

Pursuant to Article 51a, paragraph 3 of the Law on Banks (“RS Official Gazette”, Nos 107/2005 and 91/2010), and Article 15, paragraph 1 of the Law on the National Bank of Serbia (“RS Official Gazette”, Nos 72/2003, 55/2004 and 44/2010), the Executive Board of the National Bank of Serbia hereby adopts the following

## **DECISION ON DISCLOSURE OF DATA AND INFORMATION BY BANKS**

1. This decision shall set forth detailed provisions on the contents of data and/or information that a bank is required to disclose in conformity with the Law on Banks (hereinafter: Law), as well as conditions, manner and deadlines for their disclosure.

2. A bank shall be required to disclose data and/or information relating to:

- 1) business name and head office of the bank;
- 2) bank's risk management strategy and policies;
- 3) bank's capital;
- 4) bank's capital adequacy and internal capital adequacy assessment process;
- 5) bank's exposure to risks and approaches for risk measurement and assessment;
- 6) banking group and relationship between the parent company and subordinated companies.

3. By way of derogation from section 2 hereof, a bank shall not be required to disclose:

- 1) materially insignificant data and information;
- 2) data and information the disclosure of which might have adverse effect on the bank's competitive position in the market;
- 3) data and information that represent a bank secret within the meaning of the Law.

Data and information that are materially insignificant shall imply data and information the disclosure or presentation of which might not affect the assessment or decision-making by persons in business relationship with the bank.

A bank which due to reasons specified in paragraph 1, provisions under 2) and 3) hereof refrains from disclosing data and/or information as set out in section 2 hereof shall state the fact that these data and/or information have not been disclosed, providing general information and reasons why it

concluded that these data and/or information might have adverse effect on the bank's competitive position in the market or represent bank secret.

4. By its internal regulation a bank shall specify in more detail the criteria for determining data and/or information referred to in section 2, provisions under 2) to 6) hereof, the manner of evaluating and verifying the adequacy of the contents of these data and/or information and frequency of their disclosure, as well as criteria for determining data and information referred to in section 3 hereof.

A bank shall be required to ensure regular independent audit, at least once a year, of activities guaranteeing adequacy, accuracy and timeliness of disclosed data and/or information.

### **Data and/or information relating to risk management strategy and policies**

5. A bank shall be required to disclose the following data and/or information relating to risk management strategy and policies for each individual kind of risk:

- 1) short description of that strategy and policies, for each individual kind of risk;
- 2) manner of organising risk management process;
- 3) scope and types of reports on risks;
- 4) risk mitigation techniques, as well as methods used by the bank to ensure and monitor efficiency in risk mitigation.

### **Data and/or information relating to capital**

6. A bank shall be required to disclose the following data and/or information relating to its capital:

- 1) description of the main characteristics of all elements included in capital calculation;
- 2) amount of its core capital, supplementary capital I and supplementary capital II, with a breakdown of individual elements of capital and all deductibles;
- 3) amount of bank's capital.

### **Data and/or information relating to capital adequacy and internal capital adequacy assessment process**

7. A bank shall be required to disclose the following data and/or information relating to capital adequacy and internal capital adequacy assessment process:

- 1) summary description of the internal capital adequacy assessment process with short description of methodology for every risk;

2) amount of capital requirement for credit risk for every class of exposure – if the bank applies standardised approach to credit risk;

3) amount of capital requirement for credit risk for every class of exposure – if the bank applies internal rating-based approach to credit risk (hereinafter: IRB approach), with the following data/information disclosed separately:

– within the class of natural persons – for the sub-class relating to exposures to natural persons secured by mortgage on real property, for the sub-class relating to qualified revolving exposures to natural persons and for the sub-class relating to other exposures to natural persons,

– for exposures arising from equity investments, broken down for every approach defined by the decision on capital adequacy of banks (simple risk weights approach, PD/LGD approach or internal models approach), for equity investments traded on the stock exchange, for those that are not traded on the stock exchange but are located in sufficiently diversified portfolio and for other equity investments on which the bank, in conformity with the first indent of this provision, applies standardised approach to credit risk;

4) amount of capital requirement for market risk and the type of approach applied to calculation of individual capital requirements for these risks, with separate disclosure of the composition and amount of these requirements;

5) amount of capital requirement for operational risk and the type of approach applied to calculation of individual capital requirements for these risks, with separate disclosure of the composition and amount for each approach used in the calculation of that requirement;

### **Data and/or information relating to risk exposure and approaches for risk measurement and assessment**

#### *Credit risk*

8. The bank shall be required to disclose the following data and/or information relating to exposure to credit risk and dilution risk, as well as to approaches for measurement and assessment of these risks:

1) definitions used by the bank for the concepts of past due receivables and exposures that were subject to value adjustment;

2) description of approaches and methods used for calculating value adjustments of balance sheet assets and provisions for losses on off-balance sheet items;

3) total amount of bank exposures after accounting write-offs, excluding effects of credit risk mitigation techniques, as well as average exposures during a period, by classes of exposures;

4) geographic distribution of all exposures in all materially significant areas, by classes of exposures;

5) distribution of all exposures by sectors or type of counterparty, by classes of exposure, with separate presentation of:

- past due receivables and exposures that were subject to value adjustment;

- value adjustment of balance sheet assets and provisions for losses on off-balance sheet items

6) distribution of all exposures according to remaining maturity, by classes of exposures;

7) presentation of changes in value adjustment of balance sheet assets and provisions for losses on off-balance sheet items, including also:

- opening balances,
- increases in value adjustments and provisions during the period,

- decreases in value adjustments during the period and reversed provisions, including separate disclosure of decreases resulting from collection of receivables,

- other adjustments, including those which are the consequence of foreign-exchange rate differences, business activities, acquisition or disposal of participations in subsidiaries and transfer of provisions,

- closing balances;

8) distribution of exposures according to classification category, by types of counterparty, as well as data on calculated and necessary reserve.

9. If the bank uses standardised approach to credit risk, it shall be required to disclose the following data and/or information for every class of exposure, in addition to data and/or information referred to in section 8 hereof:

1) name of chosen rating agency or export crediting agency, as well as reasons for any change in this choice;

2) classes of exposures for which credit ratings of every chosen rating agency or export crediting agency are used;

3) description of procedures referring to the use of issuer's credit rating and specific issues of financial instruments for certain banking book items;

4) distribution of credit ratings of the chosen rating agency and export crediting agency into relevant credit quality levels;

5) amounts of exposure before and after the use of credit hedging for every level of credit quality, including exposures representing deductibles from capital.

10. If the bank uses IRB approach, it shall be required to disclose the following data and/or information in addition to data and/or information referred to in section 8 hereof:

- 1) consent of the National Bank of Serbia concerning the use of IRB approach;
- 2) explanation and review of:
  - the structure of internal rating system and ratios between the internal and external ratings,
  - use of own assessments for purposes other than the calculation of credit risk-weighted assets,
  - procedures of the management of credit risk mitigation techniques,
  - control mechanisms relating to validation of rating systems, including description of liability of persons performing this validation;
- 3) description of the use of internal rating systems for the following classes of exposures:
  - to government and central bank,
  - to banks,
  - to companies, including small and medium-sized enterprises within this class, specialised crediting and exposure arising from purchased receivables,
  - to natural persons, including information for each of the following sub-classes: exposure to natural persons secured with mortgage on real property, qualified revolving exposure to natural persons and other exposures to natural persons,
    - exposure arising from equity investments;
- 4) amounts of exposure for every class of exposure, and when the bank uses its own assessments of LGD parameters or conversion factors for the calculation of credit risk-weighted assets it shall be required to disclose classes of exposure to the governments and central banks, banks and companies separately from the classes of exposure for which it does not use these assessments;
- 5) total exposures (total amount of existing receivables and unfunded committed funds), average LGD parameter weighted by exposure amount expressed in percentages if it uses its own assessments of LGD parameter, average risk weight weighted by the amount of exposure and the amount of unfunded commitments under lines of credit and other lending, as well as average funded amount weighted by the amount of exposure – if it uses its own assessments of conversion factors, for each of the following classes of exposure: to government and central bank, banks, companies and equity investments, for sufficient number of risk categories for each of these classes (including categories with default status), to make clear distinction between credit risk levels;
- 6) for class of exposure to natural persons and for every sub-class of the provision under 3), fourth indent hereof – data and/or information set out in the provision under 5) hereof (if applicable, by sets of exposures) or exposure analysis (existing receivables and unfunded commitments) for

sufficient number of categories of anticipated losses, in order to make clear distinction between levels of credit risk (if applicable, by sets of exposures);

7) value adjustments for balance-sheet assets and provisions for losses on off-balance sheet items in the previous period for every class of exposure (and within the class of natural persons also for every sub-class specified in the provision under 3), fourth indent hereof) and changes in relation of the relevant prior experience of the bank;

8) description of factors that had impact on losses incurred in the previous period (e.g. whether the bank had above-average rates of default, LGD parameters or conversion factors);

9) comparison of bank assessments with losses incurred over a longer period; this particularly includes data and/or information on the comparison of estimated losses with losses incurred for every class of exposure (and within the class of natural persons – also for every sub-class referred to in the provision under 3), fourth indent hereof) over a sufficiently long period to provide reasonable assessment of the success in using internal ratings and, if possible, a detailed description of comparison that might enable the analysis of PD parameters also when the bank uses its own assessments of LGD parameter and/or conversion factors.

Descriptions of the use of internal ratings referred to in paragraph 1, provision under 3) hereof shall contain the following data and/or information:

1) types of exposure included in every class of exposure;

2) definitions, methods and data used for the assessment and validation of PD parameters, including assumptions used in the calculation of this parameter;

3) definitions, methods and data used for the assessment and validation of LGD parameters and conversion factors, including assumptions used in their calculation if the bank uses its own assessments of these parameters;

4) description of significant discrepancies between the definition of the status of default used by the bank and definition set out in the decision on capital adequacy of banks, with reference to the classes and/or sub-classes of exposure where significant discrepancies occurred.

A bank shall be required to disclose the amounts of exposure in the sub-class referring to specialised crediting which do not fulfil the conditions for the use of own assessments of PD parameters, including description of the method based on which these amounts have been assessed.

11. If the bank uses credit risk mitigation techniques, it shall be required to disclose the following data and/or information in addition to data and/or information referred to in sections 8 to 10 hereof:

- 1) internal regulations on the valuation of credit hedging instruments and management of these instruments;
- 2) method of balance-sheet and off-balance sheet netting and the extent the bank uses these forms of netting;
- 3) description of the main types of material credit hedging instruments used by the bank;
- 4) main types of providers of credit hedging on guarantees and credit derivatives as well as their respective credit ratings;
- 5) presentation of market or credit risk concentrations within the applied credit risk mitigation techniques;
- 6) total amount of exposure (after netting) secured by instruments of material credit hedging after application of volatility factors, by classes of exposure, as well as the total amount of exposure (after netting) secured by non-material credit hedging instruments, by classes of exposure – if it implements standardized or foundation IRB approach (FIRB approach).

If the bank applies IRB approach, for the class of exposure arising from equity investments it shall be required to disclose total amount of exposure referred to in paragraph 1, provision under 6) hereof for each of approaches it uses for the calculation of credit-risk weighted assets.

#### *Counterparty risk*

12. A bank shall be required to disclose the following data and/or information relating to exposure to counterparty risk, as well as to approaches to measurement and assessment of these risks:

- 1) manner of management of collaterals and adjustments of the amount of exposure arising from that risk;
- 2) description of assessment and control of correlation risk;
- 3) estimated amount of collateral it has to provide to a counterparty in case of deterioration of its own credit rating;
- 4) total positive fair value of contract, positive effects of netting, current net exposure to counterparty risk, value of collateral and net exposure arising from credit derivatives (taking into consideration positive effects of netting and collateral);
- 5) amount of exposure to counterparty risk in accordance with methods for the calculation of this amount set out by the decision on capital adequacy of banks;
- 6) hypothetical values of credit derivatives used as risk hedging instruments and distribution of current exposures by types;
- 7) hypothetical values of credit derivatives (including separately disclosed positions held by the bank in its own name and for its own account and positions held by the bank in its own name for account of its clients), shown by types of derivatives and, within them, by purchased and sold credit derivatives used as hedging instruments against risk;

8) estimated value of  $\alpha$  parameter if the bank obtained prior consent of the National Bank of Serbia to assess this value.

#### *Market risks*

13. If the bank applies internal models approach for the calculation of capital requirements for market risks, it shall be required to disclose:

- 1) for each portfolio: characteristics of the model used, description of tests, as well as description of method used for back testing and validation of internal models and modelling processes;
- 2) framework for application of the internal model for the use of which it obtained the consent from the National Bank of Serbia;
- 3) description of the method of valuation of positions in the trading book;
- 4) highest, lowest and average amount of daily VaR parameter during the reporting period, as well as the amount of VaR parameter calculated at the end of that period;
- 5) comparison of daily VaR parameter calculated at the end of business day with daily changes in the value of portfolio at the end of the following business day, along with the analysis of any significant overrun during the reporting period.

#### *Operational risk*

14. If the bank applies advanced approach for the calculation of capital requirements for operational risk, it shall be required to disclose the following data and/or information:

- 1) consent of the National Bank of Serbia for the use of advanced approach;
- 2) description of approach, including the description of relevant internal and external factors;
- 3) description of the use of insurance and other mechanisms for risk transfer with the aim of mitigating this risk.

If the bank applies a combination of different approaches for the calculation of capital requirement for operational risk, it shall be required to disclose the framework for the application of each of the approaches applied.

#### *Interest rate risk*

15. A bank shall be required to disclose the following data and/or information relating to exposure to interest rate risk, as well as to approaches to measurement and assessment of that risk:

- 1) sources of this risk and frequency of its measurement;



2) main assumptions for the measurement and assessment of exposure to this risk, including assumptions on early loan repayments and sight deposit trends.

*Exposure arising from equity investments in the banking book*

16. A bank shall be required to disclose the following data and/or information relating to exposure arising from equity investments in the banking book:

1) distribution of exposures by intended investment purpose, including the intention of earning capital gain and strategic reasons;

2) summary of implemented accounting policies and valuation methods, including basic assumptions and approaches that have influence on value determination, as well as any significant change thereof;

3) book values, fair values and – for equity investments traded in the market – comparison with market price when the latter significantly differs from the fair value;

4) type, nature and amounts of exposure arising from equity investments traded in the stock exchange, arising from equity investments that are not traded in the stock exchange, but which are located in sufficiently diversified portfolios, and arising from other equity investments;

5) total actual gain/loss for the past period arising from sale or closing of positions referring to equity investments;

6) total unrealized gain/loss, total latent revaluation gain/loss, as well as their amounts included in the calculation of core capital or supplementary capital I.

**Data and/or information relating to a banking group and relationship between the parent company and subordinated companies**

17. A bank shall be required to disclose the following data and/or information relating to a banking group and relationship between the parent company and subordinated companies:

1) presentation of differences between reports compiled for the needs of consolidated supervision of the banking group and consolidated financial statements compiled in accordance with International Accounting Standards and/or International Financial Reporting Standards, with short description of group members:

- on which full consolidation method has been applied,
- on which proportionate consolidation method has been applied,
- on which participation method has been applied,

– which have been excluded from consolidation because the bank's participation in the capital of these legal entities represents a deductible from the capital of the banking group;

2) each existing or possible significant legal or other obstacle for timely transfer of capital or settlement of liabilities between the parent company and subordinated company.

### **Conditions, manner and deadlines for disclosure of data and/or information by banks**

18. A bank shall be required to disclose data and/or information set out by this decision on its website.

19. If a bank discloses certain data and/or information prescribed by this decision in conformity with other regulations, it shall be deemed to have fulfilled the obligation of their disclosure pursuant to this decision provided it specifies on its website where have these data been disclosed.

20. A bank shall be required to disclose data and/or information laid down by this decision at least once a year – as at 31 December, by 31 May of the following year at the latest.

By way of derogation from paragraph 1 hereof, a bank shall be required to disclose quantitative data and/or information referred to in this decision referring to capital, capital adequacy, IRB approach (if applicable) and credit risk mitigation techniques also as at 30 June of the current year by 30 September of the current year at the latest.

A bank shall be required to assess at least once a year whether the data and/or information referred to in paragraph 1 hereof have to be disclosed more frequently than laid down in that paragraph and shall be required to assess every six months whether data and/or information referred to in paragraph 2 hereof have to be disclosed more frequently than laid down in that paragraph – taking into consideration the following data and/or information:

- 1) volume of business operations;
- 2) banking products offered to the clients;
- 3) presence in different states;
- 4) participation in the banking sector;
- 5) participation in international financial markets;
- 6) participation in international payment, settlement and clearing system.

21. This decision shall enter into force eight days from its publication in the "RS Official Gazette" and shall be applied as of 31 December 2011.

NBS Executive Board No 43

16 June 2011

B e l g r a d e

**Chairman**  
of the Executive Board of the National Bank  
of Serbia  
G o v e r n o r  
of the National Bank of Serbia

Dejan Šoškić, PhD