



Pursuant to Article 36, paragraph 1, subparagraph 1.1, the Executive Board of the Central Bank of the Republic of Kosovo, at its meeting held on 8 June 2020, approved the following:

GUIDELINE ON LOAN RESTRUCTURING DUE TO COVID-19

Article 1

Purpose and scope

1. The purpose of this Guideline is to provide borrowers, lenders and other institutions with information about the principles and guidelines related to the loan restructuring process. The purpose of the Guideline is to set the criteria on which the loan restructuring process should be based so that borrowers in financial difficulties have the opportunity to meet the obligations stipulated in the contract, and in order to return to normality of their business activity or to improve the solvency of individuals in relation to current liabilities.
With this Guideline, the CBK instructs lending institutions not to engage in collateral liquidation during the period of economic recovery due to Covid-19, using mechanisms outside the court and/or legal procedures for loans restructured under this Guideline.
2. This Guideline applies to all financial institutions licensed/registered by the CBK to exercise lending activity under the law in force.

Article 2

Definitions

1. For the purposes of this Guideline, the expressions used have the following meaning:

1.1 “Loan restructuring” - means the facilitation that lending institutions do for borrowers due to their financial difficulties caused by Covid-19 and the support for their recovery. These measures (or facilitations) include:

- 1.1.1 facilitations made on loan terms by changing one or more of the terms of the contract, which are mainly related to the term (including grace period for the start of loan repayment), principal and interest rate (not including interest capitalization, which should not happen);
- 1.1.2 taking of collateral or other assets (properties) for partial repayment of the loan;
- 1.1.3 replacement of the original borrower or involvement of an additional borrower.

1.2 “Borrower” (debtors and/or co-debtors) - means natural or legal persons who have taken a loan or any other financing product and have outstanding liabilities to the lending institution.

1.3 “Lender” - means banks and financial institutions licensed by the CBK for lending.

1.4 “Moratorium” - means the temporary termination of legal action against the other party and the temporary termination of loan payment liabilities.

Article 3

Loan restructuring

1. Loan restructuring should be done carefully so that loan restructuring modifications are in the best interest of the lending institution and borrowers, in order to improve loan performance, on the one hand, and reduce credit risk on the other hand. Lending institutions are instructed to restructure loans and use flexibility within the accounting framework to avoid unfair penalties to borrowers affected by short-term liquidity problems; they must also ensure that losses are not hidden and prudential standards are not relaxed. Restructuring does not necessarily mean a failure of the borrower by reasonably interpreting regulatory requirements, and it is not necessary for the transaction to be considered impaired in the accounting framework if after restructuring the borrower is not in financial difficulty and/or current net worth of the loan is not reduced. In cases where lending institutions give new loans or increase the current exposure of borrowers who are subject to loan restructuring, it does not automatically mean that the exposure is classified as a failure. Loans that have the moratorium approved after 16 March 2020 are subject to this Guideline and may be restructured in accordance with this Guideline.
2. Due to the great impact of Covid-19 on the economy and the performance of borrowers, lending institutions are instructed to restructure loans in order to:
 - 2.1 Facilitate the postponement of loan payments for individuals and companies in financial difficulties to enable them to continue their activity and overcome financial difficulties;
 - 2.2 Provide opportunities for lending institutions to reduce losses;
 - 2.3 Create opportunities to avoid the negative social and economic impacts that may arise as a result of the bankruptcy of companies;
 - 2.4 Support other stakeholders (customers, employees, suppliers, and investors), because borrowers involved in loan restructuring can continue their business; and
 - 2.5 Avoid litigation, which may require time until its completion, as well as increase the efficiency of loan collection.
3. CBK instructs lending institutions to work constructively with borrowers so that restructuring is careful and with appropriate conditions.
4. Borrowers can ask their lenders to restructure the loan if they qualify.
5. Lending institutions that provide loan conditions facility according to this Guideline should compile policies to implement these facilities. The decision to apply/implement these facilities is a business decision of the lending institutions, based on the assessment of the capacity of the borrower to pay under the new modified conditions.

6. Lending institutions are allowed to carry out restructure for borrowers who, during the assessment of lending institutions, have been negatively affected by the Covid-19 pandemic. Such a restructuring given should be done according to the following definitions:

6.1 Include changes in the repayment period through the suspension, delay or reduction of principal, interest or full payments amounts, as agreed between the lending institution and the borrower taking into account the client's ability to overcome temporary financial difficulties;

6.2 Regular interest calculated during the suspension period will be distributed over a minimum of the next 6 months, or until maturity, if the loan maturity period is less than 6 months.

6.3 Restructuring or facilitating the payment of loan instalments (grace period, smaller principal, and similar) cannot be granted for a period longer than 12 months. Restructuring loans must be made and accepted from the date of entry into force of this Guideline until 31 August 2020.

6.4 Loan restructuring does not necessarily mean that the borrower has failed and the transaction is classified and considered non-performing. Lending institutions must count the days of delay based on the new payment plan resulting from the application of the moratorium.

6.5 Given the high rate of restructuring that includes the debt moratorium and the high priority of issues related to business continuity during the crisis, it is understandable that banks may not be able to assess, in the short term, the impact of the crisis on their borrowers and the solvency to write-off their liabilities, taking into account the effect of the debt moratorium.

6.6 While lending institutions receive more reliable and trustworthy information on the financial condition of borrowers and their solvency to carry out payments, based on modified loan conditions, they should assess whether there is a need to change the loan classification and to estimate expected credit losses. A lending institution may use an individual or collective approach to assess *expected credit losses* (ECL), depending on how the lending institution manages credit risk exposures.

6.7 Lending institutions must ensure that the procedures used to measure ECLs, whether determined collectively or individually, are sound and timely, and must take into account various criteria such as additional credit risk mitigations (e.g. guarantees), cash flow estimates, based on estimates of macroeconomic conditions and the situation (financial position) of the borrower after the crisis, along with other important information for the future, which affect the expected collection of bank credit exposure.

6.8 Lending institutions should make clear and detailed disclosures on the criteria used to determine loan classification, as well as the assumptions and scenarios made in assessing the adequacy of credit loss provisions.

6.9 Lending institutions will have to exercise sound judgment in implementing the International Financial Reporting Standard 9 (IFRS 9) especially at a time when there is a significant situation of uncertainty. In the current economic environment, the assessment of ECLs should take into account the temporary nature of the impact of Covid-19, the best available information, appropriate fiscal support measures and the use of a range of scenarios to support credit risk analysis, including the unfavourable scenario in the current situation. At

the same time, lending institutions should keep in mind that IFRS 9 is based on principles and therefore should not be applied mechanically and avoid automatic application. For example, the moratorium should not automatically result in the movement of credit risk exposures in phase 2 as this does not necessarily mean that there has been a significant increase in credit risk.

6.10 Lending institutions must apply the guiding principles “IFRS 9 and Covid-19” for the application of ECL according to IFRS 9 published on 27 March 2020 by the IFRS Foundation.

6.11 In case of delays in loan repayment, according to the new post-restructuring payment plan, lending institutions are obliged to comply with the requirements of the CBK regulations in force.

6.12 Loan restructuring can be provided by lending institutions or can be requested by borrowers.

Article 4 **Entry into force**

This Guideline enters into force on the date of approval.

Fehmi Mehmeti
Chairperson of the Executive Board

Guideline shall be sent to:

- Banking Supervision Department (BSD) and External Relations Department (ERD)
- Institutions to which it is applicable (*guideline be sent electronically by BSD*)
- General public (*guideline be published on the CBK website by ERD*)