ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE FIRST APPLICATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARD 9 – *FINANCIAL INSTRUMENTS* – IFRS 9

Last updated: March 2018

Question No	**1.** ***Measurement of receivables from the National Bank of Serbia (hereinafter: the NBS)***
Question:	Is the required reserve subject to the calculation of expected credit losses under IFRS 9? If yes, which portion of the required reserve?
Answer:	Receivables from the NBS, regardless of whether in dinars or foreign currency, shall be classified and measured. The NBS expects them to be at Stage 1, and that impairment of these assets, if identified, shall be close to zero.

Question No	**2.** ***Measurement of government securities***
Question:	Should the banks calculate the impairment of government securities and on the basis of which indicators?
Answer:	Government securities, as any other financial instrument, shall be classified and measured. The usual risk parameters may be used for the calculation of the impairment of this type of financial instruments. Banks may use (develop) not too complex models for determining the probability of default of government securities (e.g. based on multi-year series of data on default rates and ratings of eligible credit assessment institutions, and/or assessment institutions listed on ESMA (*European Securities and Markets Authority*) website. When applying these impairment models and calculations one should pay attention to the issuer country and whether these are government securities or e.g. municipal bonds.

Question No	**3.** ***Measurement of forborne housing loans in CHF***
Question:	Are IFRS 9 criteria for measurement at amortised cost fulfilled in the case of housing loans in CHF with forbearance measure of

	non-accrual of interest during the deferment period?
Answer:	In case that, at a moment of its resolution, the bank did not derecognise a loan and recognise a new loan, the fulfilment of the SPPI (*solely payments of principal and interest*) criterion for measurement at amortised cost should not be questionable, that is, such a loan may be measured at amortised cost under IFRS 9 in case of an adequate business model.

Question No	**4.** ***Macroeconomic variables and parameters for calculation of impairment***
Question:	Can the banks use collective macroeconomic indicators? If not, what parameters should a bank take into account when calculating the expected credit loss?
Answer:	IFRS 9 requires consideration of causal relationship of macroeconomic variables and parameters for calculation of impairment. Regarding the use of macroeconomic environment factors, if a bank opts for applying collective or available data of other relevant institutions (such as data published by EBA), it should make sure that these are representative, that is, these factors must be connected with the developments in the domestic market, i.e. local macroeconomic conditions. The NBS expects the larger banks to develop on their own the models for determining the interdependence between macroeconomic variables and parameters for calculation of impairment. Macroeconomic indicators are publicly available. Though data series have certain breaks, the NBS recommends that they be eliminated, as much as possible, and that as long as possible time series should be used to determine their correlation with parameters for calculation of allowances for impairment. If not even then the expected results are achieved, calibration should be considered.

Question No	**5.** ***Number of scenarios***
Question:	When determining the impairment stage, what is the minimum number of scenarios that the banks must simulate for Stage 3?
Answer:	The NBS recommends that a bank should take into account a

	greater number of scenarios, in line with the best practice, e.g. basic, optimistic and pessimistic, for more precise measurement of the impairment stages in different circumstances.

Question No	**6.** ***Transfer of suspended interest to balance sheet***
Question:	Should a suspended interest which banks used to record as off-balance sheet item (while IAS 39 was in use) be transferred to the balance sheet, with allowances for impairment in the same amount, in order to disclose gross carrying amount in line with IFRS 9 at the moment of the first IFRS application?
Answer:	IFRS 9 shall not apply to those financial assets that were already derecognised on the day when its application commenced, including the suspended interest which is in the off-balance sheet records. Accordingly, the NBS expects that banks will not carry the transfer of suspended interest to the balance sheet.

Question No	**7.** ***How will the effects of the first application of IFRS 9 be recorded?***
Question:	Bearing in mind that conversion to IFRS 9 will reflect on the reduction of bank's other reserves, through the effect of additional calculation of allowances for impairment, should the NBS be informed of this reduction or should its consent be sought, since the change is a result of conversion to the new standard applied to all banks? We would also like to know whether this change should be accompanied by a special Decision by Shareholders Assembly on the reduction of bank's other reserves.
Answer:	The effects of IFRS 9 first application shall be recorded as adjustment to the opening balance in 2018, to the debit of retained earnings from previous years. Value date is 1, that is, 2 January 2018, if a bank decides to separate opening balances on 1 January and the effects on 2 January 2018. Exceptionally, when the accounting system does not allow for recording to be done on non-working days, due to built in controls, adjustments shall be recorded with the value date on the first working day in 2018. When a bank does not have retained earnings or does not have sufficient retained earnings, the negative effect, and/or a portion thereof, shall be disclosed as the loss from the previous period,

	with subsequent loss coverage which requires the Bank's assembly's decision. The NBS expects that profit shall not be distributed until total negative effect of IFRS 9 application has been covered. We note that, under the provisions of Section 32 of the Decision on Capital Adequacy of Banks, a bank shall apply forprior consent of the NBS if it intends to reduce the value of the Common Equity Tier 1 items.

Question No	**8.** ***Recording of the effects of IFRS 9 first application for regulatory reporting***
Question:	What is the deadline for recording of the effects of IFRS 9 first application in terms of data for regulatory reporting to the NBS?
Answer:	The NBS takes into account the complexity of the implementation process and does not expect from banks which do not have all the relevant methodologies, internal acts and procedures adopted by the competent bank authorities or reliably estimated effects of the first application of IFRS 9, to carry the total effects immediately at the onset of the standard application. It has been estimated that it is reasonable to expect these effects to be implemented in stages in majority of banks and not visible until reports for Q1 of 2018 are produced.

Question No	**9.** ***Disclosures in financial statements for 2017***
Question:	What is the attitude of the NBS concerning disclosures in bank financial statements for 2017 with regards to the effects of IFRS 9 initial application?
Answer:	In line with IFRS requirements, concerning the inception of IFRS 9 application, in financial statements for 2017 banks shall make disclosures under the IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* and IAS 10 *Events after the Reporting Period*. If the effects of the first application of IFRS 9 through the adjustment of retained earnings (or loss from the previous period) have been recorded in a bank's business books before the audit report on financial statements for 2017 has been issued, the bank should make appropriate disclosures under the note on the events after the reporting period, bearing in mind the materiality of these effects. If a bank is not able to record the effects of the first application of IFRS 9 until the issuance of the audit report, the notes should, as a minimum, disclose the management estimate of the effects of the initial application of IFRS 9 in the section which clarifies the basis for the preparation of financial statements, and/or IFRS that are currently in effect and IFRS that have been published but are not yet applied. Concerning the disclosure of the management estimate of the effects of the initial application of IFRS 9, the NBS expects that external auditors, in accordance with the International Auditing Standards, will estimate whether the estimate is reasonable, whether it has been disclosed as an event after the reporting period or in the section on the basis for the preparation of financial statements subject to audit. For that purpose, and bearing in mind the materiality of the effects of the first application of IFRS 9, and a potential impact on regulatory indicators in the case of some banks, the NBS expects from external auditors to have integrated in their plans for audit of financial statements of banks for 2017, additional procedures for assessment of reality and comprehensiveness of bank management estimates of the effects of the first application of IFRS 9. It also expects them to collect sufficient adequate evidence of the appropriateness of the accounting estimate on a going concern basis by the management in the preparation of financial statements and to draw a conclusion on whether there is a material uncertainty regarding the

	management estimates.

Question No	**10.** ***Guidelines for IFRS 9 application***
Question:	Will the NBS publish Guidelines for IFRS 9 application? If yes, when can banks expect them?
Answer:	The commenced application of IFRS 9 in the banking sector is running in parallel with the same process in other countries applying IFRS. Problems and issues concerning the application of the standard have not yet been identified in the domestic and international practice in order to develop guidelines. They are expected to occur later, that is, when a certain period of time has elapsed since the onset of the standard application.

Question No	**11.** ***Guidelines for Disclosure of the Quality of Assets***
Question:	Will the NBS publish a new set of Appendices through the Guidelines for Disclosure of the Quality of Assets, under IFRS 9? If yes, when can banks expect them?
Answer:	As IFRS 9 has been in effect since 1 January 2018, the current guidelines are still effective meaning that they shall be applied to financial statements for 2017. These guidelines will be thoroughly examined and adjusted to new needs until the time comes for financial statements for 2018.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE DECISION ON THE FORMS AND CONTENT OF ITEMS IN FINANCIAL STATEMENT FORMS TO BE COMPLETED BY BANKS

(RS Official Gazette, No 101/2017)

The date of the last update: January 2018

Question No	**1.** ***Filling in the comparative data in the financial statement forms for 2018***
Question:	Is it required to disclose the reclassified amounts in the Income Statement for 2018 as the data for the previous year (2017), since the Balance Sheet form remained almost unchanged?
Answer:	When preparing financial statements for 2018, banks enter the appropriate data for the previous year, 2017, in the prescribed forms without revaluating assets and liabilities in line with IFRS 9, or recalculating income and expenses, or presenting the amounts of those groups that did not exist in the 2017 financial statement forms nor in the prescribed accounts of the Chart of accounts for banks and SSKR codes. The bank needs to make appropriate reclassifications of data for 2017 for other items of Income statement that were changed from the previous form.

Question No	**2.** ***Statistical annex***
Question:	Will a new Statistical annex be published as a part of the amendments to regulations aimed at applying IFRS 9 in banks?
Answer:	Bearing in mind the accounts contained in the Statistical annex, there is no need to amend it, that is, the Decision on the Form and Content of Statistical Report to be Completed by Banks, RS Official Gazette, No 71/2014 remains in effect.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE DECISION ON THE CHART OF ACCOUNTS AND CONTENTS OF ACCOUNTS IN THE CHART OF ACCOUNTS FOR BANKS

(RS Official Gazette, No 71/2014, 135/2014 and 101/2017)

The date of the last update: January 2018

Question No	**1.** ***Clarification for Section 3***
Question:	Clarification for amended Section 3 of the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks (CoA Decision)
Answer:	Section 3 of the CoA Decision concerns the right of banks to further break down the prescribed three-digit accounts according to their needs, whereby they are obliged to provide the data required for the preparation of financial statements of banks on purpose, method for measurement and stages of impairment of financial instruments under the SSKR Decision in analytical accounts in the general ledger or in appropriate modules of subledgers, adjusted to the balance in the general ledger of every last day of the month. The NBS does not impose upon banks the organisational and technical solution for recording data that are required for disclosures in financial statements under IFRS 9 and that are also used for regulatory reporting. However, the NBS expects that every bank should perform the recording exercise in a manner which satisfies the requirements of the basic accounting principles. These are the principles of completeness, accurate and coherent information, *inter alia*. The above requirements are aimed at usefulness of information obtained by the implemented bookkeeping. In order for the information to be useful, they have to be timely, understandable, faithfully represented and reliable (complete and without errors). Therefore, the banks are expected to ensure that financial statements, as well as regulatory reports submitted to the NBS, are prepared on the basis of true, reliable, and verifiable data. The accountability of the competent organisational units and individuals for the timely entry, verification, processing and update of these data must be specified by the

	bank's internal acts.

Question No	**2.** ***Account 809 - Other non-current assets***
Question:	The amendments to the Chart of Accounts do not include the introduction of the new account 809 – Other non-current sources of funding, while Annex 2 of the SSKR Decision lists this account
Answer:	The Account 809 - Other non-current sources of funding has been prescribed by the transitional and final provisions of the Decision on the Chart of Accounts and Contents of Accounts in the Chart of Accounts for Banks, (RS Official Gazette, No 101/2017) Section 44, applied to legal and other entities which are not joint-stock companies, but which, until the entry into force of that decision, had used the account 801 – Other capital (state-owned and other capital) in line with the acts governing their operations, for disclosing the non-current sources of funding. The above legal entities (banks excluded) disclose information on the balance and structure of account 809 when submitting Annex 2 of the SSKR Decision.

Question No	**3.** ***Recordings in accounts 626 and 660***
Question:	In what cases is the loss from derecognition of loans measured at amortised cost recorded in accounts 626, since account 660 is still envisaged for the expense of the direct write-off of non-collectible receivables?
Answer:	The loss from derecognition of loans measured at amortised cost shall be recorded in account 626 in the cases of derecognition which is not a direct write-off, such as e.g. sale, assignment and alike.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE APPLICATION OF THE DECISION ON THE COLLECTION, PROCESSING AND SUBMISSION OF DATA ON THE BALANCE AND STRUCTURE OF ACCOUNTS IN THE CHART OF ACCOUNTS

(RS Official Gazette, No 101/2017)

Last updated: January 2018

Question No	**1.** ***Classification of legal entities by size***
Question:	Will the NBS provide to banks the information on classification of legal entities by size in accordance with the Law on Accounting? The proposal is to add a column for information on classification in the table used for sectorisation purposes. Additionally, newly established legal entities that are obliged to be classified under the Law on Accounting, shall not be classified before the first submission of the financial statement to SBRA, so that information on the size of these legal entities will become available not sooner than the next year, when SBRA publicly issues the information.
Answer:	Banks are already applying the classification of enterprises by size when reporting in the area of interest rates statistics. Annex 3 of the SSKR Decision provides Codes of the Serbian Business Registry Agency on classification of legal entities. The code for newly established legal entities is 0 – not subject to classification, and after the first financial statement has been submitted, the code is adjusted in line with the information from the statement.

Question No	**2.** ***Sector structure of enterprises undergoing bankruptcy***
Question:	Will the NBS provide for banks information for Codes - Sector structure of enterprises undergoing bankruptcy, which information is entered in the code position 20, within sector classification per registration number of a legal entity used by banks for determining the sector structure?
Answer:	Sector classification used solely for the preparation of statistical reports that are submitted to the NBS envisages codes for branch structure of companies and public enterprises undergoing

	bankruptcy.

Question No	**3.** ***Sector 75 – foreign countries***
Question:	Given that a new sector 75 – foreign countries, has been introduced, could you please provide a list/codes of foreign entities which should have a new sector?
Answer:	There is no need for that. Once a bank has established that it needs to use the code 75 – Foreign countries, governments and other public authorities, country code is provided additionally in the code position 11-12 from the Country Codes.

Question No	**4.** ***Coding of accounts 934 and 935***
Question:	Coding of accounts 934 and 935 in code positions 16, 17 and 18 related to three-digit account: If a bank transfers loan interest receivables (acc 020 and 080) and loan fee receivables (acc 028 and 088) to off-balance sheet items, should these accounts be entered as three-digit accounts or should they be linked to loans - principal accounts? The same question applies to other lending (acc 021, 027, 081, 087)?
Answer:	The SSKR Decision specifies that 16^{th}, 17^{th} and 18^{th} digits shall disclose the structure of the principal three-digit account to which the write-off relates.

Question No	**5.** ***SSKR structure – code position 6***
Question:	SSKR structure – code position 6: - What does the added word "other" in code 1 mean (with the other contracted euro hedging) - What is the difference between code 0 (without the contracted hedging) and code 9 (contracted dinar hedging)
Answer:	Annex 3 of the SSKR Decision gives the following explanation: - Code 1 – With the other contracted euro (EUR) hedging, shall be applied in cases of contracted interest rate not covered by the codes: E, F, G, H. These are all the other maturities of EURIBOR index not

	covered by the above. - Code 9 – With other hedging – in dinars shall be used in case of agreed interest rates not covered by codes B, C and D. These are all the other maturities of BELIBOR index not covered by the above. Priority in classification in the code position 6 is the applied interest rate.

Question No	**6.** ***Debit and credit balance of accounts 123/223, 418/518***
Question:	Account 123 and/or 223 shall disclose the effects of the changes in the fair value of items that are subject to hedging in respect of the group of financial assets (assets accounts). Bearing in mind that changes in fair value can be both positive and negative, is it possible for these accounts to have both debit and credit balance in SSKR statement? The same should also be enabled for the accounts 418 and 518 in liabilities.
Answer:	It is possible for the above accounts to have both debit and credit balance.

Question No	**7.** ***Information on sector and branch structure and the size of enterprises***
Question:	How will the information concerning the sector structure (4-5 digits), branch structure of public enterprises and companies for sectors 93 and 96 (20 digits), and concerning the size of enterprises (18 digits) be downloaded?
Answer:	Sector classification used solely for the preparation of statistical reports submitted to the NBS also envisages the codes for branch structure of companies and public enterprises undergoing bankruptcy on 20 digits, in addition to sector structure that is on 4 and 5 digits. Banks are already applying the classification of enterprises by size by when reporting in the area of interest rates statistics. (see answer to the question No 1)

Question No	**8.** ***Coding of accounts 934 and 935***

Question:	Will a list be made which we will be able to download via FTP server concerning the international organisations codes? We suggest that a line with registration numbers should be added in the list of international organisations. Will all attorneys at law, public notaries and bailiffs be on the NBS sectorisation? Should all these groups be in sectorisation which we download from FTP server, as it happens that a couple of clients attorneys at law occur and they are not in the NBS sectorisation? Clients which were deleted from the registry no longer appear in the NBS sectorisation. Is there a change for the delivery of sector structure of clients which were deleted from the registry?
Answer:	International organisations codes are very rarely updated and there is no need for banks to downloadthis code list from FTP server. The NBS does not have the IDs of foreign companies. Attorneys at law, public notaries and bailiffs are not on the NBS sectorisation list because they do not register with the SBRA, but with some other institutions. When technical conditions are met, they will be integrated into the NBS sectorisation list. The clients which have been deleted from the SBRA registry are assigned sector structure they had had before deletion.

Question No	**9.** ***SSKR structure – code position 17***
Question:	Concerning the structure of the 17^{th} digit in SSKR, are the codes 6 (tradable) and 7 (non-tradable) applied only to securities and derivatives which are measured at fair value through profit or loss and are assigned digits 6 and 7, while other financial assets are categorised according to quality levels 1 to 5?
Answer:	Yes, the above codes are assigned only to those securities and derivatives which are measured at fair value through income statement, while other financial assets which are measured at amortised cost or at fair value through other comprehensive income are assigned codes 1-5.

Question No	**10.** ***Coding of accounts 934 and 935***
Question:	Section 14 of Annex 3 states the codes which should be used for

	disclosing the method for measurement of financial assets. Please explain in which cases the code 2 – measured compulsorily at fair value through profit or loss is used, and in which cases the code 3 – measured optionally at fair value through profit or loss. For example, if a loan does not meet SPPI criterion and needs to be carried at fair value through profit or loss, should it be coded with 2 – compulsorily or with 3 – optionally? Is 3 – optionally, used only in cases when banks choose the fair value option at initial recognition?
Answer:	*Code 2* – Measured compulsorily at fair value through profit or loss, shall be assigned to financial assets which do not meet requirements for measurement at amortised cost, nor requirements for measurement at fair value through other comprehensive income. *Code 3* – Measured optionally at fair value through profit or loss, shall be assigned to financial assets which the bank irrevocably decided to measure at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatches.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE DECISION ON REPORTING REQUIREMENTS FOR BANKS

(RS Official Gazette, No 125/2014, 4/2015, 111/2015, 61/2016, 69/2016, 103/2016 and 101/2017)

Last updated: March 2018

Question No	**1.** ***Interim reports for January 2018***
Question:	Do the following preliminary reports need to be submitted for January 2018: Balance Sheet statement, Income statement, Cash-flow statement, and Statement of other comprehensive income of the banks, until 20 February 2018, or are the final reports due until 12 March the only mandatory reports?
Answer:	The Decision on Reporting Requirements for Banks does not stipulate the delivery of preliminary reports for January. Therefore, 12 March 2018 is the deadline for the delivery of monthly reports with the balance as at 31 January 2018.

Question No	**2.** ***Preparation of daily reports in the period up to closing of business books for 2017***
Question:	In view of the fact that on 1 January 2018 banks switch to a changed Chart of accounts, and bookings for 2017 per accounts from unchanged (old) chart of accounts have not been finished, may the daily reports starting from 3 January 2018 be sent under unchanged (old) chart of accounts until all the bookings from the previous year have been closed?
Answer:	Starting from the balance as at 3 January 2018, the banks shall submit all the daily reports prescribed by the Decision on Reporting Requirements for Banks in accordance with the new regulations as per latest updated accounting information they have.

Question No	**3.** ***KA – Allowances for impairment for claims on the NBS***
Question:	Do the KA reports disclose allowances for impairment for receivables from the NBS calculated in accordance with IFRS 9?
Answer:	KA1 and KA2 reports do not disclose allowances for impairment

	for items that are not classified under the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks, while the Section A of KA 4 report, as well as other reports, (NPE, VI-LI, SP) disclose their allowances for impairment as well. Since receivables from the NBS are classified and measured, the NBS expects them to be at the Stage 1, and for their impairment, if identified, to be close to zero. Allowances for impairment calculated in line with IFRS 9 for receivables from the NBS which are not be classified under the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks shall not be disclosed in KA1 report, but shall be disclosed in KA4 report.

Question No	**4.** ***POKG - Opening balance for the first report***
Question:	What information is disclosed in Column 1 Opening balance when sending the first POKG Report for the period from 1 January 2018 until 31 January 2018?
Answer:	Column 1 Opening balance at the beginning of the POKG reporting period for January 2018 should disclose initial balance of expected credit losses after the effects of the first IFRS 9 application have been recorded. Thus, the initial balance shall disclose cumulative amount of allowances for impairment and provisions for losses under off-balance sheet items calculated as at 31 December 2017, increased by the effects of the first IFRS 9 application.

Question No	**5.** ***POKG – Reduction in expected credit losses arising from write-offs***
Question:	What column of the POKG Report shall disclose the reduction in expected credit losses arising from write-offs carried out under the Decision on the Accounting Write-off of Bank Balance Sheet Assets (RS Official Gazette, No 77/2017)?
Answer:	The reduction in expected credit losses arising from the write-off carried out under the Decision on the Accounting Write-off of Bank Balance Sheet Assets (RS Official Gazette, No 77/2017) shall be disclosed in Column 8 Decrease due to direct write-off.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE DECISION ON REPORTING ON CAPITAL ADEQUACY OF BANKS

(RS Official Gazette, No 103/2016)

Last updated: March 2018

Question No	**1.** ***Allowances for impairment of receivables from the NBS in SP forms***
Question:	Should the allowances for impairment calculated under IFRS 9 for receivables from the NBS be disclosed in the column "Specific credit risk adjustments, additional allowances for impairments, the amount of the required reserve for estimated losses deducted from Common Equity Tier 1 capital and other deductions" of the SP forms?
Answer:	Since receivables from the NBS are classified and measured, the NBS expects them to be at the Stage 1, and for their impairment, if identified, to be close to zero. However, if the bank calculates allowances for impairment for receivables from the NBS, it should be disclosed in SP forms.

ANSWERS TO THE MOST FREQUENTLY ASKED QUESTIONS CONCERNING THE APPLICATION OF THE DECISION ON THE CLASSIFICATION OF BALANCE SHEET ASSETS AND OFF-BALANCE SHEET ITEMS OF BANKS

(RS Official Gazette, No 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016 and 101/2017)

Last updated: March 2018

Question No	**1.** ***Section 3, paragraph 2, indent two***
Question:	Should securities measured at fair value through other comprehensive income which shall be carried in classes 122 and 222, in accordance with the new chart of accounts, if the issuer is the Republic of Serbia, be excluded from the calculation of the classification of balance sheet assets bearing in mind the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks and provisions relating to the positions of balance sheet assets which are not classified, where receivables from the government which were assigned 0% weight are not classified under the Decision on Capital Adequacy of Banks?
Answer:	Provisions of Section 3, paragraph 2 of the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks stipulate which balance sheet assets are not classified within the meaning of this Decision and therefore, bearing in mind indent two of that Section, the above securities are not classified if they are receivables from the government which are assigned 0% risk weight under the decision governing capital adequacy.

Question No	**2.** ***Section 6, paragraph 1, indent five***
Question:	Section 6, paragraph 1, indent five stipulates that a bank needs to establish a procedure for assessing whether there has been a significant increase in credit risk at the reporting date relative to the date of initial recognition. Does that refer to the change in impairment stage (Stage 1-3), if the receivables moved from stage 1 to stage 2 at the reporting date.

Answer:	The purpose of assessing of whether there has been a significant increase in credit risk at the reporting date relative to the date of initial recognition is to establish whether a financial instrument needs to be transferred from the impairment stage 1 to the impairment stage 2, in which case the calculation of 12 - month expected credit losses is replaced with the calculation of life-time expected credit losses.

Question No	**3.** ***Section 6, paragraph 1, indent six***
Question:	Section 6, paragraph 1, indent six prescribes that a bank shall determine the definition of the default status of liabilities in its methodology and use it for determining the changes in the default risk relative to the date of initial recognition of balance sheet assets and off-balance sheet items. Does this mean that banks are allowed to determine their own definition of the default status or does it have to be in accordance with the Decision on Capital Adequacy of Banks?
Answer:	A bank may determine its own definition of the default status while bearing in mind the paragraph B.5.5.37 of the Appendix B which is integral to IFRS 9. Under IFRS 9, *inter alia*, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments, unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.

Question No	**4.** ***Section 6, paragraph 2***
Question:	It is not clear from paragraph 2 of Section 6 why it is not allowed for the default status to be the indicator on the basis of which it can be established that there has been a significant increase in the credit risk.

Answer:	The moment when a bank determines that there is objective evidence of impairment, i.e. that the default status occurred in accordance with the definition used for determining the changes in the risk of default since initial recognition – cannot concurrently be determined as the moment of significant increase in the credit risk of balance sheet assets and off-balance sheet items relative to the day of initial recognition. This is because the assessment of whether lifetime expected credit losses should be recognised is based on significant increases of probability or risk of default since initial recognition, and not on evidence of impairment of a financial asset for credit losses at a reporting date or on real non-settlement of liabilities. Significant increase in credit risk usually occurs before the actual impairment of financial asset or before the actual default occurs. With regards to the above, also see paragraphs B5.5.7 and B5.5.21 of the Appendix B which is integral to IFRS 9.

Question No	**5.** ***Section 6, paragraph 1, indent seven***
Question:	A bank determines how it will establish whether balance sheet assets and off-balance sheet items have low credit risk at a reporting date. Please clarify what low credit risk means and what methods may a bank use to determine such a status?
Answer:	In accordance with the paragraph 5.5.9. of IFRS 9 an entity may presume that no significant increases in credit risk occurred since initial recognition of a financial instrument if low credit risk has been determined at a reporting date. Paragraphs B5.5.22 to B5.5.24 of the Appendix B which is integral to IFRS prescribe in detail what is considered low credit risk and states methods for determining whether a financial instrument has low credit risk, giving the examples.

Question No	**6.** ***Section 8, paragraph 2***
Question:	At least quarterly, a bank shall assess whether there has been a significant increase in credit risk since initial recognition and calculate adequate impairment amount based on expected credit losses. What is the required method for assessing whether there has been a significant increase in credit risk? And what is considered a

	significant increase?
Answer:	A bank shall use the methodology for assessing the impairment of balance sheet assets and probable losses under off-balance sheet items, that is, for recognition and measurement of expected credit losses to establish procedures for assessing whether there has been a significant increase in credit risk of balance sheet assets and off-balance sheet items at the reporting date since initial recognition. In accordance with the paragraph 5.5.9. of IFRS 9 an entity shall assess at each reporting date whether there has been a significant increase in credit risk since initial recognition of a financial instrument. After this assessment the entity considers the change in the risk of default occurring over expected life of the financial instrument, instead of the change in the amount of expected credit losses. To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider all reasonable and supportable information that is available without undue cost or effort that is indicative of a significant increase in credit risk since initial recognition. The method for determining a significant increase in credit risk is set forth in Paragraphs 5.5.10 and 5.5.11 of the body of the text of IFRS 9 and specified in more detail Section 5.5. of the Appendix B which is an application guidance and integral to this standard.

Question No	**7.** ***Section 14, deleted***
Question:	Given that paragraph of Section 14 of the Decision, in relation to assessment on a collective basis, (Assessment referred to in paragraph 1 of this Section, shall be made by a bank: – for receivables for which assessment on an individual basis determined that there was no objective evidence of impairment of balance sheet assets or probable loss on off-balance sheet items, i.e. no impairment amount has been determined on an individual basis for balance sheet assets and probable loss on off-balance sheet items;), does the NBS still require that in the case of exposures that are subject to individual assessment of impairment and which are significantly collateralised so that impairment amount equals 0, that the bank should continue to transfer such exposures to a calculation on a collective basis, or does the deletion of this paragraph mean

	that the past requirement has been abandoned?
Answer:	Provisions of the Decision governing the assessment on an individual basis, assessment on a collective basis and assessment based on experience were deleted on the grounds of a changed concept of impairment of financial assets in IFRS 9 compared to IAS 39, which focuses on allocation of financial assets to impairment stages based on the assessment of whether there has been a significant increase in credit risk, introducing the concept of expected instead of incurred loss. And hence, the choice between the assessment on an individual basis and the assessment on a collective basis is not based on the existence of objective evidence of impairment or determined impairment amount, but on whether the assessment of significant increase in credit risk can be made on an individual basis or at the level of a group of financial instruments (set forth in more detail in paragraphs B5.5.1 to B5.5.6 of the Appendix B which is integral to IFRS 9). In this connection, in accordance with the provisions of the Decision, in its methodology, a bank shall establish criteria for the classification of exposures into groups of exposures with similar characteristics for the purposes of assessment of existence of a significant increase in credit risk and the amount of expected credit losses on a collective basis, as well as the methods and techniques for assessment of impairment on an individual and collective basis.

Question No	**8.** ***Section 34, paragraph 3***
Question:	Is the write-down of a financial asset measured at fair value through other comprehensive income based on the change in credit risk considered allowances for impairment of balance sheet assets in terms of calculation of required reserves?
Answer:	Since the write-down of a financial asset measured at fair value through other comprehensive income based on the change in credit risk, in accordance with paragraph 5.5.2 of IFRS 9 does not lead to the the write-down in the carrying amount of the financial asset, it is not considered allowances for impairment of balance sheet assets for purpose of calculation of required reserves in accordance with Section 34, paragraph 3 of the Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items of Banks. We note that the write-down of a financial asset measured at fair

	value through other comprehensive income based on the change in credit risk shall be recorded by debiting account 656 *Expenses of the write-down of financial assets measured at fair value through other comprehensive income* / crediting account 823 – *Gains/losses from the change in the value of debt instruments*, and that balance in account 823, in accordance with section 7, paragraph 1, item 4) of the Decision on Capital Adequacy of Banks (RS Official Gazette, No 103/2016) shall be an item of the Common Equity Tier 1 capital of the bank which is included in the Common Equity Tier 1 capital, provided that conditions from the paragraph 2 of that Section have been met, upon the delivery of notification and prescribed documents to the NBS in line with the Section 31, paragraph 10 of that Decision.