Pursuant to Article 128i, paragraph 18 and Article 128w, paragraph 8 of the Law on Banks (RS Official Gazette, Nos 107/2005, 91/2010, 14/2015 and 19/2025) 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, 14/2015 and 40/2025 – CC decision, 44/2018 and 19/2025), 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 BEFORE AND AFTER BANK RESOLUTION

C h a p t e r I

MAIN PROVISIONS

1. This Decision sets out detailed requirements and the manner of selecting an independent valuer, the manner of performing an independent valuation of assets and liabilities of a bank before initiating the resolution procedure, including the provisional valuation of those assets and the methodology for conducting an independent valuation after the resolution procedure.

The provisions of this Decision shall apply accordingly to the independent valuation of assets and liabilities of a banking group member.

2. Within the meaning of this Decision, certain terms shall have the following meaning:

1) *independent valuation* means an independent, fair and realistic valuation of assets and liabilities of a bank which the National Bank of Serbia (NBS) is obliged to ensure pursuant to Article 128i, paragraph 1 of the Law on Banks (hereinafter: Law) before initiating the resolution procedure, as well as an independent valuation of losses of shareholders, creditors and the deposit insurance fund in the resolution procedure and the bankruptcy procedure which the NBS is obliged to ensure pursuant to Article 128w, paragraph 1 of the Law after intiating the resolution procedure;
2) *independent valuer* means an audit firm on the list of external auditors from Article 52, paragraph 3 of the Law meeting the conditions from Sections 5 to 7 of this Decision;
3) *provisional valuation* means a temporary valuation conducted by an independent valuer or the NBS when the urgency prevents the

performance of an independent valuation before initiating the resolution procedure, and which is used in the resolution procedure until the independent valuer performs the definitive valuation of the bank's assets and liabilities;

4) *definitive valuation* means an independent valuation performed by an independent valuer following the initiation of the resolution procedure when the urgency prevents the performance of an independent valuation before initiating the resolution procedure;

5) *valuer* means an independent valuer or the NBS when conducting a provisional valuation;

6) *relevant authority* means any public authority or an institution entrusted with the exercise of public authorisations;

7) *fair value* means the price that could be achieved by selling the assets or received for the transfer of liabilities in an ordinary transaction between market participants on the valuation date, in accordance with International Financial Reporting Standards or International Accounting Standards (hereinafter: IFRS/IAS);

8) *hold value* means the current value of cash flows, discounted at an adequate rate, that can be reasonably expected under fair, prudent and realistic assumptions for the bank's assets or liabilities retained after resolution, taking into account factors influencing the behaviour of clients or other contracting parties and/or other valuation parameters in the context of resolution;

9) *disposal value* means the value determined based on expected cash flows, reduced by disposal costs and the expected value of any provided guarantees, which can be reasonably expected under current market conditions within the framework of a regular sale or transfer of the bank's assets and liabilities;

10) *franchise value* means the net present value of cash flows that can be reasonably expected as a result of maintaining and renewing the bank's assets and liabilities or its ongoing operations. It incorporates the impact of business conditions, where relevant, including those arising from the application of various resolution measures or tools, which the independent valuer took into account. This value may be higher or lower than the value derived from the contractual terms of the assets and liabilities as of the date of the independent valuation;

11) *equity value* means the estimated market price for transferred or issued shares of the bank, derived from the application of generally accepted valuation methods. Depending on the nature of the assets or operations, this value may also include franchise value;

12) *measurement basis* represents the independent valuer's approach in determining the monetary amounts at which assets and liabilities are recognised;

13) *resolution decision date* means the date when the decision to

initiate the resolution procedure from Article 128j of the Law was made;

14) *close-out date* represents the date and time of closing the transaction and of the termination of the derivative contract specified in the NBS decision on close-out, and/or termination or early maturity of derivative contracts in the event of the initiation of the resolution procedure;

15) *replacement transaction* means a transaction concluded on or after the close-out date to re-establish, based on net risk exposure, the internal hedge or related trading position that was closed, under economic terms equivalent to those of the closed-out transaction;

16) *market replacement transaction* means a replacement transaction concluded based on net risk exposure, under terms consistent with customary market practice and derived from the best possible cost-benefit ratio in the specific case.

3. The independent valuation from Article 128i of the Law shall be conducted for the purpose of providing data and information based on which the NBS shall determine whether the conditions have been met for the write-down and conversion of capital or eligible liabilities, and/or for initiating the bank resolution procedure, as well as to ensure that all of the bank's losses are fully recognised in its business books and financial statements.

The independent valuation from paragraph 1 hereof shall be carried out if the NBS has assessed the following:

1) the bank's condition is such that it cannot or is unlikely to be able to continue operating;

2) it is unlikely that any other measure by the bank or a private sector entity, or a measure taken within a supervision procedure could eliminate the obstacles to continued operations within a reasonable timeframe;

3) it is likely, if the independent valuation is conducted to assess whether the conditions for initiating the resolution procedure are met, that the resolution will achieve one or more of its objectives in an appropriate manner, that could not be achieved to the same extent through a bankruptcy or liquidation procedure, particularly taking into account the resolution options for the bank as evaluated during the preparation and updating of resolution plans.

The independent valuation from Article 128w of the Law shall be carried out immediately upon initiating the resolution procedure or immediately upon applying resolution measures and tools, to determine whether the bank's shareholders and creditors would be in a more favourable position if the bankruptcy procedure was initiated instead of the resolution procedure.

C h a p t e r II

TERMS AND MANNER OF APPOINTING AN INDEPENDENT VALUER

Elements of independence

4. An independent valuer shall be deemed independent if the following conditions are met:

1) the valuer possesses the required resources and can carry out the independent valuation effectively without undue reliance on any relevant authority, the bank for which the independent valuation is being carried out or a member of the bank's banking group, in accordance with Section 5 of this Decision;
2) the valuer is structurally and legally separated from the relevant authorities, the bank for which the independent valuation is being carried out or a member of the bank's banking group;
3) the valuer has no material common or conflicting interest with the relevant authorities or relevant persons within the meaning of Section 7 of this Decision.

Resources

5. The independent valuer shall secure sufficient human and technical resources which the NBS deems adequate for carrying out the independent valuation. The assessment of the adequacy of resources shall take into account the nature, size and complexity of the independent valuation to be performed.

For the purposes of conducting an independent valuation, the independent valuer shall not seek or take instructions or guidance or seek or accept financial or other advantages from any relevant authority, the bank for which the independent valuation is being performed or a member of the bank's banking group.

By way of exception, paragraph 2 hereof shall not be deemed to prevent:

1) the provision of instructions, guidance, premises, technical equipment or other forms of support to the independent valuer where, in the assessment of the NBS, this is considered necessary for achieving the goals of the independent valuation;
2) the payment to the independent valuer of such remuneration and

expenses as are reasonable in connection with the conduct of the independent valuation.

Structural and legal separation

6. The audit firm – candidate for an independent valuer – and its licensed authorised auditors must be structurally and legally separated from any relevant authority, including the NBS, from the bank for which the independent valuation is being carried out or a member of the bank's banking group (hereinafter: relevant persons).

For the purposes of paragraph 1 hereof, a person shall be deemed structurally and legally separated if it is not related to a relevant person within the meaning of the Law.

Material common or conflicting interest

7. The independent valuer shall not have an actual or potential material interest in common or in conflict with any relevant person.

For the purposes of paragraph 1 hereof, an actual or potential interest shall be deemed material whenever, in the assessment of the NBS, it could influence the independent valuer's judgement in carrying out the independent valuation.

For the purposes of paragraph 1 hereof, interests in common or in conflict with the following parties shall be relevant:

1) members of the relevant persons' management body and persons in managing positions with executive authorisations in the relevant persons;
2) legal or natural persons with a qualifying holding in the relevant persons;
3) creditors identified by the NBS to be significant on the basis of available information;
4) each member of the banking group, if the bank is the ultimate parent company or a member of the banking group.

When assessing the presence of the interest from paragraph 1 hereof, the following shall be taken into consideration:

1) the provision of services by the candidate for an independent valuer to the relevant person and the persons referred to in paragraph 3 hereof, and in particular the link between those services and the elements relevant for the valuation;

2) personal and financial relationships between the candidate for an independent valuer, the relevant person and the persons referred to in paragraph 3 hereof;

3) investments or other material financial interests of the candidate for an independent valuer;

4) mechanisms which the candidate for an independent valuer has or intends to put in place to address any threats to independence (such as self-review of independence, mutual financial benefit, advocacy of interests of the relevant person or persons from paragraph 3 hereof, familiarity, intimidation, etc.), including procedures to clearly differentiate between those staff members of such person who may be involved in the independent valuation and other staff members.

Without prejudice to paragraphs 3 and 4 hereof, the candidate for an independent valuer shall be deemed to have an actual material interest in common or in conflict with the interest of the relevant person where the candidate, in the year preceding the date on which that person's independence is assessed, has completed external audit and/or special audit, or provided consultancy services to the relevant person in this period.

Any candidate considered for the position of an independent valuer, or appointed as an independent valuer, shall:

1) maintain, in accordance with any applicable codes of ethics and professional standards, policies and procedures to identify any actual or potential interest which may be considered to constitute a material interest in accordance with paragraph 2 hereof;

2) without delay notify the NBS of any actual or potential interest which, in the NBS's estimate, may be considered to amount to a material interest in accordance with paragraph 2 hereof;

3) take appropriate steps to ensure that none of the licensed authorised auditors, staff or other persons involved in carrying out the valuation have any material interest within the meaning of paragraph 2 hereof.

Appointment of an independent valuer

8. The NBS shall appoint an independent valuer if it deems that the candidate has met the independence criteria from Sections 5 to 7 of this Decision, based on the data available to it, as well as the data submitted by the candidate at the NBS's request.

The NBS may define additional criteria in a specific case which a person must meet in order to be appointed for performing independent valuations, including the cost of that person’s engagement and the operating, technical and staff capacities.

The NBS and the appointed independent valuer shall conclude a contract on performing an independent valuation, specifying in particular the subject of the independent valuation, deadline for submitting the report on the performed independent valuation, confidentiality clause about the data associated with the subject of the independent valuation and the amount of the compensation for performing the valuation.

C h a p t e r III

METHODOLOGY FOR PERFORMING AN INDEPENDENT VALUATION BEFORE INITIATING THE RESOLUTION PROCEDURE

Part 1

General provisions

General criteria

9. When performing an independent valuation, the independent valuer shall consider all circumstances that may affect the expected cash flows of and discount rates applicable to a bank’s assets and liabilities, with the aim of fair, prudent and realistic disclosure of the bank’s financial position and risks it is exposed to.

The independent valuer shall disclose and justify the key assumptions used in the independent valuation, especially elaborating on the differences between these assumptions and the assumptions used by the bank’s management body in the preparation of financial statements and statements on the regulatory capital and capital requirements, and support these differences by adequate facts.

The independent valuer shall provide the best possible estimate of the value of a given asset, liability or combinations thereof. Where appropriate, the results of such valuation shall also be provided in the form of value ranges.

The criteria laid down in this Decision for the measurement of individual assets and liabilities shall also apply to the measurement of portfolios or groups of assets or combined assets and liabilities, businesses, or the bank considered as a whole, as the circumstances require.

The independent valuation shall subdivide creditors in classes under applicable law governing bankruptcy and insolvency, and shall include the following estimates:

1) the value of creditor's claims of each class considering, where relevant and feasible, contractual rights of creditors;
2) the total amount of proceeds each class of creditors would receive were a bank subject to the bankruptcy procedure.

For purposes of the estimate from paragraph 5 hereof, an independent valuer may, when needed, apply the criteria from the methodology for performing an independent valuation after applying the resolution measures and tools from Sections 21 to 26 of this Decision.

Where needed, and taking into account the available time and credibility of the independent valuation, the NBS may request several independent valuations.

Valuation date

10. For purposes of the independent valuation performed before initiating the resolution procedure, i.e. before the application of the write-down and conversion of capital and eligible liabilities, the valuation date shall be one of the following dates:

1) the reference date as determined by the independent valuer, which is as close as possible to the expected date of a decision on initiating the resolution procedure or a decision on write-down and conversion;
2) in case of a definitive valuation, it shall be the resolution decision date;
3) for the purpose of evaluating the liabilities from derivative contracts, it shall be the date determined in accordance with Section 36 of this Decision.

Information for the independent valuation

11. The independent valuation shall be based on any data and information deemed relevant by the independent valuer on the valuation date for compiling an independent valuation in accordance with the Law and this Decision.

In addition to financial statements, external auditor's reports and reports which the bank is obligated to provide in accordance with regulations (hereinafter: regulatory reports) – which are available on the date as close as possible to the valuation date, the relevant information from paragraph 1 hereof may include the following:

1) the updated financial statements of the bank and regulatory reports prepared by the bank as close as possible to the valuation date;
2) an explanation of the key methodologies, assumptions and judgements used by the bank in order to prepare the financial statements and regulatory reports;
3) data and information contained in the bank's business records;
4) relevant market data;
5) conclusions drawn by the independent valuer from discussion with the bank management and external auditors;
6) where available – supervisory assessments of the bank's financial condition, including information acquired pursuant to Article 113, paragraph 3 of the Law;
7) asset quality assessments at the banking sector level, where relevant to the bank's assets, as well as stress test results;
8) valuations of peer groups, adequately adjusted to capture the bank's specific circumstances;
9) historical information, adequately adjusted to eliminate factors that are no longer relevant, and to incorporate other factors that did not affect these data,
10) trend analyses, adequately adjusted to reflect the bank's specific circumstances.

Impact of financial support arrangements within a banking group

12. Where the bank for which the independent valuation is being performed is part of a banking group, the independent valuer shall take into account the impact that the existing contractual intra-group support arrangement can have on the value of the bank's assets and liabilities, where it is probable that those arrangements will be put into effect.

The independent valuer shall only take into account the impact of other formal or informal arrangements within the banking group where, on the basis of the circumstances, it is probable that those arrangements shall remain in place in the context of a banking group's stressed financial condition or in a resolution procedure.

The independent valuer shall determine whether the resources of the bank are available to cover the losses of other banking group members.

Independent valuation report from Article 128i of the Law

13. The independent valuer shall provide an independent valuation report to the NBS which shall include at least the following elements:

1) the information from Article 128i, paragraph 7 of the Law, except in case of a provisional valuation;
2) the information from Section 9, paragraph 5 of this Decision, except in case of a provisional valuation;
3) the valuation of liabilities arising from derivatives set out in accordance with Sections 27 to 36 of this Decision;
4) a summary of the independent valuation, including an explanation of the best point estimate, value ranges and sources of value uncertainty;
5) an explanation of the assumptions and methodologies used, how sensitive the valuation is to the choices of assumptions and methodologies and, where applicable, an explanation of how those assumptions and methodologies differ from those used for other relevant valuations including any provisional valuations;
6) any additional information which in the valuer's opinion could be significant for the application of Article 128i of the Law and this Decision.

Part 2

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

General criteria

14. The independent valuation from Article 128i, paragraph 1 of the Law, performed for the purpose of providing data and information on the fulfilment of conditions for capital write-down and conversion and/or bank resolution, shall be based on fair, prudent and realistic assumptions and shall seek to ensure that losses under the appropriate scenario are fully recognised.

The independent valuation from paragraph 1 hereof shall provide the NBS with information as to the fulfilment of conditions from Article 128h, paragraph 1, item 1) of the Law.

Based on existing guidance or other acts of the NBS or other generally recognised sources setting out the criteria conducive to the fair, prudent and realistic measurement of different types of assets and liabilities, the valuer may challenge the assumptions, data, methodologies and judgements on which the bank based its valuations for financial reporting obligations or for the calculation of regulatory capital and capital requirements and disregard them for the purposes of the independent valuation.

The independent valuer shall determine the most appropriate valuation methodology which may rely on the bank's internal models where the valuer deems it appropriate taking into account the nature of the bank's risk management system and the quality of data and information available.

The valuation from this Section must be consistent with the applicable framework for financial reporting, i.e. IFRS/IAS.

Areas requiring particular attention in the independent valuation

15. The independent valuer shall particularly focus on areas subject to significant valuation uncertainty which have a significant impact on the overall independent valuation. For those areas, the independent valuer shall provide the best possible estimates and, where applicable, present the results of the independent valuation as value ranges, in accordance with Section 9, paragraph 3 of this Decision. Those areas shall include:

1) loans or loan portfolios, the expected cash flows of which depend on a counterparty's ability, willingness or incentive to perform on its obligation, where those expectations are based on delinquency rates, probabilities of default, loss given default, or instrument characteristics, especially where evidenced by loss patterns for a portfolio of loans;
2) repossessed assets, the cash flows of which are affected by both the asset's fair value at the time the entity forecloses on the related security or lien, and the expected evolution of such value after foreclosure;
3) instruments measured at fair value where the determination of that fair value in accordance with accounting or regulatory requirements on their marking to market or marking to model is no longer applicable or valid taking into account the circumstances;
4) goodwill and intangibles, where the impairment test may depend on subjective judgement, including as regards the reasonably attainable cash flow stream, discount rates, and the perimeter of cash generating units;
5) legal disputes and regulatory actions, due to which the amount and/or timing of the expected cash flows may be subject to varying degrees of uncertainty;
6) items including employee income and deferred tax items.

Factors affecting the valuation

16. The independent valuer shall take into account general factors that may affect the key assumptions underlying the independent valuation in areas referred to in Section 15 of this Decision, including the following factors:

1) economic and banking sector circumstances affecting the bank, including relevant market developments;

2) the bank’s business model and changes in its business strategy;

3) the bank’s asset selection criteria, including loan underwriting policies;

4) circumstances and practices that are likely to lead to payment shocks;

5) circumstances affecting the parameters used to determine risk weighted assets for the calculation of minimum capital requirements;

6) the impact of the bank’s financial structure on the capacity of the bank to retain assets for the expected holding period and the bank’s ability to generate predictable cash flows;

7) general or bank-specific liquidity or funding concerns.

The independent valuer shall clearly separate any material unrealised gains identified in the valuation process, to the extent that those gains have not been recognised in the valuation, and shall provide adequate information in the valuation report of the exceptional circumstances that have led to those gains.

Part 3

Independent valuation for providing data and information on the selection of measures to be taken in relation to write-down and conversion of capital instruments and/or bank resolution

General criteria

17. The independent valuer shall assess the impact on the independent valuation of each resolution measure or tool that the NBS may apply. Without prejudice to the valuer’s independence, the NBS may consult with the valuer in order to identify the range of resolution measures and tools being considered, including actions and measures contained in the resolution plan or resolution actions and measures proposed in the specific case, if different.

To ensure a fair, prudent and realistic valuation, the independent valuer shall, where appropriate and in consultation with the NBS, present separate valuations that reflect the impact of a sufficiently diverse range of resolution measures and tools.

The independent valuer shall ensure that when the resolution tools are applied and/or the bank’s capital and eligible liabilities written down or converted, any losses on the assets of the bank are fully recognised under scenarios that are relevant to the ranges of resolution measures and tools being considered.

Where the values of the independent valuation diverge significantly from the values presented by the bank in the financial statements, the independent valuer shall use the assumptions of that valuation, to inform the adjustments to the assumptions and to the accounting policies necessary for the preparation of the updated financial statements under Article 128i, paragraph 7 of the Law, in a way consistent with the IFRS/IAS. As regards losses identified by the independent valuer which cannot be recognised in the updated financial statements, the valuer shall specify the amount, describe the reasons underlying the determination of the losses and the likelihood and time horizon of their occurrence.

Where capital instruments and eligible liabilities are converted to equity, an independent valuation shall provide an estimate of the post-conversion equity value of new shares transferred or issued as consideration to holders of converted capital instruments or other creditors. The estimate from this paragraph shall form the basis for the determination of the conversion rate or rates pursuant to Article 128t, paragraph 6 of the Law.

Selection of the measurement basis

18. In selecting the most appropriate approach for the independent valuation, the independent valuer shall take into account the range of resolution measures and tools to be examined according to Section 17, paragraph 1 of this Decision.

The independent valuer shall determine the cash flows that the bank can expect on the basis of fair, prudent and realistic assumptions from existing assets and liabilities following the application of the resolution measures and tools, discounted at an appropriate rate as determined in accordance with paragraph 7 hereof.

Cash flows shall be determined at the appropriate level of aggregation, ranging from individual assets and liabilities to portfolios or businesses, with due consideration to differences in the risk profiles.

Where the resolution measures and tools referred to in Section 17, paragraph 1 of this Decision require that assets and liabilities are to be retained by a bank that continues to operate, the independent valuer shall use the hold value as the appropriate measurement basis. The hold value may, if considered fair, prudent and realistic, anticipate a normalisation of market conditions.

The hold value shall not be used as the measurement basis where assets are transferred to an asset management vehicle or a bridge bank, or in case of the application of a share or asset and liabilities sale tool.

Where the resolution measures and tools referred to Section 17, paragraph 1 of this Decision envisage the sale of assets, the expected cash flows shall correspond to the disposal values envisaged for the expected disposal horizon.

The discount rates shall be determined having regard to the timing of cash flows, risk profile, financing costs and market conditions as appropriate to the asset or liability being measured, the disposal strategy considered and the bank's post-resolution financial position.

Specific factors relating to the estimation and discounting of expected cash flows

19. For the purpose of estimating cash flows, the independent valuer shall apply their expert judgement in determining key characteristics of the assets or liabilities being measured, as well as in determining how the continuation, potential renewal or refinancing, run-off or disposal of those assets or liabilities, as envisaged in the examined resolution measure or tool, affect those cash flows.

Where the resolution measure or tool envisages a bank continuing to operate or holding an asset or maintaining a liability, the independent valuer may take into account factors potentially affecting future cash flows, including the following:

1) changes in assumptions or expectations, as compared to those prevailing as of the valuation date, consistent with long-term historical trends and a reasonable horizon consistent with the contemplated holding period of assets or for the recovery of the bank;

2) additional or alternative valuation bases or methodologies that are considered appropriate by the independent valuer and consistent with this Decision, including in the context of assessing the post-conversion equity value of shares.

As regards groups of assets and liabilities or business activities envisaged to be run off, the independent valuer shall take into account workout costs and benefits of those assets, liabilities or business activities.

Where a bank's situation prevents it from holding an asset or continuing to operate, or where the sale is otherwise considered necessary by the NBS to achieve the resolution objectives, the expected cash flows shall be referenced to disposal values expected within a given disposal period.

The disposal value shall be determined by the independent valuer in accordance with this Decision, depending on circumstances and taking into account the resolution measures and tools that should be applied in the resolution procedure. The disposal value can also be determined by the reduction of the available market price for a given sale or transfer by the amount of the potential discount due to an urgent sale. To determine the disposal value of assets which do not have a liquid market, the independent valuer shall consider observable prices on markets where similar assets are traded or model calculations using observable market parameters, with discounts for illiquidity reflected as appropriate.

The independent valuer shall have regard to factors that might affect disposal values and disposal periods, including the following:

1) the disposal values and disposal periods observed in similar transactions, adequately adjusted to take into account differences in the business model and in the financial structure of the parties to those transactions;
2) advantages and disadvantages of a particular transaction that are specific to the parties involved or to a relevant group of market participants;
3) particular attributes of an asset or business that may only be relevant to a potential purchaser, or to a relevant subset of market participants;
4) the likely impact of expected sales on the bank's franchise value.

When assessing the value of businesses for purposes of the use of the sale of business or of the bridge bank tool, the independent valuer may take into account reasonable expectations for franchise value which shall include the value resulting from a renewal of assets, from a refinancing of an open portfolio, or from a continuation or resumption of business in the context of the resolution measures and tools.

An independent valuer assessing that no realistic prospect for the disposal of an asset or business can reasonably be expected, shall not be required to determine the disposal value, but shall estimate the related cash flows on the basis of the relevant prospects for continuation or run-off. This provision shall not apply to the asset and liabilities separation tool or to the sale of business tool.

For parts of assets or operations that are likely to be liquidated under ordinary bankruptcy or liquidation procedures, the independent valuer may consider the disposal values and disposal periods observed in public auctions involving assets of a similar nature and condition. The determination of expected cash flows shall take into account illiquidity, the absence of reliable inputs for the determination of disposal values, and the resulting need to rely on valuation methodologies based on assumptions that lack market data.

Part 4

Provisional valuation

Methodology for calculating and including a buffer for additional losses

20. The performance of the provisional valuation from Article 128i, paragraphs 9 and 10 of the Law shall be subject to the provisions of Sections 9 to 19 of this Decision, to the extent possible, bearing in mind the urgency of action and other circumstances justifying this valuation.

To address the uncertainty of provisional valuations conducted to provide data and information for the selection of measures to be taken in relation to the write-down and conversion of capital instruments and/or bank resolution in accordance with Article 128i, paragraph 2 of the Law, the valuer shall include in the provisional valuation a buffer to reflect facts and circumstances supporting the existence of additional losses of uncertain amount or timing. In order to avoid double counting of uncertainty, the assumptions supporting the calculation of the buffer shall be adequately explained and justified by the valuer.

In order to determine the size of the buffer, the valuer shall identify factors that may affect expected cash flows as a result of resolution measures and tools likely to be applied.

For the purposes of paragraph 2 hereof, the valuer may extrapolate losses estimated for a part of the bank’s assets to the remainder of the bank’s balance sheet. Where available, average losses estimated for assets of peer competitors may also be extrapolated, subject to the necessary adjustments for differences in the business model and financial structure.

C h a p t e r IV

METHODOLOGY FOR PERFORMING AN INDEPENDENT VALUATION OF THE LOSSES OF SHAREHOLDERS, CREDITORS AND THE DEPOSIT INSURANCE FUND IN THE RESOLUTION AND BANKRUPTCY PROCEDURES

General provisions

21. For the purposes of determining the treatment of bank shareholders and creditors under normal bankruptcy instead of the resolution procedure, the independent valuation shall be conducted based only on information about facts and circumstances which existed and could reasonably have been known at the resolution decision date which, had they been known by the independent valuer, would have affected the measurement of the assets and liabilities of the entity at that date.

For purposes of determining the actual treatment of shareholders and creditors in the resolution procedure, the independent valuer shall rely on available information concerning facts and circumstances existing as of the actual treatment date or dates at which shareholders and creditors received adequate compensation (actual treatment date).

For the purposes of valuation from paragraph 1 hereof, the reference date of the valuation shall be the resolution decision date, which may differ from the actual treatment date. Insofar as the independent valuer deems the impact of any discounting of the proceeds to be negligible, the undiscounted proceeds at the resolution decision date may be directly compared with the discounted amount of hypothetical proceeds that shareholders and creditors would have received had the bank entered normal bankruptcy proceedings at the resolution decision date.

Inventory of assets and claims

22. The independent valuer shall establish an inventory of all identifiable and contingent assets owned by the bank, including assets for which the existence of associated cash flows is demonstrated or can reasonably be expected that such cash flows shall arise in the near future.

A list of all claims and contingent claims against the bank shall be made available to the independent valuer. That list shall classify all claims and contingent claims according to their priority levels in accordance with the law governing bankruptcy and liquidation procedures of banks. The independent valuer shall be allowed to enter into arrangements for specialist advice or expertise as regards the consistency of the ranking of creditors.

Encumbered assets and claims secured by those assets shall be identified separately by the independent valuer.

Steps of the valuation

23. For the purposes of Article 128w, paragraph 2 of the Law, the

independent valuer shall assess:

1) the treatment that shareholders and creditors in respect of which resolution measures and tools have been effected, or the deposit insurance fund, would have received had the bank entered normal bankruptcy procedure at the resolution decision date, disregarding any provision of extraordinary financial support;
2) the actual treatment of shareholders or the value of the restructured claims following the application of the bail-in tool or other resolution measures and tools, or of other proceeds received by shareholders and creditors as at the actual treatment date, discounted back to the resolution decision date if deemed necessary to enable a fair comparison with the treatment referred to in item 1) hereof;
3) whether the outcome of the treatment in item 1) of this Section exceeds the outcome of the value referred to in item 2) of that Section for each creditor in accordance with the priority levels from Section 22, paragraph 2 of this Decision.

Determination of the treatment of shareholders and creditors under normal bankruptcy procedure

24. The methodology for conducting the independent valuation from Section 23, item 1) of this Decision shall be limited to determining the discounted amount of expected cash flows under normal bankruptcy procedures.

Expected cash flows shall be discounted at the rate or rates reflecting, as appropriate, the timing associated with expected cash flows, prevailing circumstances as of the resolution decision date, risk-free interest rates, risk premia for similar financial instruments issued by similar entities, market conditions or discount rates applied by potential acquirers and other relevant characteristics.

The independent valuer shall take the following into account in the determination of the discounted amount of expected cash flows under a normal bankruptcy procedure:

1) applicable bankruptcy and liquidation regulations and practice which may influence factors such as the expected disposal period or recovery rates;
2) reasonably foreseeable administration, transaction, maintenance, disposal and other costs which may be incurred in the bankruptcy procedure, as well as financing costs;
3) the information on recent past bankruptcy cases of similar banks,

where available and relevant.

For assets traded in an active market, the independent valuer shall use the market prices, except where specific circumstances hamper the marketability of the assets, such as concentration, saturation and depth of the market.

For assets not traded in an active market, the independent valuer shall consider a number of factors when determining the amount and timing of expected cash flows, including:

1) prices observed in active markets where similar assets are traded;
2) prices observed in a bankruptcy procedure or otherwise distressed transactions involving assets of a similar nature and condition;
3) prices observed in transactions involving the sale of shares and/or assets, rights and obligations of a bank or their transfer to a bridge bank or an asset management vehicle in a resolution context relating to similar banks;
4) the likelihood of an asset generating net cash inflows under a bankruptcy procedure;
5) expected market conditions within a given disposal period, including market depth and the ability of the market to exchange the relevant volume of assets within that period;
6) the length of a given disposal period shall reflect the implications of the applicable law governing bankruptcy and liquidation, including the expected length of the liquidation process, or the characteristics of the relevant assets.

The independent valuer shall consider whether the financial condition of the bank would have affected the expected cash flows, including through restrictions on the bankruptcy administrator's ability to negotiate terms with potential purchasers.

Where possible, and subject to any applicable provision of the law governing bankruptcy and liquidation, the cash flows shall reflect the contractual, statutory, or other legal rights of creditors and normal bankruptcy practices.

The hypothetical proceeds resulting from the bankruptcy procedure and determined in the independent valuation shall be allocated to shareholders and creditors in accordance with their priority levels under Section 22, paragraph 2 of this Decision.

For the purpose of determining any unsecured amount of derivative claims in a bankruptcy procedure, the independent valuer shall apply

Sections 27 to 36 of this Decision, to the extent consistent with the law governing bankruptcy and liquidation, and the relevant practice.

Determination of the actual treatment of shareholders and creditors in resolution

25. The independent valuer shall identify all claims outstanding after the write-down or conversion of capital instruments and eligible liabilities, and the application of any resolution tools, and shall assign those claims to the legal and natural persons who were the bank's shareholders and creditors at the resolution decision date.

Except where the legal and natural persons from paragraph 1 hereof have received cash compensation as a result of the resolution, the independent valuer shall determine their actual treatment in accordance with paragraphs 3 to 5 hereof.

Where the legal and natural persons from paragraph 1 hereof have received equity compensation as a result of the resolution, the independent valuer shall determine their actual treatment by providing an estimate of the overall value of shares transferred or issued as consideration to the holders of converted capital instruments or to the bailed-in creditors. That estimate may be based on the assessed market price resulting from generally accepted valuation methodologies.

Where the legal and natural persons from paragraph 1 hereof have received compensation in the form of debt instruments as a result of resolution, the independent valuer shall determine the actual treatment by taking into account factors such as the changes in contractual cash flows that result from the write-down or conversion, or the application of other resolution measures and tools, as well as the relevant discount rate.

For any outstanding claim, the independent valuer may take into account, where available and together with the factors described in paragraphs 3 and 4 hereof, prices observed in active markets for the same or similar instruments issued by banks under resolution or other similar entities.

Independent valuation report from Article 128w of the Law

26. The independent valuer shall prepare an independent valuation report from Article 128w of the Law to the NBS which shall include at least the following elements:

1) a summary of the independent valuation including a presentation

of valuation ranges and sources of valuation uncertainty;

2) an explanation of the key methodologies and assumptions adopted, and how sensitive the valuation is to these choices;

3) an explanation, where feasible, why the valuation differs from other relevant valuations, including the provisional valuation or other regulatory or accounting valuations.

Chapter V

VALUATION OF LIABILITIES ARISING FROM DERIVATIVE CONTRACTS

Decision on the close-out of derivative contracts

27. The NBS shall apply the resolution measure or tool involving the write-down or conversion of a bank's liabilities arising from derivative contracts only at the moment or after the close-out of positions in these liabilities.

When initiating a resolution procedure, for the purposes of write-down or conversion from paragraph 1 hereof, the NBS may close out or terminate or declare due contracts from which the liabilities from that paragraph arose, and close positions in those liabilities.

Where the liabilities from paragraph 1 hereof are excluded from the write-down and conversion in accordance with Article 128q, paragraph 6 of the Law, the NBS shall not be obliged to close out contracts from which these liabilities arose or to close positions in those liabilities.

28. Where derivative transactions are subject to a netting agreement, in the course of the independent valuation the valuer shall determine the liabilities arising from these transactions on a net basis, in accordance with the terms of the agreement.

29. The valuer shall determine the value of liabilities arising from derivative contracts by applying the following:

1) appropriate methodologies for valuing classes of derivatives, including transactions subject to netting agreements;

2) principles for determining the timing of valuation of derivative positions;

3) appropriate methodologies for comparing the amount of impairment in the value of derivatives resulting from closing positions and applying the loss allocation tool to these derivatives with the amount of losses that would arise from these derivatives in the event of applying the said

resolution tool.

Comparison of the destruction in value of derivatives and potential losses under the bail-in tool

30. The methodology from Section 29, item 3) of this Decision shall imply the comparison of the following two amounts:

1) the amount of losses that would be borne by the derivative contracts in a bail-in, obtained by multiplying:

– the share of liabilities arising from the derivative contracts included in the independent valuation and not falling within the exclusions from implementing write-downs and conversion in accordance with Article 128q, paragraph 3 of the Law within equally ranked liabilities in a bankruptcy procedure in accordance with the law governing bankruptcy and liquidation of banks,

– the total losses expected to be borne by all liabilities ranking equally to derivatives, including the derivative liabilities stemming from the close-out;

2) the destruction in value based on an assessment of the amount of the costs, expenses or other impairment in value that is expected to be incurred as a result of the close-out of the derivative contracts, and obtained by calculating the sum of the following elements:

– the risk of an increased counterparty close-out claim arising from re-hedging costs expected to be incurred by the counterparty, by taking into account the bid-offer, mid-to-bid or mid-to-offer spreads in accordance with Section 34, paragraph 2, item 2) of this Decision,

– the cost expected to be incurred by the bank under resolution in establishing any comparable derivative trades considered necessary in order to re-establish an internal hedge for any open exposure or in order to maintain an acceptable risk profile in line with the resolution strategy. The establishment of a comparable derivative trade may be achieved by taking into consideration initial margin requirements and prevailing bid-offer spreads,

– any reduction to franchise value arising from the close-out of derivative contracts, including any valuation impairment for other or underlying assets that are linked to the derivative contracts being closed out, and any impact on funding costs or income levels,

– any precautionary buffer against possible adverse implications from close-out (such as errors and disputes in respect of transactions or collateral exchange).

The comparison of the destruction in value from paragraph 1 hereof shall be made before a decision to close out is taken, as part of the independent valuation conducted to provide the NBS with appropriate information and data required for the selection of an appropriate resolution tool or measure.

Notification about the decision to close out derivative contracts

31. Prior to applying the resolution measure or tool for the write-down or conversion of liabilities from Section 27, paragraph 1 of this Decision, the NBS shall notify the counterparties from the derivative contracts about the decision to close out those contracts.

The decision to close out the derivatives contract from paragraph 1 hereof shall take effect immediately, or at a later close-out date as specified in the decision, which must be stated in the notification from that paragraph.

In the decision from paragraph 1 hereof, the NBS shall specify a date and time, in accordance with Section 36, paragraph 1, item 3) of this Decision, by which counterparties may provide evidence of commercially reasonable replacement trades for the purpose of determining the close-out amount pursuant to Section 34, paragraph 1 of this Decision. The counterparty shall also provide to the NBS a summary of any commercially reasonable replacement trades.

The NBS may change the date and time from paragraph 3 hereof where such change is consistent with Section 36, paragraph 1, item 3) of this Decision, whereof it shall notify the counterparties.

In the decision from paragraph 1 hereof, the NBS may specify the criteria it intends to apply when assessing whether replacement trades are commercially reasonable.

By way of exception, provisions from paragraphs 1 to 5 hereof shall not apply to the close-out and valuation of centrally cleared derivative contracts entered into between the bank under resolution, acting as a clearing member, and a central counterparty (CCP).

Applying the netting agreement

32. Where derivative transactions are subject to a netting agreement, the NBS or the independent valuer shall determine, in accordance with Sections 28, 33, 34 and 35 of this Decision, a single amount which the bank under resolution has the legal right to receive or the legal obligation to pay as a result of the close-out of all the derivative contracts in the netting set, as defined in the netting agreement.

Valuation principle for early termination amount

33. The NBS or the independent valuer shall determine the value of liabilities arising from derivative contracts as an early termination amount calculated as the sum of the following amounts:

1) unpaid amounts, collateral or other amounts due from the bank under resolution to the counterparty, less unpaid amounts, collateral and other amounts due from the counterparty to the bank under resolution on the close-out date;
2) a close-out amount covering the amount of losses or costs incurred by derivative counterparties, or gains realised by them, by replacing or obtaining the economic equivalent of material terms of the terminated contracts and the option rights of the parties in respect of those contracts.

For the purposes of paragraph 1 hereof, unpaid amounts means, in respect of closed-out derivative contracts, the sum of the following:

1) amounts that became payable on or prior to the close-out date and which remain unpaid on that date;
2) an amount equal to the fair market value of the asset which was required to be delivered for each obligation of the derivative contracts which was required to be settled by delivery on or prior to the close-out date and which has not been settled as at the close-out date;
3) amounts in respect of interest or compensation accrued during the period from the date on which relevant payment or delivery obligations fell due through to the close-out date.

Determination of the close-out amount

34. Where a counterparty has provided the NBS with evidence of commercially reasonable replacement trades within the deadline set out in Section 31, paragraph 3 of this Decision, the valuer shall determine the close-out amount at the prices of those replacement trades.

Where a counterparty has not provided evidence of any replacement trades within the deadline from paragraph 1 hereof, where the valuer concludes that the communicated replacement trades were not concluded on commercially reasonable terms, or in the event of cases from Section 35, paragraph 7 or Section 36, paragraph 2 of this Decision, the valuer shall determine the close-out amount on the basis of the following:

1) the mid-market end-of-day prices in line with the business-as-

usual processes within the bank under resolution at the date determined pursuant to Section 36 of this Decision;

2) the mid-to-bid spread or mid-to-offer spread, depending on the direction of the netted risk position;

3) adjustments to the prices and spreads from items 1) and 2) of this paragraph where necessary to reflect the liquidity of the market for the underlying risks or instruments and the size of the exposure relative to market depth, as well as possible model risk.

With regard to intra-group liabilities, the valuer may establish the value at mid-market end-of-day prices as referred to in paragraph 2, item 1) hereof, without regard to items 2) and 3) of that paragraph, where the resolution strategy would imply re-hedging the terminated transactions via another intra-group derivative transaction or group of transactions.

For determining a value of the close-out amount pursuant to paragraph 2 hereof, the valuer shall consider a full range of available and reliable data sources and may rely on observable market data or theoretical prices generated by valuation models aimed at estimating values, including the following sources of data:

1) data provided by third parties (such as observable market data or valuation parameters data and quotes from market-makers or, where a contract is centrally cleared, values or estimates obtained from the CCP);

2) for standardised products, valuations generated by the valuer's own systems;

3) data available within the bank under resolution, such as internal models and valuations, including independent price verifications, based on prudent and reliable valuations of positions in the trading book, pursuant to the decision governing the capital adequacy of banks;

4) data provided by counterparties other than evidence of replacement trades communicated pursuant to Section 31, paragraph 3 of this Decision, including data on current or previous valuation disputes with regard to similar or related transactions and quotes;

5) any other relevant data.

For the purpose of paragraph 2, item 2) hereof, the NBS may instruct the bank under resolution to perform an updated independent price verification as at the reference point in time determined pursuant to Section 36 of this Decision, using end-of-day information available on the close-out date.

Paragraphs 1 to 5 hereof shall not apply to the determination of a close-out amount for cleared derivative contracts entered into between the bank under resolution and a CCP, except in the exceptional circumstances set out in Section 35, paragraph 7 of this Decision.

Valuation of cleared derivative contracts entered into between a bank under resolution and a CCP

35. The valuer shall establish the value of liabilities arising from derivative contracts entered between, on the one hand, a bank under resolution acting as a clearing member and, on the other hand, a CCP, based on the valuation principles specified in Section 33 of this Decision. The early termination amount shall be determined by the CCP, within the deadline specified in paragraph 5 hereof, in accordance with the CCP default procedures, after deducting the collateral provided by the bank under resolution including initial margin, variation margin and contributions of the bank under resolution to the default fund of the CCP, if any.

The NBS shall communicate to the CCP and the CCP's competent authority its decision to close out the derivative contracts pursuant to Section 27, paragraph 1 of this Decision.

The CCP shall provide the NBS, at its request, its valuation of the early termination amount for all the derivative contracts in the relevant netting set, in accordance with the CCP default procedure.

The CCP shall provide the NBS with the CCP default procedure documents and shall report the default management steps undertaken.

The NBS shall, in agreement with the CCP and the CCP's competent authority, set the deadline by which the CCP must provide the valuation of the early termination amount, for which purpose, both of the following shall be taken into account:

1) the default procedure, as established by the CCP governance rules;
2) the resolution timeline.

The NBS may change the deadline set under paragraph 5 hereof upon agreement with the CCP and the CCP's competent authority.

By derogation from paragraph 1 hereof, the NBS may decide to apply the methodology laid down in Section 34 of this Decision, after consulting the CCP's competent authority, in either of the following cases:

1) the CCP does not provide the valuation of the early termination

amount within the deadline set out in paragraph 5 hereof;

2) the CCP's valuation of the early termination amount is not in line with the CCP default procedures.

Point in time for establishing the value of derivative liabilities

36. The valuer shall determine the value of derivative liabilities at the following point in time:

1) where the valuer determines the early termination amount at the prices of replacement trades pursuant to Section 34, paragraph 1 of this Decision, the day and time of the conclusion of the replacement trades;

2) where the valuer determines the early termination amount in accordance with the CCP default procedures pursuant to Section 35, paragraph 1 of this Decision, the day and time when the early termination amount has been determined by the CCP;

3) in all other cases, the close-out date or, where that would not be commercially reasonable, the day and time at which a market price is available for the underlying asset.

The valuer may, as part of a provisional valuation, determine the value of liabilities arising from derivatives earlier than at the point in time determined pursuant to paragraph 1 hereof. Such early determination shall be made on the basis of estimates, relying on the principles laid down in Section 33 of this Decision and applying the methodology from Section 34, paragraphs 2 to 5 of that Decision, and on data available at the time of the determination.

Where the valuer carries out an early determination pursuant to paragraph 2 hereof, the NBS may at any time request the valuer to update the provisional valuation to take into account relevant observable market developments or evidence of commercially reasonable replacement trades concluded at the point in time determined pursuant to paragraph 1 hereof. These developments or evidence, where available by the date and time specified pursuant to Section 31, paragraph 2 of this Decision, shall be taken into account in the *ex post* definitive valuation carried out pursuant to Article 128i, paragraph 13 of the Law.

Where the valuer carries out an early determination pursuant to paragraph 2 hereof in relation to derivative contracts entered into between a bank under resolution acting as a clearing member and a CCP, the valuer shall take due account of any estimate of expected close-out costs provided by the CCP. Where the CCP provides a valuation of the early termination amount in accordance with the CCP default procedures by the deadline set pursuant to Section 35, paragraphs 5 or 6 of this Decision, that valuation shall be taken into account in the *ex post* definitive valuation carried out pursuant to Article 128i, paragraph 13 of the Law.

C h a p t e r VI

FINAL PROVISIONS

37. As of the application date of this Decision, the Decision 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 shall cease to be valid (RS Official Gazette, Nos 30/2015 and 78/2015).

38. This Decision shall come into effect on the eighth day after its publication in the RS Official Gazette and shall apply as of 1 October 2025.

NBS EB No 42
12 June 2025
B e l g r a d e

Chair
of the NBS Executive Board
G o v e r n o r
National Bank of Serbia

Dr Jorgovanka Tabaković, sign.