article 6, Paragraph 1, Item b and Article 19, 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 Republika Srpska, at its 47th session, held on 28 September, 2022 adopted the

DECISION
ON TEMPORARY MEASURES TO MITIGATE
THE RISK OF INCREASE IN INTEREST RATES

Decision Subject

Article 1

- (1) This Decision shall determine temporary measures with the aim of mitigating the risk that may arise from a significant increase in active interest rates for loan exposures.
- (2) This Decision shall stipulate the minimum requirements for risk management related to the existing and expected growth in the amount of active interest rates, whereby the bank may apply stricter requirements and undertake additional measures in relation to those stipulated by this Decision.
- (3) A bank shall be obliged to apply the provisions of this Decision to all loan exposures, including loan exposures that will be contracted with a fixed interest rate during the validity period of this Decision.
- (4) The provisions of this Decision shall apply to banks with headquarters in Republika Srpska to which the Banking Agency of Republika Srpska (hereinafter: the Agency) issued an operating license.
- (5) For issues not regulated by this Decision, but defined by the Banking Law of Republika Srpska or other by-laws, the provisions of that law or other by-law shall be applicable.

Terms

Article 2

- (1) **A significant increase in interest rate** in terms of this Decision is the increase of the nominal or effective interest rate for:
 - 1) existing individual loan exposure of 200 and more basis points in the period of application of this Decision in relation to the valid corresponding interest rate for the given exposure on the reference date;
 - 2) new individual loan exposure of 200 and more basis points in the period of application of this Decision in relation to the bank's interest rates for loan users with the same or similar characteristics and risk features on the reference date.
- (2) **Reference date** in terms of this Decision is 30 June, 2022.
- (3) **Loan exposure with a variable nominal interest rate** is the bank's exposure in KM or with a currency clause in EUR, created on the basis of a concluded contract between the bank and the loan user that contains a clause on a variable nominal interest rate in accordance with Article 144 of the Banking Law of Republika Srpska, before or during the application period of this Decision.
- (4) **Loan exposure with a fixed nominal interest rate** is the bank's exposure in KM or with a currency clause in EUR, created on the basis of a concluded contract between the bank and the loan user that contains a clause on a fixed nominal interest rate in accordance with Article 144 of the Banking Law of Republika Srpska during the application period of this Decision
- (5) **The loan user** is a legal or natural person who contracts or has contracted a loan with a fixed or variable nominal interest rate.

- (6) **The user of banking services** has the same meaning as defined in Article 133, Paragraph 2 of the Banking Law of Republika Srpska, including users of housing loans.
- (7) **Effective interest rate** - has the same meaning as defined in Article 2, Paragraph 6 of the Instructions for the classification and valuation of financial assets.

Monitoring risk exposure

Article 3

- (1) If the bank expects that there will be a significant increase in the interest rate for the loan user with whom it has contracted a loan with a variable nominal interest rate, the bank is obliged to assess the impact of a significant increase in the interest rate within the process of monitoring the risk exposure, and before starting to apply the changed rate.
- (2) In accordance with the results of the assessment referred to in Paragraph 1 of this Article, the bank is obliged to determine whether a significant increase in the interest rate represents the fulfillment of the conditions in terms of Article 19, Paragraphs 4 and 5 of the Decision on credit risk management and determining expected credit losses.
- (3) The bank is obliged to document activities referred to in Paragraph 1 of this Article.

Minimum rates of expected credit losses for credit risk levels 1 and 2

Article 4

- (1) For existing loan exposures previously allocated to credit risk level 2 in accordance with the provisions of Article 19 of the Decision on credit risk management and determining expected credit losses, where a significant increase in the interest rate has been identified in the process of monitoring the risk exposure, the bank cannot determine expected credit losses in the amount of less than 12% of the exposure.
- (2) For newly approved loan exposures with a variable or fixed nominal interest rate that will be allocated to credit risk level 1 in accordance with the provisions of Article 18 of the Decision on credit risk management and determining expected credit losses, the bank cannot determine expected credit losses in the amount less than 2% of the exposure, if the difference is the newly contracted effective interest rate and the effective interest rate that the bank applied on the reference date for the existing loan user with whom the new loan exposure is contracted, of similar characteristics and maturity, or a modification of the existing loan exposure, that is, if the difference between the contracted effective interest rate for the new user and the bank's effective interest rate for loan users with the same or similar characteristics and risk features on the reference date, is higher than a significant increase in the interest rate.

Protection of banking service users

Article 5

- (1) If, in accordance with the results of the assessment referred to in Article 3, Paragraph 1 of this Decision, the default status would occur for the user of banking services as a direct consequence of a significant increase in interest rates, the bank may offer the user of banking services the possibility of modifying the loan exposure.
- (2) The modification referred to in Paragraph 1 of this Article shall not be deemed as defaulted status in accordance with Article 20, Paragraph 7 of the Decision on credit risk management and determining expected credit losses.

Plan for managing credit-interest rate risk

Article 6

- (1) Analysis of exposure to credit risk in accordance with Article 9 of the Decision on credit risk management and determining expected credit losses should, *inter alia*, include a plan for credit-interest rate risk management, which should contain at least:
 - 1) comparison of the existing amount of interest rates in relation to the amounts of interest rates on the reference date,
 - 2) projections of the increase in interest rates and the impact of that increase on credit risk,
 - 3) measures that the bank shall undertake to manage the credit-interest rate risk, including the consequences that the mentioned measures will have for the loan users.
- (2) The bank is obliged to create the plan referred to in Paragraph 1 of this Article, and to update it in the event that could significantly affect the execution of the plan or require its modification, i.e. when there is a change in the assumptions used during the creation of the plan, which may have a significant impact on its execution.
- (3) The bank is obliged to submit the plan referred to in Paragraph 1 of this Article to the Agency no later than 30 November, 2022, as well as after each update.

Reporting to the Agency

Article 7

- (1) The Director of the Agency shall, within 30 (thirty) days from the date of this Decision coming into force, issue the Instruction for reporting on the application of this Decision with the corresponding templates.
- (2) The bank is obliged to submit the reports drafted in accordance with Paragraph 1 of this Article to the Agency on a monthly basis, by the 15th day of the month for the previous month.

Transitional and final provisions

Article 8

This Decision shall come into force on the eighth day from the day of its publication in the "Official Gazette of Republika Srpska" and shall be applied until 31 December 2023 or until its revocation by the Agency.

Number: UO-372/22
Date: 28 September, 2022

PRESIDENT OF THE
MANAGEMENT BOARD
Bratoljub Radulović