# BANKA SLOVENIJE
## EVROSISTEM

Unofficial translation of Guidelines relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items contains the following:

- Guidelines relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items (5 December 2017)
- Changes of Guidelines relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items (3 March 2020)

Pursuant to the first paragraph of Article 10 of the Banking Act (Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 [ZRPPB], 77/16 [ZCKR] and 41/17; hereinafter: the ZBan-2) and the first paragraph of Article 31 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version], 59/11 and 55/17), the Governing Board of the Bank of Slovenia hereby issues the following

# GUIDELINES

**relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items**

## I.    INTRODUCTION

### A.  Purpose and scope of guidelines

1.  Article 10 of the ZBan-2 stipulates that the Bank of Slovenia issues guidelines that contain general and more detailed rules for the uniform interpretation and application of certain regulations, and contribute to the formulation of best practices in banking. The guidelines are published on the Bank of Slovenia's website.

2.  These guidelines are intended to help banks in the establishment of best practices in the application of the International Financial Reporting Standards (hereinafter: IFRS), with the aim of ensuring the more uniform accounting treatment of banks' financial assets and commitments given under off-balance sheet items, particularly with regard to the creation of impairments and provisions for credit losses in accordance with IFRS 9, and the improved comparability of banks' financial statements. The guidelines represent supervisory expectations with regard to the treatment of:
    (a)  specific areas not explained in detail in IFRS 9:
        –   the classification of exposures to stages for the purpose of assessing credit losses,
        –   the assessment of credit losses for the purpose of creating impairments and provisions,
        –   the treatment of exposures following a change in repayment terms,
    (b)  real estate and movable property received as repayment for exposures.

3.  Wherever these guidelines make reference to the provisions of other regulations, these provisions shall apply in their wording applicable at the time in question.

**BANKA SLOVENIJE**

EVROSISTEM

## B. Definition of terms

4. The following abbreviations are used in these guidelines for acts issued by the European Union, the European Banking Authority, the European Central Bank and the Bank of Slovenia:

   (a) IFRS 9 is Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L 323 of 29 November 2016, p 1);

   (b) the CRR is Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013, p 1);

   (c) Commission Implementing Regulation (EU) No 680/2014 is Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191 of 28 June 2014, p 1), last amended by Commission Implementing Regulation (EU) 2017/1443 of 29 June 2017  (OJ L 213 of 17 August 2017, p 1);

   (d) Commission Implementing Regulation (EU) 2016/1799 is Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 275 of 12 October 2016, p 3);

   (e) the CRA regulation is Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302 of 17 November 2009, p 1);

   (f) the EBA guidelines on the definition of default are the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 of 18 January 2017, published online at https://www.eba.europa.eu/documents/10180/1721448/Guidelines+on+default+definition+%28EBA-GL-2016-07%29_EN.pdf/052c260f-da9a-4c86-8f0a-09a1d8ae56e7;

   (g) the EBA guidelines on the expected credit loss model are the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses, of 20 September 2017, published online at https://www.eba.europa.eu/documents/10180/1965596/Guidelines+on+Accounting+for+ECL+%28EBA-GL-2017-06%29_EN.pdf/8a9a9df0-a0cc-406e-a781-7d4fb753495d;

   (h) the ECB guidance on NPLs is the Guidance to banks on non-performing loans of 20 March 2017, published online at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf;

   (i) the credit risk management regulation is the Regulation on credit risk management in banks and savings banks (Official Gazette of the Republic of Slovenia, No 68/17).

   (j) the Bank of Slovenia's Guidelines on the definition of default rate and loss rate are the Guidelines on the definition of default rate and loss rate of 27 October 2015, published online at https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/kreditno-tveganje/kreditno-tveganje-splosni-predpisi;

**BANKA
SLOVENIJE**

EVROSISTEM

(k) Council Regulation (EU) No 1024/2013 is Council Regulation No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287 of 29 October 2017, p 63).

5. The terms used in these guidelines shall have the same meanings as in the provisions of IFRS 9 and the CRR.

6. For the purpose of paragraph 17 and paragraphs 24 to 30 of these guidelines, a "credit rating agency" is a credit rating agency registered and certified in accordance with the CRA regulation.


## II. CLASSIFICATION OF EXPOSURES TO STAGES FOR THE PURPOSE OF ASSESSING CREDIT LOSSES


### A. General

7. Sections 5.4 and 5.5 of IFRS 9 state that banks must classify financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, lease receivables and off-balance-sheet exposures from credit commitments given and financial surety agreements to which impairment requirements apply (hereinafter: exposures) on a given reporting date to one of the following stages for the purpose of assessing credit losses:
   (a) exposures where no significant increase in credit risk has occurred, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period (hereinafter: stage 1);
   (b) exposures where there has been a significant increase in credit risk in the period between initial recognition and the reporting date, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime (hereinafter: stage 2); and
   (c) exposures in default (hereinafter: stage 3).

   The bank shall not take account of credit protection when classifying exposures to stages 1, 2 or 3.

8. A bank shall classify as stage 3 all exposures that it has defined as defaulted exposures in accordance with paragraph B5.5.37 of IFRS 9 for the purpose of internal credit risk management, including exposures that are defined as defaulted upon initial recognition, i.e. purchased or originated credit-impaired financial assets (hereinafter: POCI). In accordance with paragraphs 89 and 90 of the EBA guidelines on the expected credit loss model, the bank shall, for the purpose of this classification, follow the definition of default set out in Article 178 of the CRR.

9. If an exposure is not classified as stated in the previous paragraph, a bank shall classify the exposure in question as stage 1 upon initial recognition. Upon subsequent measurement, the bank shall assess whether there has been a significant increase in credit risk in the period between initial recognition and the reporting date, in accordance with paragraph 5.5.9 of IFRS 9. If there has been no significant increase in credit risk or if an exposure with low credit risk is involved, the exposure remains classified as stage 1 in accordance with paragraphs 5.5.5 and 5.5.10 of IFRS 9. If there has been a significant increase in credit risk and the exposure in question has not been

defined as defaulted, the bank shall classify the exposure as stage 2 in accordance with paragraph 5.5.3 of IFRS 9.

### B. Assessing a significant increase in credit risk

10. In accordance with paragraph 5.5.4 of IFRS 9, a bank shall assess a significant increase in credit risk using reasonable and supportable information[1] at the level of an individual exposure. The bank may assess a significant increase in credit risk at the level of a pool of exposures in accordance with paragraph B5.5.16 of IFRS 9, but only when reasonable and supportable information (factors or indicators) cannot be obtained at the level of an individual exposure without undue cost or effort, or if such information cannot be assessed at the level of an individual exposure.

11. A bank shall establish an appropriate methodology for assessing a significant increase in credit risk that is based on clear, predetermined quantitative and qualitative criteria. These criteria may differ for individual pools of exposures, i.e. the relevant portfolios, groups of portfolios or elements of a portfolio.

12. When assessing a significant increase in credit risk, a bank may take account of the relevant list of information referred to in paragraph B5.5.17 of IFRS 9, in particular the following:
    (a) information referred to in paragraphs 107 and 108 of the EBA guidelines on the expected credit loss model, and
    (b) information obtained within the framework of the early warning system for increased credit risk referred to in Article 27 of the credit risk management regulation, having regard for the ECB guidance on NPLs.

13. Notwithstanding the provisions of the previous paragraph, a significant increase in the credit risk associated with an exposure since initial recognition shall be deemed to have occurred, at the latest, when:
    (a) the debtor is more than 30 days past due in the repayment of a material amount associated with a specific exposure, apart from the exceptions set out in paragraph 14 of these guidelines. The definition of a material past-due credit obligation referred to in the value data under item *117 Material number of days past due at the level of total exposure to the debtor* of the applicable Guidelines for implementing the regulation on reporting by monetary financial institutions, which is published on the Bank of Slovenia website at https://www.bsi.si/porocanje/porocanje-banki-slovenije/porocila/porocanje-monetarnih-financnih-institucij, shall be taken into account *mutatis mutandis* for the purposes of counting the number of days past due at the level of an individual exposure;
    (b) the repayment terms have been modified due to the debtor's inability to repay the debt under the originally agreed terms without a material forgiveness of debt, resulting in the exposure being defined as a performing forborne exposure in accordance with Commission Implementing Regulation (EU) No 680/2014.

---

[1] Reasonable and supportable information on past events (e.g. on arrears in payments), current conditions and forecasts of future economic conditions that are available on the reporting date without undue cost or effort, and that are relevant to a specific exposure subject to assessment (as defined in paragraph B5.5.49 of IFRS 9).

**BANKA SLOVENIJE**

**EVROSISTEM**

14. Notwithstanding point (a) of the previous paragraph, a bank may treat amounts more than 30 days past due as an insignificant increase in credit risk in exceptional cases, if:
    (a) the arrears in the repayment of the specific debt have arisen due to the technical situations set out in points (a), (b) and (c) of paragraph 23 of the EBA guidelines on the definition of default, whereby the criterion of 30 days past due is taken into account in point (c) of the aforementioned guidelines instead of 90 days; or
    (b) other available information indicates that arrears of more than 30 days in the repayment of the specific debt did not arise due to a significant increase in credit risk.

15. A bank may reclassify an exposure from stage 2 to stage 1 when all of the following conditions are met:
    (a) the exposure in question was not defined as defaulted upon initial recognition pursuant to Article 178 of the CRR or as POCI (as set out in paragraphs 5.5.13 and 5.5.14 of IFRS 9);
    (b) all reasons indicating a significant increase in credit risk in the period between initial recognition and the reporting date, as set out in paragraphs 12 and 13 of these guidelines, have ceased to exist; and
    (c) when the probation period expires:
       - in the case of performing forborne exposures: two years from the last forbearance, or from the date of transition from non-performing to performing forborne exposures, given the simultaneous fulfilment of the other conditions set out in paragraphs 256 and 257 of Part 2 of Annex V of Commission Implementing Regulation (EU) No 680/2014 for exiting the category of forborne exposures, or before if the bank demonstrates on the basis of empirical data or on the basis of supportable reasons[2] that there is no expectation of a significant increase in the debtor's credit risk with regard to such exposures over the short term,
       - in the case of performing non-forborne exposures: three months from the date when all reasons indicating a significant increase in credit risk cease to exist, or from the date of exit from default status, if the exposure in question was previously defined as defaulted, or before if the bank demonstrates on the basis of empirical data that there is no expectation of a significant increase in the debtor's credit risk with regard to such exposures over the short term.

## C. Exposures with low credit risk

16. In accordance with the provisions of paragraph 5.5.10, and paragraphs B5.5.22 to B5.5.24 of IFRS 9, a bank may assume that the credit risk associated with an exposure has not increased significantly since initial recognition if the credit risk associated with that exposure is low on the reporting date.

17. Investments in debt financial instruments with an investment grade assessment issued by a credit rating agency (e.g. a rating of at least BBB- according to S&P or Fitch, or a rating of at least Baa3 according to Moody's) shall be deemed exposures with low credit risk that are classified as stage 1. When the bank has at its disposal credit assessments from several credit rating agencies, it shall

---

[2] For example, a significant decrease in the debtor's credit risk as a result of recapitalisation or the impact of an acquiring company with a significantly better credit assessment, which is reflected in the regular repayment of debt (without arrears) and an upgrading in the debtor's credit assessment.

take account of the rules on the use of credit assessments set out in Article 138 of the CRR for that purpose.

### D. Exceptions in the initial classification of an exposure as stage 1 or stage 2 in the changeover to IFRS 9

18. In accordance with paragraph 7.2.18 of IFRS 9, a bank shall, on the date of initial application of IFRS 9, determine the credit risk associated with an exposure upon initial recognition based on reasonable and supportable information that it is able to obtain without undue cost or effort, and compare it with the credit risk associated with that exposure on the date of initial application of IFRS 9.

19. If during the changeover to IFRS 9 a bank does not have at its disposal information on the credit risk associated with an exposure, or a debtor's credit assessment at the time of approval or upon initial recognition of the exposure, it may, when classifying exposures to stages for the first time for the purpose of assessing credit losses, in addition to exposures with low credit risk set out in sub-section C, classify as stage 1 exposures to debtors who have an average credit assessment of A in the Bank of Slovenia's central register as at 30 November or 31 December 2017, and who do not fulfil the criteria for classification as stage 2, as set out in paragraphs 12 and 13 of these guidelines, whereby the exposure is not deemed POCI as set out in point a) of paragraph 15 of these guidelines. The bank shall classify all other exposures that are not defined as defaulted pursuant to Article 178 of the CRR upon initial classification as stage 2.

### III. ASSESSMENT OF CREDIT LOSSES FOR THE PURPOSE OF CREATING IMPAIRMENTS AND PROVISIONS

### A. Assessment of credit losses for defaulted exposures

20. A bank shall take account of the provisions of section 6 of the ECB guidance on NPLs *mutatis mutandis* when creating individual and collective impairments and provisions for credit losses for stage 3 exposures.

### B. Risk parameters and time series of data

21. A bank shall formulate its own methodology for assessing expected credit losses that is based on the following risk parameters: probability of default (PD), loss given default (LGD) and the conversion factor (CF). In doing so, it shall take into account to the greatest extent possible the minimum requirements of the IRB approach set out in Chapter 3 of Title II of Part Three of the CRR. The bank may use the default rate in place of estimated PD, the loss rate in place of estimated LGD and, in place of the estimated CF, the actual or regulatory conversion factor, as set out in Article 111(1) of the CRR, which corresponds to the off-balance-sheet item with regard to classification to a risk category in accordance with Annex I to the CRR. The bank may take

**BANKA SLOVENIJE**

**EVROSISTEM**

22. In accordance with point (c) of paragraph 5.5.17 of IFRS 9, the estimated risk parameters referred to in the previous paragraph that the bank takes into account in the calculation of expected credit losses shall be based on past events, current conditions and forecasts of future economic conditions. Information on past events shall relate to a period of at least five years, whereby this data should be adjusted to the current conditions and forecasts of future economic conditions. If during the changeover to IFRS 9 and subsequently the bank does not have at its disposal a sufficient time series of own data for the calculation of risk parameters, the data collection period shall be extended every year for one additional year until such data covers a period of at least five years. A bank that does not have an appropriate time series of own data may also use external data, or a combination of own data and external data. A bank that uses external data shall use it consistently, and shall ensure that the data is representative of the structure of the exposures to which it is being applied.

23. A bank shall put in place appropriate processes to ensure that the models used to assess expected credit losses are validated and back-testing is performed at least annually.

### C. Risk parameters for certain types of exposures where the number of defaults is low

24. For the classes of exposures to central governments and central banks (hereinafter: sovereigns), institutions, regional governments and local authorities, and public sector entities as defined in the CRR for the purpose of calculating the capital requirement for credit risk under the standardised approach, a bank may take account of the guidelines referred to in sub-sections C.1 and C.2 of these guidelines.

### C.1 Estimation of PD risk parameter

25. In estimating PD on the basis of the default rate, a bank shall proceed from a data series of at least five years of default rates across credit assessments from credit rating agencies, and shall ensure that the default rates for a particular credit assessment are never lower than the default rate valid for one step higher (better) credit assessment.

26. Once a year a bank shall obtain the latest data on default rates across credit assessments from credit rating agencies for the most recently available period, and shall update the existing default rates.

27. For the purposes of paragraph 25 of these guidelines, a bank may determine the estimated PD for the exposure classes referred to in paragraph 24 of these guidelines having regard for the following options:
    (a) the highest of the default rates published by at least three credit rating agencies (hereinafter: relevant credit rating agencies) for individual credit assessments or,
    (b) the average default rates calculated on the basis of the combination of credit assessments from relevant credit rating agencies or,

(c) the default rates for individual credit assessments from a credit rating agency that the bank has nominated for the purpose of calculating capital requirements for the exposure class in which the relevant exposure is classified[3] (hereinafter: nominated credit rating agency).

Other methodologies for estimating PD that appropriately reflect the credit risk of the exposures may be applied to the exposure classes in question by the bank.

28. When having regard for option (a) referred to in paragraph 27 of these guidelines, a bank shall take account of the following guidance:

(a) for exposures to central governments and central banks (for sovereigns):
  – for which credit assessments from relevant credit rating agencies are available, the bank shall take account of the highest default rate that corresponds to the credit assessments for sovereigns published by the relevant credit rating agencies,
  – for which no credit assessment from relevant credit rating agencies for sovereigns is available, the bank shall take account of the highest default rate that corresponds to the lowest investment grade assessment for sovereigns from the relevant credit rating agencies;

(b) for exposures to institutions:
  – for which credit assessments from relevant credit rating agencies are available, the bank shall take account of the highest default rate that corresponds to the credit assessments for institutions published by the relevant credit rating agencies,
  – for which no credit assessment from relevant credit rating agencies for institutions is available:
    i. the bank shall determine the credit assessment of the country in which the institution is established assigned by the relevant credit rating agencies for sovereigns (if the particular exposure has different credit assessments for sovereigns from the relevant credit rating agencies, the bank shall take account of the worst of these credit assessments), and shall map a credit quality step to this credit assessment in accordance with Annex III of Commission Implementing Regulation (EU) No 2016/1799,
    ii. the bank shall lower the credit quality step referred to in the previous sub-indent by one notch, and shall determine, on the basis of Annex III of Commission Implementing Regulation (EU) No 2016/1799, which credit assessments from the relevant credit rating agencies map to the credit quality step,
    iii. the bank shall take account of the highest default rate on the basis of default rates that correspond to the credit assessments referred to in the previous sub-indent;

(c) for exposures to regional governments or local authorities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this paragraph for exposures to regional governments or local authorities with low risk, as set out in Article 115(2) of the CRR;

(d) for exposures to public sector entities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this

---

[3] A bank that has nominated two or more credit rating agencies for a particular exposure class shall take account of the rules on the use of credit assessments set out in Article 138 of the CRR.

paragraph for exposures to public sector entities with low risk, as set out in Article 116(4) of the CRR.

29. When having regard for option (b) referred to in paragraph 27 of these guidelines, a bank shall combine, as appropriate, credit assessments from the relevant credit rating agencies into newly established rating grades, and shall calculate an average default rate for these rating grades. The bank shall take account of the following guidance:

    (a) for exposures to central governments and central banks (sovereigns):
        – for which a credit assessment from a nominated credit rating agency is available, the bank shall take account of the average default rate that corresponds to the credit assessment for sovereigns,
        – for which no credit assessment from a nominated credit rating agency for sovereigns is available, the bank shall take account of the average default rate that corresponds to the rating grade, where based on the combining referred to in the first sentence of paragraph 29, the lowest investment grade assessment from a nominated credit rating agency for sovereigns is included;

    (b) for exposures to institutions:
        – for which a credit assessment from a nominated credit rating agency is available, the bank shall take account of the average default rate that corresponds to the credit assessment for institutions,
        – for which no credit assessment from a nominated credit rating agency for institutions is available, the bank shall determine default rate based on the following rule:
            i. the bank shall determine the credit assessment of the country in which the institution is established assigned by a nominated credit rating agency for sovereigns, and the corresponding rating grade in which this credit assessment is assigned based on the combining referred to in the first sentence of paragraph 29,
            ii. takes into account average default rate corresponding to this rating grade that is one grade lower from rating grade in the previous sub-indent;

    (c) for exposures to regional governments or local authorities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this paragraph for exposures to regional governments or local authorities with low risk, as set out in Article 115(2) of the CRR;

    (d) for exposures to public sector entities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this paragraph for exposures to public sector entities with low risk, as set out in Article 116(4) of the CRR.

30. When having regard for option (c) referred to in paragraph 27 of these guidelines, a bank shall take account of the following guidance:

    (a) for exposures to central governments and central banks (for sovereigns):

**BANKA
SLOVENIJE**

**EVROSISTEM**

    − for which a credit assessment from a nominated credit rating agency is available, the bank shall take account of the default rate that corresponds to the credit assessment published by the nominated credit rating agency for sovereigns,

    − for which no credit assessment from a nominated credit rating agency for sovereigns is available, the bank shall take account of the default rate that corresponds to the lowest investment grade assessment from a nominated credit rating agency for sovereigns;

(b) for exposures to institutions:

    − for which a credit assessment from a nominated credit rating agency is available, the bank shall take account of the default rate that corresponds to the credit assessment published by the nominated credit rating agency for institutions,

    − for which no credit assessment from a nominated credit rating agency for institutions is available, the bank shall take account of the default rate calculated according to the following rules:

        i. the bank shall determine the credit assessment of the country in which the institution is established assigned by a nominated credit rating agency for sovereigns, and shall map a credit quality step to this credit assessment in accordance with Annex III of Commission Implementing Regulation (EU) No 2016/1799,

        ii. the bank shall lower the credit quality step referred to in the previous sub-indent by one notch, and shall determine, on the basis of Annex III of Commission Implementing Regulation (EU) No 2016/1799, which credit assessments from the relevant credit rating agency map to the credit quality step,

        iii. the bank shall calculate an average default rate based on the default rates that correspond to the credit assessments referred to in the previous sub-indent;[4]

(c) for exposures to regional governments or local authorities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this paragraph for exposures to regional governments or local authorities with low risk, as set out in Article 115(2) of the CRR;

(d) for exposures to public sector entities, the bank shall take account of the rules set out in point (b) of this paragraph. The bank may take account of the rules set out in point (a) of this paragraph for exposures to public sector entities with low risk, as set out in Article 116(4) of the CRR.

### C.2 Estimation of LGD risk parameter

31. For the exposure classes referred to in paragraph 24 of these guidelines, a bank shall apply an LGD as defined in Article 161(1) of the CRR, in the amount of 45% for senior exposures and 75% for subordinated exposures.

### ~~D. Exclusion of interest income by means of the effective interest method~~

---

[4] Only relevant in cases when several credit assessments from a nominated credit rating agency are included within the framework of an individual credit quality step, otherwise the bank shall take account of the default rate for the individual credit assessment.

32. ~~Interest income is calculated by means of the effective interest method in accordance with paragraphs 5.4.1 and 5.4.2 of IFRS 9. According to the aforementioned method, interest is calculated for on-balance-sheet exposures by applying the effective interest rate to the gross carrying amount of the exposures. An exception is made for interest income from on-balance-sheet exposures that after initial recognition were defined as defaulted, for which interest is calculated by applying the effective interest rate to their amortised cost. An exception is also made for interest income from on-balance-sheet exposures that were defined as defaulted upon initial recognition (POCI), for which interest is calculated by applying the credit risk weighted effective interest rate to their amortised cost.~~

33. ~~For the purpose of implementing the provision on the calculation and recognition of interest income in respect of the amortised cost of on-balance-sheet exposures, a bank shall put in place analytical records in its books of account that include both the contractual amount of principal and interest, and amounts for reporting and disclosure purposes in accordance with the IFRS. When calculating and recognising interest income in respect of the amortised cost of an on-balance-sheet exposure, the bank may use an income exclusion system, which excludes from income the portion of accrued interest that relates to the impaired part of the on-balance-sheet exposure, and only recognises it as income if any payment is made. This means that the bank does not recognise that portion of accrued interest as income until payment, but recognises it in a special analytical account of impaired interest, which it treats as an integral part of the gross carrying amount of on-balance-sheet exposures for external reporting purposes (and not as an integral part of impairments for credit losses). If the bank has not put in place adequate IT support for the consistent recognition of interest income in respect of amortised cost, its income exclusion system may take a conservative approach, meaning that all interest income is excluded in full until payment.~~

## IV. TREATMENT OF EXPOSURES FOLLOWING A CHANGE IN REPAYMENT TERMS

34. In accordance with paragraph BC5.235 of the Basis for Conclusions on IFRS 9, a bank shall not distinguish between exposures with lower and higher credit quality or between changes in repayment terms in favour of the debtor that arose due to the latter's inability to repay debt (i.e. in the event of debt forbearance) and changes that arose due to other (commercial) reasons, in the treatment of changes to the repayment terms of an exposure on the basis of paragraphs 5.4.3, 5.5.12, B3.1.1 and B3.1.2 of IFRS 9.

35. In accordance with paragraph BC5.227 of the Basis for Conclusions on IFRS 9, a bank shall assess a change in repayment terms from the perspective of the materiality of the impact on contractually agreed cash flows. The bank shall treat changes in repayment terms that result in material changes in cash flows in accordance with the rules on the derecognition of on-balance-sheet exposures from the statement of financial position (having regard for the repayment terms prior to the change) set out in paragraph 3.2.3 of IFRS 9, and the rules on the recognition of exposures (having regard for the repayment terms after the change) set out in paragraphs 5.1.1 and 5.1.1A of IFRS 9. In accordance with paragraph 5.4.3 of IFRS 9, a bank shall treat changes in repayment terms that do not lead to material changes in cash flows as an adjustment to the gross

carrying amount (with a corresponding entry in profit or loss) based on the calculated present value, taking into account newly agreed or amended discounted contractual cash flows.

36. IFRS 9 does not set a threshold for distinguishing between material and immaterial changes in cash flows due to a change in the repayment terms for an on-balance-sheet exposure, as is otherwise set out in paragraphs 3.3.2 and B3.3.6 of IFRS 9 for the purpose of the treatment of changes to repayment terms for financial liabilities. The bank shall therefore define such a threshold in its internal policy and shall apply it consistently, for the purpose of the treatment of material changes in repayment terms for on-balance-sheet exposures.

37. Notwithstanding paragraph 36, a bank may treat a new loan agreement or other debt instrument contract (or an annex to an existing contract), by virtue of which the contracting parties agree on a change in the repayment terms, according to the derecognition rules set out in paragraph 3.2.3 of IFRS 9, even when the changes in cash flows are immaterial relative to the previous contract, provided that the following conditions are met:
    (a) the change in repayment terms (e.g. a change in maturity, currency and/or interest rate) did not occur as the result of the debtor's inability to repay debt under the originally agreed terms (and thus a new on-balance-sheet exposure was not defined as a forborne exposure upon initial recognition in accordance with Commission Implementing Regulation (EU) No 680/2014), but for commercial and/or market-related reasons; and
    (b) the original exposure was classified as stage 1, in accordance with IFRS 9, for the purpose of creating impairments and/or provisions for credit losses, prior to the change in repayment terms.

38. In any case, a bank shall treat a change in repayment terms in accordance with the rules on the derecognition of exposures from the statement of financial position, whenever:
    (a) in accordance with IFRS 9 the change results in the reclassification of an on-balance-sheet exposure and a changeover to measurement at fair value (i.e. a derivative financial instrument is embedded in a contract and has a material impact on the cash flows of the underlying contract); and
    (b) a new debtor replaces the original debtor in the credit relationship by virtue of a new contract based on which the original debtor's debt is repaid. The aforementioned rule shall not apply if the new debtor is part of group of connected clients that includes the original debtor, and for which reason the new on-balance-sheet exposure based on the new loan agreement (or annex) is defined as a forborne exposure pursuant to Commission Implementing Regulation (EU) No 680/2014 (in such cases, the bank shall act in accordance with paragraphs 35 and 36 of these guidelines).

## V.    TREATMENT OF REAL ESTATE AND MOVABLE PROPERTY RECEIVED AS REPAYMENT FOR EXPOSURES

39. A bank shall measure real estate and movable property received as repayment for on-balance-sheet exposures at fair value on the basis of their valuations and shall treat them depending on purpose in accordance with the IFRS. In accordance with the ECB guidance on NPLs, the bank

**BANKA SLOVENIJE**

**EVROSISTEM**

shall pursue an active policy regarding the sale of real estate and movable property received as repayment for exposures.

40. In accordance with IFRS 5, a bank shall measure real estate and movable property received as repayment for on-balance-sheet exposures and classified as non-current assets held for sale at the lower of the following values upon acquisition and subsequently:
 (a) the fair value less cost to sell, or
 (b) the value at initial recognition.

41. Notwithstanding paragraph 40, a bank shall value real estate and movable property received for the repayment of on-balance-sheet exposures on the basis of the liquidation of collateral and classified upon initial recognition as non-current assets held for sale at the lowest of the following values:
(a) the fair value less cost to sell,
(b) the value at initial recognition,
(c) the value of the real estate or movable property that was last taken into account in the estimate of cash flows or credit losses for the exposures that were repaid with the real estate or movable property in question.

42. For the purposes set out in paragraphs 40 and 41, a bank shall estimate the cost to sell (based on the relevant accounting policies) for individual types or categories of real estate and movable property. The bank shall base the estimate of the aforementioned costs on the actual costs incurred in past sales of similar real estate and movable property. Insofar as the bank does not have such data at its disposal, the fair value of the real estate in question shall be reduced by a lump-sum deduction calculated for individual categories of real estate with regard to the current situation on the real estate or movable property market.

43. A bank shall also apply the provisions of this section *mutatis mutandis* to real estate and movable property received for the repayment of on-balance-sheet exposures disclosed under inventories. The inability to sell such real estate and movable property shall be reflected in the estimate of its fair value.

## VI. APPLICATION OF GUIDELINES

44. These guidelines shall not prejudice the interpretation of IFRS 9, for which the IFRS Interpretations Committee (hereinafter: IFRSIC) is responsible. Neither shall these guidelines prejudice the interpretation of the EBA guidelines on the expected credit loss model or the ECB guidance on NPLs.

45. The Bank of Slovenia shall apply these guidelines when conducting supervision of banks in accordance with the ZBan-2 and Council Regulation (EU) No 1024/2013. These guidelines shall be applied until their repeal or amendment, which shall be published on the Bank of Slovenia's website.

46. The issuance of these guidelines shall not release the Bank of Slovenia, when exercising its powers, from applying the currently applicable IFRS and IFRSIC Interpretations issued on their

basis that set out the accounting framework for banks. Should the Bank of Slovenia, in exercising its powers pursuant to the ZBan-2 and Council Regulation (EU) No 1024/2013, apply an interpretation of the regulations in an individual case that amends or supplements the interpretation deriving from these guidelines, it shall amend or supplement these guidelines as appropriate without delay.

47. These guidelines shall enter into force on the day of their publication on the Bank of Slovenia's website, and shall apply from 1 January 2018.

48. Notwithstanding the provisions of paragraph 41 of these guidelines, a bank shall value real estate and movable property received for the repayment of on-balance-sheet exposures on the basis of the liquidation of collateral before these guidelines begin to be applied using the approach stated in the  paragraph 40 of these guidelines.


Ljubljana, 5 December 2017

<div align="right">
Boštjan Jazbec<br>
President,<br>
Governing Board of the<br>
Bank of Slovenia
</div>


**Changes of Guidelines relating to the use of an expected credit loss model and the application of valuation rules for certain accounting items (3 March 2020) contains the following final and transitional provisions:**


» 5. These changes of Guidelines shall enter into force on 31 March 2020.

6. Notwithstanding the previous paragraph deleted paragraphs 32 and 33 of Guidelines may apply until 30 December 2020.«.