

NATIONAL BANK OF SERBIA

Bank Supervision Department

METHODOLOGY FOR FILLING IN POKG AND PNO FORMS

This Methodology explains in detail the elements and manner of compiling of the Report on Changes in Expected Credit Losses on Financial Assets (POKG Form) and Report on Transfers Between Impairment Stages (PNO Form), which banks are required to compile and submit to the National Bank of Serbia in accordance with the decision governing reporting requirements for banks.

BASIC CONCEPTS

Reports contain data on the structure of change in expected credit losses and transfers between impairment stages of different types of financial assets in the reporting period.

Financial assets mean debt instruments in the balance sheet and off-balance sheet exposures of the bank which are, pursuant to IFRS 9, measured at amortised cost or at fair value through other comprehensive income.

Expected credit losses on financial assets measured at amortised cost mean a cumulative amount of allowances for their impairment and provisions for losses on off-balance sheet items. Expected credit losses on financial assets measured at fair value through other comprehensive income mean a cumulative amount of reductions in value of those financial assets based on change in credit risk that is recorded within other comprehensive income on the account 823 Gains/losses from change in value of debt instruments.

Financial assets in the reports are classified into the following types:

Debt instruments in the balance sheet:

- Due and undue loans
- Securities
- Other debt instruments recorded in the balance sheet

Off-balance sheet exposures:

- Issued guarantees and other forms of warranties
- Contingent liabilities
- Other off-balance sheet items in respect of which the bank may have to make payment

Each type of financial asset is shown by the currency code, sectoral composition of debtor/issuer, valuation method, impairment stage, impairment method and non-performance status.

For all currencies entailing significant currency amounts the bank fills in the reports according to the internal methodology, while amounts in other currencies are shown aggregately under “Other”. Receivables in a particular currency also include (apart from receivables denominated in a particular currency) receivables in dinars indexed to that particular currency. Currency code is shown according to the code list from Section 3 of Annex 3 of the Decision on Collection, Processing and Submission of Data on the Balance and Structure of Accounts in the Chart of Accounts (hereinafter: SSKR Decision), except that dinar receivables that are not indexed to a foreign currency are shown under the code 0.

Sectoral composition is shown according to the code list from Section 1, Annex 3 of the SSKR Decision – 4th and 5th figure.

The method of valuation of a financial asset is shown according to the code list from Section 14, Annex 3 of the SSKR Decision (16th figure). Given that the report shows changes in expected credit losses (allowances for impairment and provisions) on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the codes that are used are: 1 – Measured at amortised cost and 4 - Measured at fair value through other comprehensive income.

Impairment stage of a financial asset is shown according to the code list from Section 15 of Annex 3 of the SSKR Decision (17th figure).

The method of impairment of a financial asset means whether the expected credit losses on a financial asset are calculated on an aggregate or individual basis, according to the following code list: 0 – On an aggregate basis; 1 – On an individual basis.

The non-performance status of a financial asset is established based on the definition of a non-performing receivable from the decision regulating

the classification of balance sheet assets and off-balance sheet items and is shown according to the following code list: 0 - Performing; 1 – Non-performing.

Report on Changes in Expected Credit Losses on Financial Assets **POKG Form**

Column 1 – Opening balance

The column shows the amount of expected credit losses on financial assets as at the last day of the calendar month preceding the reporting month.¹

Column 2 – Increases due to origination and acquisition

The column shows the amount of initially calculated credit losses on financial assets that are recognised in the reporting period.

Financial assets recognised in the report period mean, apart from invested, approved and acquired financial assets, also the activated off-balance sheet exposures (apart from disbursement of approved credit lines), financial assets recognised due to reclassification and financial assets recognised due to modification which leads to derecognition of one and recognition of other financial asset.

Column 3 –Decreases due to derecognition

This column shows the amount of expected credit losses on financial assets which are not directly written off and became derecognized during the reporting period due to assignment to a third party, full collection, reclassification and modification which leads to derecognition of one and recognition of another financial asset. Activation of off-balance sheet exposures leads to their derecognition and reduction in calculated expected credit losses on off-balance sheet items on that account.

¹ In column 1 Opening balance for the report for January 2018 a bank needs to show the opening balance of expected credit losses after recording of effects of the first application of IFRS9.

Column 4 – Increase due to deterioration in credit risk

This column shows the amount of expected credit losses on financial assets due to the deterioration in credit risk, regardless of whether that deterioration in credit risk leads to transfer between impairment stages.

The effects of interest due but not yet collected, use of approved credit lines, changes in assessment due to updating or revising of risk parameters and change in expected economic parameters on increase in expected credit losses are shown in this column.

Column 5 – Decrease due to improvement in credit risk

This column shows the amount of a reduction in expected credit losses on financial assets due to a decrease in credit risk, regardless of whether that decrease in credit risk leads to transfers between impairment stages.

The effects of collected interest receivables, repayment of approved credit lines, passing of time, change in assessment due to updating or revising of risk parameters and change in expected economic parameters on decrease in expected credit losses are shown in this column.

A decrease in expected credit losses due to partial collection of financial assets that are repaid in instalments is also shown in this column, except when due to collection of the last instalment which is shown in Column 3. Decreases due to derecognition.

Column 6 – Change due to modifications

This column shows a net change in expected credit losses in the reporting period due to modifications in financial assets which does not lead to direct write-off nor derecognition of one and recognition of another financial asset.

Where modification has led to derecognition of one and recognition of another financial asset, the change in expected credit losses due to derecognition is shown in Column 3 Decreases due to derecognition, and initially calculated expected credit losses on recognised financial assets are shown in Column 2 Increases due to origination and acquisition.

Where modification has led to derecognition of the whole or a part of a financial asset due to direct write-off, changes in expected credit losses on those grounds are shown in Column 8 Decrease due to direct write-off.

Column 7 – Changes due to update in the methodology for estimation and calculation of impairment

This column shows a net change in expected credit losses due to updating of methodology for assessment of impairment of financial assets due to the changes in existing or setting up of new models for assessment of expected credit losses or adoption of new standards in relation to that.

A change in impairment methodology which leads to transfers between impairment stages is also considered a change in the model and its effect is entered in this column.

Changes in expected credit losses due to updating or revising of risk parameters and changes in expected economic parameters are not shown in this column, but in Column 4 Increase due to deterioration in credit risk and/or Column 5 Decrease due to improvement in credit risk.

Column 8 – Decrease due to direct write-off

This column shows the amount of expected credit losses on financial assets that were partially or fully derecognised during the reporting period due to direct write-off.

Net carrying amount of financial assets on the day of derecognition due to direct write-off, and/or the amount of direct write-off is entered in Column 13 Direct write-off expenses.

Column 9 – Change due to exchange rate differences

This column shows the amount of a net change in expected credit losses arising due to the change in the value of a financial asset as a result of dinar exchange rate changes.

Column 10 – Other changes

This column shows the amount of a net change in expected credit losses that was not shown in previous columns.

Column 11 – End-of-period balance

This column shows the amount of expected credit losses on financial assets as at the last day of the reporting month.

The amount in this column in each row should be equal to the amount calculated by the following formula:

	Column 1	Opening balance
+	Column 2	Increases due to origination and acquisition
-	Column 3	Decreases due to derecognition
+	Column 4	Increase due to deterioration in credit risk
-	Column 5	Decrease due to improvement in credit risk
±	Column 6	Change due to modifications
±	Column 7	Changes due to update in the methodology for estimation and calculation of impairment
-	Column 8	Decrease due to direct write-off
±	Column 9	Change due to exchange rate differences
±	Column 10	Other changes
=	Column11	End-of-period balance

Column 12 – Collected written-off receivables

This column shows receivables collected during the reporting period that were previously directly written-off, regardless of the time of write-off.

Column 13 – Direct write-off expenses

This column shows a net carrying amount of financial assets directly written off, as at the day of derecognition on account of direct write-off.

The sum of amounts in Column 8 Decrease due to direct write-off and Column 13 Direct write-off expenses is equal to the gross carrying amount of financial assets that were derecognised due to direct write-off.

Report on Transfers Between Impairment Stages – PNO Form

A transfer between impairment stages means a transfer of a financial asset from one impairment stage to another during the reporting period, and/or a change in the level of impairment of a financial asset at the end of the reporting period compared to the impairment stage to which it belonged at the beginning of the reporting period or at the moment of initial recognition.

This column shows gross carrying amounts of financial assets at the end of the reporting period.

Column 1 – From Stage 1 to Stage 2

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 1 at the end of the previous reporting period and at the end of this reporting period belong to Impairment stage 2.

Column 2 – From Stage 2 to Stage 1

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 2 at the end of the previous reporting period and at the end of this reporting period belong to Impairment stage 1.

Column 3 – From Stage 2 to Stage 3

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 2 at the end of the previous reporting period and at the end of this reporting period belong to Impairment stage 3.

Column 4 – From Stage 3 to Stage 2

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 3 at the end of the previous reporting period and at the end of this reporting period belong to Impairment stage 2.

Column 5 – From Stage 1 to Stage 3

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 1 at the end of the previous reporting

period and at the end of this reporting period belong to Impairment stage 3.

Column 5 – From Stage 3 to Stage 1

This column shows a gross carrying amount of financial assets that belonged to Impairment stage 3 at the end of the previous reporting period and at the end of this reporting period belong to Impairment stage 1.