

BANKING AGENCY OF REPUBLIKA SRPSKA

INSTRUCTION

**FOR THE TREATMENT OF LOANS INCLUDED IN THE GUARANTEE SCHEME OF ECONOMIC
SUPPORT FOR MITIGATION OF THE CONSEQUENCES OF THE COVID 19 PANDEMIC CAUSED BY
THE SARS-COV-2 VIRUS**

Banja Luka, December 2021

Introduction

Instruction for the treatment of loans included in the Guarantee scheme of economic support for mitigation of the consequences of the Covid 19 pandemic caused by the SARS-CoV-2 virus shall be issued pursuant to Article 5, Paragraph 1, Item b), Article 22, Paragraph 1, Item f) 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 22, Paragraph 4, Item m) of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17).

In accordance with the provisions of the Decision on the Guarantee scheme of economic support for mitigation of the pandemic consequences (hereinafter: the Decision), the guarantee that is being issued within the Guarantee scheme is a guarantee portfolio, i.e. a set of individual loan guarantees part of the portfolio, and represents unconditional Republika Srpska guarantee, the first call guarantee, which on behalf of and for the account of Republika Srpska is issued by the Guarantee Fund of Republika Srpska in favor of financial organizations as a collateral for loans approved to companies.

The Decision defines that the maximum allowed amount of the loan portfolio guarantee per individual bank within the amount of the Guarantee scheme of economic support for mitigation of the consequences of the Covid 19 pandemic caused by the SARS-CoV-2 virus guarantee (hereinafter: Guarantee scheme) is being calculated in any relevant moment in time as a product of real volume of loan portfolio of an individual bank, coverage rate (70%), maximum guarantee rate (30%) and loan release rate.

Bearing in mind that the Decision on calculating capital in banks ("Official Gazette of Republika Srpska", No.: 74/17, 114/17, 48/19 and 114/20), the Decision on large exposures ("Official Gazette of Republika Srpska", No.: 89/17 and 117/17) and the Decision on credit risk management and determining expected credit losses ("Official Gazette of Republika Srpska", No.: 48/19, 73/21) does not stipulate the treatment of exposures secured by a guarantee at the loan portfolio level, this Instruction shall define treatment of loans included in the Guarantee scheme in accordance with stated by-laws of the Banking Agency of Republika Srpska (hereinafter: the Agency).

1. Treatment in accordance with the Decision on calculating capital in banks

1.1. Treatment of loans included in the Guarantee scheme

The risk weight of 50% shall be applied to the amount of loan included in the Guarantee scheme, except in cases when in accordance with the decision tree the loan meets the requirements to be allocated in the exposure category of defaulted exposure or high risk exposure, in which case the risk weights defined in Article 61 or Article 62 of the Decision on calculating capital in banks shall be applied, i.e. risk weight of 100% or 150%. Against this backdrop, if it is considered that 50% of the loan amount is secured by the recognized credit risk mitigation technique, a risk weight of 0% shall be applied to that amount.

1.2. Reporting disclosure

In template C 07.00 the loan is initially allocated into the appropriate exposure category in accordance with the provisions of the Decision on calculating capital in banks (e.g. companies, household), while 50% of the loan amount is subsequently disclosed as an inflow in the category of exposures to regional governments and local authorities.

2. Treatment in accordance with the Decision on large exposures

2.1. Treatment of loans included in the Guarantee scheme

For the purpose of determining the amount of exposure to an individual or a group of related persons to which an exposure constraint of 25% of eligible capital is being applied, in accordance with Article 6, Paragraph 1 of the Decision on large exposures, 50% of the loan amount included in the Guarantee scheme shall be included.

50% of the amount of total portfolio of loans included in the Guarantee scheme the bank shall include in the total exposure to Republika Srpska Government, i.e. the total amount to which a constraint of 300% of eligible capital is being applied, in accordance with Article 6, Paragraph 4 of the Decision on large exposures.

2.2. Reporting disclosure

If the total exposure to an individual or a group of persons related to that individual represents large exposure in accordance with Article 5 of the Decision on large exposures, the bank shall disclose the loan in the reporting templates on large exposures. Given that 50% of loans are secured by the recognized credit risk mitigation technique, it is necessary for that amount to be disclosed as an exposure reduction in templates C 28.00 and C 29.00.

Also, given that 50% of the amount of portfolio of loans included in the Guarantee scheme is included in the total exposure to Republika Srpska Government, the bank shall all loans included in the Guarantee scheme disclose in the template KN-5 in an aggregate amount and shall mark it as "Guarantee scheme".

3. Treatment of loans included in the Guarantee scheme in accordance with the Decision on credit risk management and determining expected credit losses

For the purpose of applying Article 31, Paragraph 1, Item 9 of the Decision on credit risk management and determining expected credit losses, an eligible collateral shall be 50% of each individual loan included in the Guarantee scheme.

4. Reporting to the Banking Agency of Republika Srpska

The bank shall deliver to the Agency the Quarterly Report on the balance of outstanding loan principle from the Guarantee scheme portfolio for the period in the template stipulated by the Guarantee Fund of Republika Srpska.

The report shall be delivered to the Agency within the timeframe set out by the Decision.

5. The start of Instruction implementation

This Instruction shall repeal the Instruction for the treatment of loans included in the Guarantee scheme of economic support for mitigation of the consequences of the Covid 19 pandemic caused by the SARS-CoV-2, number D-25/20 as of 28 October 2020, and shall be applied as of reporting date 31 December 2021.

Number: D-20/21

Date: 7 December, 2021

DIRECTOR

[duly signed and sealed]

Rade Rastoka