

BANKING AGENCY OF REPUBLIKA SRPSKA

**AMENDMENTS
TO THE INSTRUCTION FOR COLLATERAL VALUE ASSESSMENT**

Banja Luka, March 2022

Pursuant to Article 5, Paragraph 1, Item b), Article 22, Paragraph 1, Item f) and Paragraph 2 of the same Article of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 59/13 and 4/17), Article 6, Paragraph 1, Item b) and Article 22, Paragraph 4, Item m) of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17), and Article 30, Paragraph 9 of the Decision on credit risk management and determining expected credit losses ("Official Gazette of Republika Srpska", No.: 48/19, 109/19 and 73/21), the Banking Agency of Republika Srpska issued the

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Article 1

(1) In the Instruction for collateral value assessment ("Official Gazette of Republika Srpska", No.: 77/20), in Article 2, Paragraph 1, Item 3), after the wording "losses", the new wording "(hereinafter: the Decision)" shall be added.

(2) In Article 2, Paragraph 1, Item 15), the new sentence shall be added and read as follows:

"Complex asset can be deemed as asset which is unique at the market where the assessment is being performed, i.e. for which there is no asset of peer features or which has unusual design, physical characteristics, location (for example, golf courses, power plants, ships, and similar)".

Article 2

(1) In Article 3, Paragraph 1, Item 1), the number "50" shall be replaced by the number "100".

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

"In case where is difference between the value from purchase agreement and asset value evaluated by an independent appraiser or internal appraiser in accordance with Article 16 of this Instruction, the bank shall use the lower of those two values.", and shall become a new Paragraph 3, while previous Paragraph 3 shall become new Paragraph 2.

(3) In Article 3, Paragraph 4 shall be deleted, and previous Paragraph 5 shall become new Paragraph 4.

Article 3

(1) In Article 4, Paragraph 1, Item 7), after the wording "stipulate", the new wording "approach, frequency and" shall be added.

(2) In Article 4, Paragraph 1, Item 10), instead of the full stop, comma shall be added as well as Item 11) which shall read as follows: "stipulate procedure for collateral value re-assessment, defining approaches being used while performing the re-assessment."

Article 4

In Article 5, Paragraph 9, Item 1), the wording "qualified" shall be replaced by the wording "final".

Article 5

(1) In Article 7, Paragraph 3, after the wording “list of appraisers”, the new wording “if above mentioned is possible taking into account the availability of qualified appraisers in a particular region” shall be added.

(2) In Article 7, Paragraph 5 shall be deleted.

Article 6

(1) In Article 8, Paragraph 1, Item 4), the wording “legal or” shall be deleted.

(2) Article 8, Paragraph 4 shall be amended and read as follows:

“Assessment services ordered and received by the bank must be kept permanently in the credit file regardless of acceptance or rejection of the assessment, with a full explanation in case the assessment is not accepted. At the same time, the very decision on approving the exposure for which the relevant asset is used as collateral cannot be made by the bank on the basis of the assessment report where more than six months have passed between the date of assessment and the date of approval of the exposure for housing real estate or more than one year for commercial real estate, or three months if it is the assessment of the value of movable property, or there has been significant changes in assets and/or market conditions that require a new assessment. If it is about the placement of individual credit-guarantee products within the approved limit, that is, the framework for credit-guarantee placements, after the initial preparation of the assessment report by an independent appraiser, during approval and placement of individual credit-guarantee placement, it is not necessary to prepare a new report on the assessment prepared by an independent appraiser, unless there has been significant changes in assets and/or market conditions.”

(3) In Article 8, a new Paragraph 5 shall be added and read as follows:

“Notwithstanding Paragraph 4 of this Article, in the case when it is not possible to provide an assessment of the movable property, given that it is not located in the country, the bank can take into account the value that was stated by the supplier in the contract/invoice, with the fact that the assessment of the value of the relevant property is needed to be provided subsequently, that is, when it is owned by the client.”

Article 7

Article 9, Paragraph 7 shall be amended and read as follows:

“If the assessment of the market value of the collateral predicts that a very long period will be needed in order to realize the assessed value on the market or in case it does not currently exist active market for the relevant asset in a particular location, the assessment report should also contain an assessment of the forced liquidation value and the time of realization of the collateral on market in order for the bank to be better acquainted with all risk factors.”

Article 8

(1) In Article 10, Paragraph 1, after the wording “should”, the wording “if possible” shall be added as well as a new sentence:

“The rotation obligation shall be applied starting from the assessments performed after the application start date referred to in Article 18 of this Instruction.”

(2) In Article 10, Paragraph 3, after the wording “and”, the wording “except housing real estate,” shall be added.

Article 9

(1) In Article 11, Paragraph 2, Items 7) and 10) shall be deleted, and Items 8) and 9) shall become Items 7) and 8), and Items 11)-22) shall become Items 9)-20).

(2) In Article 11, Paragraph 2, Item 4), after the wording “documentation”, a new wording “except in case of housing real estate value assessment” shall be added.

(3) In Article 11, Paragraph 2, Item 9), after the wording “data”, a new wording “except in case of housing real estate” shall be added.

(4) In Article 11, a new Paragraph 3 shall be added and read as follows:

“The property-legal documentation referred to in Paragraph 2, Item 20) of this Article should be internally defined by the bank and cannot be older than six months.”

(5) In Article 11, a new Paragraph 4 shall be added and read as follows:

“The bank is obliged to review the value assessments it receives from appraisers, in terms of comprehensibility of the approach and assumptions used during the assessment, justification of used assumptions (e.g. on cash flows and discount rates), and determine whether the method of identifying comparable properties is adequate and clearly explained.”

Article 10

(1) Article 15 shall be amended and read as follows:

“During the validation of the contractual relation, the bank is obliged to continuously monitor the market value of real estate and movable assets that serve as collateral for its exposures, whereby it is obliged to take into account the type and value of the collateral, the status of the collateral (e.g. new, used), the quality of the exposure secured by the collateral, the assumptions stated in the assessment, changes in market conditions and similar.

(2) The bank should determine the frequency of monitoring the collateral market value in its internal documents, taking into account the type and value of the collateral at the time of exposure approval and the amount of exposure, as well as conditions, the fulfillment of which indicates a need for conducting a re-assessment (e.g. changing the assumptions that were used in the assessments).

(3) The bank can monitor the market value of collateral through statistical methods method (e.g. through the price index), provided that these methods are approved by of the competent authorities of the bank, documented and understandable, applicable for performing adequate value assessments for the type of collateral being monitored, and based on adequate and sufficient granular series of historical data on a particular type of collateral on the market.

(4) When assessing whether the change in market conditions is of a material nature, the bank is obliged to consider the individual and aggregate effect of these changes on the collateral value and risk in credit portfolios, and to define criteria for determining the materiality of changes in market conditions in internal documents.”

Article 11

(1) A new Article 16 titled “Re-assessments of collateral value” shall be added and read as follows:

“(1) The bank should define policies and procedures for re-assessment of the collateral value, specifying thereby approaches for re-assessment for different types of collateral, and ensuring that the approach or combination of approaches is reasonable and proportionate to the type and value of collateral and exposure.

(2) The assessment of the collateral value by an independent appraiser is also mandatory in all subsequent value assessments in cases defined by Article 30, Paragraph 4 and 7 and Article 32, Paragraph 7 of the Decision.

(3) If the bank, on the basis of monitoring (e.g. through statistical methods), determines that a significant decrease in the market value of the collateral compared to the usual market prices could occur, and in the cases stipulated by Article 30, Paragraph 4 and 7 of the Decision, it is obliged to immediately request from an independent appraiser to conduct a re-assessment of their market value.

(4) The bank should provide an assessment of the collateral value for all exposures classified as non-performing exposures, in case the applicable collateral assessment is older than one year and if the amount of exposure at the time of classification, which is non-performing, is higher than 100 thousand KM, and after that at least once a year and continuously carry out re-assessment while the relevant exposure is classified as non-performing or while for the relevant exposure expected credit losses of 100% were not recorded in the bookkeeping.

(5) The bank is obliged to establish adequate processes and systems that will indicate the obsolescence of assessments, and the need for new assessments.

(6) For the re-assessment of the housing real estate value, except for the cases referred to in Paragraph 3 of this Article, the bank can use statistical methods, if they meet the criteria referred to in Article 15, Paragraph 3 of this Instruction.”.

Article 12

Previous Articles 16, 17 and 18 shall become Articles 17, 18 and 19.

Article 13

In the new Article 17, a new Paragraph 6 shall be added and read as follows:

“The bank should provide adequate information support and data quality for using the selected internal assessment method.”.

Article 14

(1) The title of the new Article 18 shall be amended to “Documenting collateral and reporting to the Agency”.

(2) In the new Article 18, Paragraph 3 shall be amended and read as follows:

“The bank shall deliver reports on collateral in the form, manner and within deadlines stipulated by a separate Agency’s regulation.”.

Article 15

This Instruction shall come into force on the eighth day from the day of its publication in the “Official Gazette of Republika Srpska”.

Number: D-7/22

Date: 15 March, 2022

Acting Deputy Director

Srđan Šuput

[duly signed and sealed]