

Pursuant to Article 128i, paragraph 18 of the Law on Banks (RS Official Gazette, Nos 107/2005, 91/2010 and 14/2015) and Article 15a, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012 and 14/2015), the Executive Board of the National Bank of Serbia issues the following

**D E C I S I O N**  
**ON DETAILED REQUIREMENTS AND MANNER OF INDEPENDENT**  
**VALUATION OF ASSETS AND LIABILITIES OF A BANK AIMED AT**  
**DETERMINING WHETHER THE CONDITIONS FOR BANK RESOLUTION**  
**ARE MET**

**Introductory provisions**

1. This decision sets out detailed requirements and the manner of valuation of assets and liabilities of a bank, eligibility requirements for persons who may perform the valuation, principles and assumptions on which the valuation is based, and the requirements and manner of provisional valuation of assets and liabilities of the bank.

2. Independent valuation of assets and liabilities of a bank (hereinafter: independent valuation) shall be performed in order to provide data and information to be used by the National Bank of Serbia in determining whether the conditions for write-down and conversion of capital, and/or bank resolution are met, and to ensure that all of the bank's losses are fully recognised in its business books and financial statements.

       Independent valuation shall be performed if the National Bank of Serbia has assessed that:

- the bank is failing or likely to fail;
- there is no reasonable prospect that any other measure by the bank or a private sector entity, or a supervisory measure could in a reasonable period remove impediments to the continuation of the bank's operation;
- it is probable, if the independent valuation is performed in order to determine whether the conditions for bank resolution are met, that the resolution could adequately achieve one or more resolution objectives which could not be achieved to the same extent by placing the bank under bankruptcy or liquidation procedure, especially taking into account the resolvability of the bank assessed in the drawing up and updating of resolution plans.

If the requirements referred to in paragraph 2 hereof have been met, the independent valuation shall be performed so as to provide the following data and information to the National Bank of Serbia:

- the amount of the write-down, and/or the level of conversion of capital instruments required for the coverage of losses and/or recapitalisation of the bank,

- the appropriate resolution tool or measure, and/or the extent to which a bank's shares need to be cancelled or their nominal value diluted, the extent to which a bank's eligible liabilities need to be written-down or converted, which shares, assets or liabilities need to be transferred, and what fee for the sale of shares, and/or assets and liabilities would be considered to be in line with market conditions.

Independent valuation shall be supplemented with up-to-date financial statements of the bank, analysis and estimate of the accounting value of its assets, as well as a list of outstanding on- and off-balance sheet liabilities shown in the business books and records of the bank, with an indication of priority levels for classification of liabilities under the law governing the bankruptcy and liquidation of banks and insurance companies.

Independent valuation shall also include an estimate of the total amount that each class of creditors would have been expected to receive if the bank were placed under bankruptcy.

### **Requirements and manner of selecting the person to perform independent valuation of assets and liabilities of a bank**

3. Independent valuation may be performed by an auditor from the list referred to in Article 52, paragraph 3 of the Law on Banks (hereinafter: independent appraiser).

4. The appraiser shall be independent from any public authority or institution entrusted with the exercise of public powers and shall not receive instructions, and/or guidelines from these authorities and institutions in carrying out independent valuation, with the exception of instructions of the National Bank of Serbia necessary to carry out the valuation and achieve its objectives.

The appraiser shall be independent from the bank to which independent valuation refers or the banking group of which such bank is a member. The appraiser may not be a person related to the bank within the meaning of the Law on Banks, or a person who performed an audit of financial statements of

the bank or a member of the banking group for the business year prior to the year of performance of independent valuation. The person managing independent valuation and signing the report on independent valuation shall be independent from the bank to which the independent valuation refers or the banking group of which such bank is a member within the meaning of Article 54, paragraph 2 of the Law on Banks.

The appraiser shall not be considered independent if he has or is likely to have a common interest with the authorities and institutions referred to in paragraph 1 hereof, and/or the bank referred to in paragraph 2 hereof and the entities related to it, or an opposing interest arising from a contractual or other business relationship the appraiser had with such entities in the previous three years, and/or an interest arising from the direct relation between the appraiser and the subject of independent valuation which could adversely affect the impartial and objective performance of independent valuation.

The National Bank of Serbia shall select an independent appraiser if it assesses, on the basis of the data at its disposal and the data submitted by the appraiser its request, that the appraiser has met the conditions of independence set forth in this Decision.

The National Bank of Serbia may establish additional criteria that the appraiser must meet in an individual case in order to be selected to perform independent valuation, including the cost of appraiser engagement and its operational, technical and staff capacities.

The National Bank of Serbia shall conclude an agreement on the performance of independent valuation with the appraiser referred to herein which shall contain the subject of independent valuation, deadline for the submission of report on performed independent valuation, confidentiality clause referring to the subject of independent valuation, valuation fee and other elements.

#### **Independent valuation with the purpose of providing data and information on the fulfilment of conditions for write-down and conversion of capital, and/or bank resolution**

5. The independent appraiser shall, for the purposes of providing information and data referred to in Section 2 hereof, apply one or more appropriate methodologies based on prudent and realistic assumptions.

The methodology referred to in paragraph 1 hereof shall be in accordance with accounting regulations and regulations governing bank operations.

6. In the performance of independent valuation, the independent appraiser shall take into account all circumstances which may affect the expected cash flows related to assets and liabilities of a bank and discount rates applied to those assets and liabilities in order to disclose the bank's financial position in a fair and realistic manner.

Circumstances which may affect the expected cash flows related to assets and liabilities of a bank shall be in particular:

- 1) macroeconomic conditions and the situation in the market which may affect the bank's operations;
- 2) the bank's business model and strategy;
- 3) the bank's investing standards, including loan approval standards;
- 4) circumstances affecting the amount of the bank's risk-weighted assets;
- 5) circumstances related to liquidity and assets for the bank's financing;
- 6) the bank's ability to retain a specific amount of assets in a given period and ensure predictable cash flows from it.

7. The independent appraiser shall state and explain the basic assumptions used in valuation, and in particular state and explain the differences between those assumptions and the assumptions used by the bank's management bodies in the preparation of financial statements and statements on the bank's capital and capital requirements, and shall corroborate these differences with appropriate facts.

For the purposes of providing information and data referred to in Section 2 hereof, the independent appraiser shall present the effect of changed assumptions on financial statements and/or financial position of the bank, as well as on the bank's capital and capital requirements.

8. The independent appraiser shall provide the best possible valuation of the accounting value of the bank's assets and liabilities in line with his abilities and the facts at his disposal, and shall additionally determine the ranges of this value for the types of assets and liabilities for which it is possible.

The independent appraiser shall perform independent valuation, paying special attention in particular to those areas where the value of assets and liabilities is characterised by high uncertainty, which especially means loans and loan portfolios, assets acquired through collection of receivables, financial instruments at fair value, goodwill and other intangible investments, and potential costs related to disputes and measures taken against the bank by the National Bank of Serbia, and/or against the member of the banking group by a competent regulatory authority.

9. The independent valuation shall be based on all data and information available on the date for which the valuation is performed (hereinafter: valuation date), which shall in particular mean:

- 1) data and information from the bank's financial and regulatory statements for the period closest to the valuation date;
- 2) data and information from the bank's business books;
- 3) data and information acquired by the National Bank of Serbia during the prudential supervision of the bank and data and information acquired in accordance with Article 113, paragraph 3 of the Law;
- 4) data and information available in the market;
- 5) data and information on the quality of the bank's assets, and the valuation of assets and liabilities of banks comparable in terms of size and of structure of assets and liabilities – if they can be adapted to the specific characteristics of the particular case;
- 6) historical data and information, excluding the circumstances irrelevant for the particular case, while taking into account the circumstances relevant for that case;
- 7) trend analyses adapted to the specific characteristics of the particular case.

**Independent valuation with the purpose of providing data and information on the measures which need to be taken for the write-down and conversion of elements of capital, and/or bank resolution**

10. If deemed necessary for the performance of a comprehensive independent valuation, the National Bank of Serbia shall, after the start of independent valuation, notify the independent appraiser of resolution tools and measures envisaged by the resolution plan of the bank, and/or of other planned resolution tools and measures.

The independent appraiser shall assess the impact of different resolution tools and measures on the bank's cash flows, and/or financial position, as well as capital and capital requirements.

When carrying out the valuation referred to in paragraph 2 hereof, the independent appraiser shall present all losses to the bank's assets established during the assessment of cash flows that may be reasonably expected relating to the bank's assets and liabilities after the application of resolution tools and measures.

The independent appraiser shall perform the valuation referred to in paragraph 2 hereof, taking into account potential claims of the National Bank of Serbia in respect of recovering the expenses incurred in the resolution

procedure, as well as the expenses of interest and fees in respect of loans or guarantees provided to the bank from funds for financing resolution.

11. The independent appraiser shall assess cash flows related to the bank's assets and liabilities which can be reasonably expected after the application of resolution tools and measures, and shall discount those cash flows, taking into account the period in which the expected cash flows should be realised, financing costs of assets or liabilities, the bank's financial position after the resolution, and market conditions.

The cash flows referred to in paragraph 1 hereof may be appraised collectively for types of assets and/or liabilities with common characteristics.

If the planned resolution tools and measures envisage the bank should retain certain assets and liabilities, the independent appraiser shall perform the valuation of those assets and/or liabilities at the appropriately discounted present value of cash flows which may be expected under fair, prudent and realistic assumptions, taking into account all effects that the initiation of the resolution procedure may have on the assumptions previously used in the assessment of expected cash flows.

If the planned resolution tools and measures envisage a transfer of certain assets and liabilities, the independent appraiser shall perform the valuation of those assets and/or liabilities on the basis of expected cash flows from their sale or transfer within the appropriate period.

### **Requirements and manner of performing provisional valuation**

12. Provisional valuation referred to in Article 128i, paragraphs 9 and 10 of the Law shall be performed in accordance with the provisions referred to in Sections 3 to 11 hereof, to the extent possible, taking into account the urgency of action and other circumstances which justify the performance of this valuation.

The independent appraiser shall include a buffer for additional losses in the provisional valuation of assets and liabilities of a bank if such losses may be expected, based on known facts and circumstances.

When determining whether additional losses may be incurred, the independent appraiser shall obtain information from the National Bank of Serbia on whether such a possibility is expected, taking into account the most significant risks the bank is exposed to, and the identified deficiencies in its accounting policies and procedures.

The buffer referred to in paragraph 2 hereof shall be determined on the basis of recognised standards used to determine the asset value, whereby the data on losses determined for one type of assets may be applied to other types of assets, with potential adjustments.

The performance of provisional valuation by the National Bank of Serbia shall be subject to provisions of paragraphs 2 to 4 of this Section.

### **Final provisions**

13. The provisions of this Decision shall apply accordingly to independent valuation of a member of a banking group.

14. This Decision shall be published in the RS Official Gazette and shall enter into force on 1 April 2015.

NBS Executive Board No 22  
26 March 2015

Belgrade

Chairperson  
Executive Board of the  
National Bank of Serbia  
Governor  
National Bank of Serbia

Jorgovanka Tabaković, PhD.