



Pursuant to Article 36, paragraph 1, sub-paragraph 1.1, of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo, the Executive Board of the Central Bank of the Republic of Kosovo, in the meeting held on 2 February 2021, approved the following:

## **INSTRUCTION ON LOAN RESTRUCTURING DUE TO COVID-19**

### **Article 1 Purpose and Scope**

1. The purpose of this Instruction is to provide borrowers, lenders and other institutions with information on 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 fulfil the obligations stipulated in the contract, and return to normal business activity or improving the solvency of individuals in relation to the current obligation.
2. This Instruction shall apply to all financial institutions licensed/registered by the CBK to exercise lending activity under applicable legislation.

### **Article 2 Definitions**

1. For the purposes of this Instruction, the terms used shall have the following meaning:
  - 1.1 “Loan restructuring” - means the facilitation that lending institutions provide for borrowers because of their financial difficulties caused by COVID-19 and the support for their recovery. These measures (or facilitations) include:
    - 1.1.1 suspension, postponement or reduction of loan payments (principal, interest or both). Loan restructuring should not affect the change of other loan contract terms, in particular the interest rate, unless such a change serves only for compensation, in order to avoid losses that lending institutions would suffer due to the changed payment plan, which would allow the neutralization of the impact on current net value.

1.2 “Borrower” (debtors and/or co-debtors) - are natural or legal persons, who had taken loans or any other financing obligation and have outstanding obligations to the lending institution.

1.3 "Lender" - are banks and other financial institutions licensed by the CBK for lending.

### **Article 3**

#### **Loan restructuring**

1. Loans should be restructured in a way as to ensure that modifications of loans that are restructured to be in the mutual interest of the lending institution and borrower, in order to improve loan performance, on the one hand, and reduce credit risk on the other. Lending institutions are instructed to restructure loans and use flexibility within the accounting framework to avoid unfair penalties on affected borrowers, with short-term liquidity problems; they should 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 the borrower is not in financial difficulty and/or the current net loan value has not been diminished. In cases when credit institutions provide new loans or increase the current exposures of borrowers who are subject to the loan restructuring, this shall not mean that the exposure is automatically classified as failed.
2. Due to the great impact of COVID-19 on the economy and the performance of borrowers, lending institutions are instructed to restructure loans for the purpose of:
  - 2.1 Facilitating the postponement of individual loan payment and companies in financial difficulty, in order to enable them to continue the operation and overcome the financial difficulties;
  - 2.2 Creating opportunities for avoiding the negative social and economic impacts that may arise as a result of the bankruptcy of companies;
  - 2.3 Supporting other stakeholders (customers, employees, suppliers and investors), because borrowers involved in loan restructuring can continue their business.
3. CBK instructs lending institutions to work constructively with borrowers to ensure that restructuring is prudent and with appropriate terms.
4. Creditors may ask their lenders for loan restructuring, if they qualify.
5. Lending institutions that provide facilitations on loan terms according to this Instruction should compile policies for the implementation of these facilities. The decision to

apply/implement these facilities is a business decision of the lending institution, based on the assessment of the capacity of the borrower to pay under the new modified terms.

6. Lending institutions are allowed to restructure borrowers who, during the assessment of lending institutions, have been adversely affected by the COVID-19 pandemic. Such a restructuring should:

- 6.1 Include changes in the repayment period by suspending, postponing or reducing the principal amounts, interest or full payments, as agreed between the lending institution and the borrower given the ability of the customer to overcome the temporary financial difficulties;

- 6.2 Restructuring or facilitation of instalment payment, according to this Instruction, may take place for two loan categories, as presented below.

- 6.2.1 Category of loans that have not been previously subject to restructuring due to the COVID-19 (according to one of the previous instructions of the CBK). Restructuring of one loan of this category should not result in the extension of the term of repayments of more than 9 months.

- 6.2.2 Category of loans that have not been previously subject to restructuring due to COVID-19, on which occasion repayment terms under 9 months have been extended (according to one of the previous CBK Instructions). Restructuring of one loan of this category may result in addition extension of the repayment term, which extension, along with the previous extension, should not be more than 9 months in total.

- 6.3 Restructured loans maturity may be extended for a period equal to the restructuring period.

- 6.4 Requests for loan restructuring should be submitted and received from the date of entry into force of this Instruction to 31 March 2021.

- 6.5 Loan restructuring does not necessarily mean that the borrower has failed and transaction is classified and considered as non-performing. Lending institution shall count the days past due based on the new payment schedule resulting from the application of restructuring.

- 6.6 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, as well as the ability to repay their liabilities, taking into account the effect of the debt moratorium.

6.7 While lending institutions receive more secure and reliable information on the financial condition of borrowers and their ability to make payments, based on modified loan terms, they should assess whether there is a need to change the credit classification and to assess the Expected Loan Losses. A lending institution may use an individual or collective approach for assessing the *Expected Loan Losses* (ELL), depending on how the lending institution manages credit risk exposures.

6.8 Lending institutions should ensure that the procedures used to measure the ELLs, whether determined collectively or individually, are sound and timely and take into account various criteria, such as additional credit risk mitigations (such as 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.

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

6.10 Lending institutions will have to exercise sound judgment in the implementation of International Financial Reporting Standard 9 (IFRS 9), especially at a time when there is a situation of uncertainty. In the current economic environment, ELLs assessment should take into account the temporary nature of the COVID-19 impact, the best available information, and 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 automatic application should be avoided. For example, the restructuring 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.

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

6.12 In case of delays in loan repayment, according to the new post-restructuring payment schedule, lending institutions are obliged to implement the requirements of the CBK regulations in force.

6.13 Lending institutions should report loans restructured according to this Guideline in the Kosovo Credit Registry, with the description "Restructuring due to COVID-19".

6.14 Lending institutions may offer loan restructuring or borrowers may require loan restructuring.

**Article 4**  
**Repealing**

Upon the entry into force of this Instruction, the Instruction on Loan Restructuring due to COVID-19, approved by the Executive Board on 27 August 2020, shall be repealed.

**Article 5**  
**Entry into force**

This Instruction enters into force on the day of its approval.

Fehmi Mehmeti  
Chairperson of the Executive Board

**The Instruction will be submitted to:**

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