



LIETUVOS
BANKŲ
ASOCIACIJA

Temporary payment moratoria for legal entities

23rd of April, 2020

Background of the moratorium

On 2 April this year, the European Banking Authority published guidelines on loan repayment in the context of the COVID-19 crisis (the "**Guidelines**"¹). Following these Guidelines, the Association of Lithuanian Banks (lit. *Lietuvos bankų asociacija*) has formed a working group to harmonise the criteria for a moratorium in the sector of private credit institutions. This private moratorium (the "**Moratorium**") is based on the Guidelines No EBA/GL/2020/02 of the European Banking Authority ("**EBA**").

The Association of Lithuanian Banks has informed the Bank of Lithuania and the Supervision Service of the Bank of Lithuania about this process and, in turn, the Supervision Service has coordinated the preparation of the Moratorium with the Competition Council. When discussing the criteria for Moratorium, the working group has not exchanged information, which could be classified as a credit institution secret or a commercial secret or which could be considered as sensitive and privileged information. The discussions were based on the Guidelines and took into account the full range of measures taken by the State and the economic impact of COVID-19 on different economic sectors.

In the opinion of the signatory credit institutions and the Bank of Lithuania, this Moratorium is objectively necessary to reduce the negative impact of COVID-19 pandemic on Lithuanian businesses, and it does not exceed what is strictly necessary in order to achieve its objectives and to address the above issues.

The Competition Council confirmed that the preparation and the coordination of this Moratorium do not conflict with competition laws, provided that sensitive information is not exchanged during the discussions. The members of the working group were acquainted with the comment of the Competition Council and undertook to comply with the specified requirements and recommendations.

The credit institutions announcing the Moratorium

The Moratorium is announced by the following institutions: AS Citadele banka Lithuanian branch, Danske Bank A/S Lithuanian branch, LKU group, Luminor Bank AS Lithuanian branch, UAB Medicinos bankas, OP Corporate Bank plc Lithuanian branch, UAB "OP Finance", AB SEB bankas, Swedbank AB, AB Šiaulių bankas.

The Bank of Lithuania fully supports this Moratorium.

This Moratorium is open. All participants of the Lithuanian credit market providing loans to legal entities may join it under the existing terms.

Validity of the Moratorium

This Moratorium is declared for a limited period of time. The Moratorium shall enter into force on the day of its publication and shall remain in force until 1 July 2020. By the decision of the credit institutions which announce the Moratorium, the validity of the Moratorium might be extended.

¹ <https://eba.europa.eu/regulation-and-policy/credit-risk/guidelines-legislative-and-non-legislative-moratoria-loan-repayments-applied-light-covid-19-crisis>

General principles

- The credit institutions which have joined this Moratorium undertake to change the schedules for repayment of loans which provide for the interim repayments, including financing instruments for working capital with an obligatory decreasing utilization limit (except when an entire loan is repaid at the end of the period) and leasing agreements that provide for interim terms for repayment of the value of the leased asset, i.e. amortised loans (hereinafter collectively referred to as loans) granted to their clients – legal entities – in accordance with the terms of this Moratorium, by postponing the loan repayments for the period indicated in the Moratorium.
- The Moratorium shall apply to loan agreements concluded before the announcement of the COVID-19 quarantine by the Government of the Republic of Lithuania, i.e., before 16 March 2020.
- When postponing the loan repayments under the conditions of this Moratorium, any other conditions of the loan agreement shall not be changed. This Moratorium postpones the repayments of the principal of the loan for a specific period of time, with the client continuing to pay interest, premiums for insurance, and / or other periodic fees. The Moratorium does not affect other conditions of the loan agreement unless (i) an interest rate adjustment can be applied in accordance with the Point 24 of the Preamble of the EBA Guidelines No EBA/GL/2020/02, and (ii) upon agreement of the parties, fees for guarantees provided by the State, state-controlled companies/institutions and/or international financial institutions to clients affected by COVID-19 if paid by the client.
- Obtaining guarantees provided by the State, state-controlled companies/institutions, and/or international financial institutions are not considered as a change of the conditions of the agreement.
- The Moratorium shall not apply to the loans granted by using the State funds – by the financial instrument "LOANS TO BUSINESSES MOST AFFECTED BY COVID-19".
- The Moratorium shall not apply if the credit institution concludes that the application of the Moratorium is not economically justified, i.e., if the client's financial difficulties existed before 16 March 2020 or are insurmountable (the likelihood that the client will be able to meet its financial obligations is low).
- This Moratorium also applies to loan repayment provisions applied by the credit institution to its clients by individual decisions after 15 March 2020 until the entry into force of this Moratorium, provided that the applied loan repayment provisions comply with the terms of this Moratorium.
- Group companies of the credit institutions (e.g., leasing companies) are also considered as parties to this Moratorium.
- The institutions that declared the Moratorium undertake to provide the Supervision Authority with the information detailed in Point 17 of the EBA Guidelines No EBA/GL/2020/02 in the agreed form and time limits.

The conditions for legal entities

Main criteria

- The Moratorium is announced in connection with the COVID-19 pandemic and is intended to address the resulting short-term deteriorations in the client's liquidity.
- The client subject to the postponement under this Moratorium must meet the following criteria:

(i) it shall not have had significant (more than once and for more than 30 days) delays in the fulfilment of obligations to the financial institutions for the past one year prior to the announcement of the COVID-19 quarantine by the Government of the Republic of Lithuania. At the same time, the credit institution has the right, but not the obligation, to check the client's delays in fulfilling its obligations to other creditors;

(ii) it shall not be declared insolvent and shall not have been subject to reorganization measures;

(iii) equity capital of the legal entity (when applicable to a particular type of legal entity) for the financial year of 2019 is positive;

(iv) it must indicate the COVID-19 pandemic related cause for the deterioration of the financial situation. The credit institution may request for additional information evidencing the impact of the COVID-19 pandemic on the client's ability to meet its obligations and meet the criteria of the Moratorium;

- The client which has used the postponement of the repayment of loan which was granted by the credit institution under this Moratorium shall not make any payments to its shareholder, stakeholder, the owner(s) and/ or persons related to them (including, but not limited to, dividend payments, repayments or grants of loans), for the period of postponement and for 6 months after the end of the postponement period, without the consent of the credit institution which granted the postponement;
- During the postponement period, the credit institution will temporarily suspend the application of the contractual financial ratios and other financial covenants imposed on the client (including, but not limited to, debt (service) coverage ratio (DSCR), positive equity, DEBT / EBITDA ratio, and/or other);
- This Moratorium shall not apply to credit agreements without a fixed repayment schedule (including, credit line/limit, account overdraft limit, which does not have an obligatory decreasing utilization limit).

Scope and terms of postponement of loan repayments under this Moratorium:

For financial liabilities of a legal entity and related legal entities (group of companies), including farmers' farms, in Lithuania, the amount of which is up to EUR 5 000 000:

- The proposed period of postponement of loan repayments and/or leasing value repayments under the request of the client is up to 6 months.
- By agreement of the parties, the loan repayment term may be extended for a postponed loan repayment period.