

Pursuant to Article 254 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, issue No.: 04/17), Article 5, Paragraph 1, Item b, Article 20, Paragraph 2, Item b and Article 37 of the Law on Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, issues No.: 59/13 and 4/17) and Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, Item b of the Statute of the Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, issue No.: 63/17), the Management Board of the Banking Agency of Republika Srpska, at its 47<sup>th</sup> session, held on February 26, 2018 adopted the following

**DECISION  
ON PLANS FOR REORGANIZATION  
OF BANK BUSINESS OPERATIONS**

**Subject of Decision**

**Article 1**

- (1) This Decision shall regulate the content and criteria for approval of the plan for reorganization of business operations of a bank, which shall be submitted to the Banking Agency of Republika Srpska (hereinafter: Agency).
- (2) The provisions of this Decision shall apply to banks with headquarters in Republika Srpska Banking to which the Agency has issued the operating license, and to a banking group that is subjected to supervision of the Agency on a consolidated basis.

**Strategy and Measures**

**Article 2**

- (1) Business operation reorganization plan shall contain the following:
  - 1) chronological and financial review of the factors that had contributed to difficulties of the bank, including the relevant performance indicators that have deteriorated during the period that preceded resolution, as well as the reasons for their deterioration,
  - 2) a brief description of measures for prevention of crises of the bank and the crisis management, before submitting the business operation reorganization plan,
  - 3) the description of the strategy of business operation reorganization and measures with which it is planned to reestablish long-term sustainability of the bank during the reorganization period, including the description of all following elements:
    1. the reorganized business model,
    2. withdrawal of a portion of business operations of the bank which incurs losses,
    3. measures for implementation of the reorganization strategy of business operations at the level of the banking group, the bank and business lines,
    4. planned duration of the reorganization period and key phases,
    5. communication with the Agency and other competent authorities,
    6. strategy concerning the inclusion of important external stakeholders, such as the trade union or workers’ organization in compliance with the Labor Code,
    7. strategy of internal and external communication in connection with measures of business reorganization.
- (2) If parts of the bank should be liquidated, sold or separated, all following elements shall be determined in the reorganization strategy:

- 1) the subject entity or business line, the method of liquidation, sale and separation, including the basic assumptions and possible expected losses,
  - 2) expected timeframe,
  - 3) all forms of financing or services being provided or acquired by the remaining part of the bank.
- (3) All revenues from the sale or separation of assets, entities, or business lines envisaged under the business reorganization plan shall be calculated, taking into account reliable methods of valuation, such as the assessment of authorized appraiser, market research and similar. When calculating, the probability of incurring losses shall also be taken into account.
- (4) For the parts of the bank that shall not be liquidated, sold or separated, the business reorganization plan shall list the methods for removing potential deficiencies in their business operations that may affect their long-term sustainability, even in case of those deficiencies not being directly connected with the failure of the bank.
- (5) The measures stipulated under the business reorganization plan shall take into account the advantages and deficiencies of the bank and its reorganized business model compared to the economic and market environment in which it operates.
- (6) Reorganization strategy may also cover the measures that were previously stipulated in the recovery plan or resolution plan, under the condition that the resolution plan is accessible to the bank, and the aforementioned measures are adequate even after resolution. Such possibility shall not imply any obligation upon the Agency to present the resolution plan for insight to the governing bodies of the bank, i.e. the appointed person.

### **Financial indicators – regulatory requirements**

#### **Article 3**

- (1) Business reorganization plan shall cover projections of financial indicators of the bank during the period of reorganization and shall show the manner of reestablishment of long-term sustainability. It shall stipulate the following precisely:
- 1) costs and impact of reorganization on the income statement and balance sheet of the bank,
  - 2) description of requirements for financing in the course of the period of reorganization and potential sources of financing,
  - 3) the manner of business operations of the bank with which it shall cover all its costs, including amortization and financial costs and expenses, and ensure acceptable financial return at the end of the period of reorganization,
  - 4) balance sheet of the bank after resolution, which reflects the new structure of liabilities and capital and the write down of assets based on independent assessment conducted in compliance with Article 232 of the Banking Law of Republika Srpska (hereinafter: Law),
  - 5) projection of key financial indicators, and especially liquidity indicators, asset quality, model of financing, profitability and efficiency at the level of the banking group, entity and business lines.

- (2) Business reorganization plan shall stipulate the measures that the bank shall undertake so that, in the briefest timeframe possible, and by the end of the reorganization period, at the latest, it would be in a position to meet the regulatory requirements, including minimum capital requirements and eligible liabilities in the context of Article 250 of the Law.

### **Sustainability assessment**

#### **Article 4**

- (1) Business reorganization plan shall contain sufficient information so that the Agency could assess the feasibility of proposed measures. The business reorganization plan shall stipulate the following, at the minimum:
  - 1) assumptions on expected macroeconomic and market developments in the basic scenario compared to corresponding sectoral measurements,
  - 2) summary review of alternative strategies of reorganization or a set of measures, as well as the explanation for the selection of measures from the business reorganization plan for reestablishing long-term sustainability of the bank, with simultaneous compliance with objectives and principles of resolution.
- (2) Business reorganization plan shall contain the information that facilitates the Agency to analyze the effects of the impact of business reorganization on the critical functions and on financial stability.
- (3) Business reorganization plan shall cover the analysis of the alternative set of key basic assumptions, in which the best and the worst possible outcome are deliberated. Reestablishment of long-term sustainability shall be possible in all scenarios, although they may differ from each other in view of the timeframes, measures, and financial performance.
- (4) Taking into account the best and the worst possible outcome, the business reorganization plan, shall contain a summary of key information on the basis of which individual scenarios had been developed, and the performance of the bank within the framework of each of the scenarios. Such summary shall in particular contain the following:
  - 1) basic assumptions, for example key macroeconomic variables,
  - 2) projection of income statement and balance sheet,
  - 3) key financial indicators at the level of the banking group, entity and business lines.
- (5) The Agency shall, within the deadline of one month from the date of receiving the business resolution plan, assess whether it is probable that by the implementation of proposed plan a long-term sustainability of the bank shall be achieved.
- (6) If it assesses that by the reorganization plan a long-term sustainability of the bank can be achieved, the Agency shall approve the business reorganization plan.
- (7) If it assesses that by the reorganization plan a long-term sustainability of the bank cannot be achieved, the Agency shall inform the managerial bodies of the bank under resolution procedure, i.e. special administration of the bank, of its objections and require that within the deadline of 14 days an amended plan is developed and submitted, by which determined deficiencies shall be eliminated.
- (8) The managerial bodies of the bank, i.e. the special administration, shall be under obligation to submit to the Agency, within the deadline referred to in Paragraph 7 of this Article, the amended and supplemented plan, and then within seven days from the date of receiving such plan, the Agency shall assess whether the objections have been taken

into account or the plan needs to be additionally amended and supplemented, of which it shall inform the managerial bodies, i.e. the special administration.

### **Implementation and adjustment**

#### **Article 5**

- (1) Business reorganization plan shall cover the specific and corresponding key phases and performance indicators of its implementation that shall be developed on a quarterly basis, at the minimum. Those key phases and indicators may be adjusted, in compliance with the procedure stipulated in the following Paragraph.
- (2) Business reorganization plan shall facilitate to managerial bodies of the bank, i.e. the appointed person or persons, to adjust the reorganization strategy or individual measures, if it is no longer expected that their implementation would contribute to reestablishing a long-term sustainability within the envisaged period of time. The Agency shall be informed on those adjustments in the report on progress and implementation of the business reorganization plan. If that is necessary due to reasons of emergency, the aforementioned adjustments may also be communicated in extraordinary reports.
- (3) The managerial bodies of the bank, i.e. the appointed person or persons cannot diverge from the implementation of the business reorganization plan before they acquire approval for adjustments.

### **Report on progress and implementation of reorganization plan**

#### **Article 6**

- (1) Managerial bodies of the bank, i.e. special administration, shall be under obligation to implement the business reorganization plan which was approved by the Agency and report to the Agency at the minimum once every six months on the progress and implementation of the plan.
- (2) The progress report which shall be submitted to the Agency shall contain the analysis and assessment of progress in the implementation of the business reorganization plan, and shall cover the following, at the minimum:
  - 1) the realized key phases and measures that have been undertaken, and a comparison of their effect with the effects envisaged under the business reorganization plan,
  - 2) performance indicators of the bank and a comparison with the planned in the business reorganization plan and preceding progress reports,
  - 3) reasons because of which certain key phases or performance indicators have not been achieved and proposals for elimination of delays or shortcomings,
  - 4) all other problems relating to the implementation of the business reorganization plan that could prevent the reestablishment of a long-term sustainability of the bank,
  - 5) upcoming measures and key phases, and the assessment of probability of their realization,
  - 6) updated projections of financial performance indicators,
  - 7) if necessary and justified, a proposal for adjustment of individual measures, key phases, or performance indicators, in compliance with provisions from Article 5 of this Decision.
- (3) The Agency may, at any time, require from managerial bodies of the bank, i.e. appointed person or persons, to submit information relating to the implementation of the business reorganization plan.

## **Minimum criteria for assessment of business reorganization plan**

### **Article 7**

The Agency shall assess the business reorganization plan in relation to the following minimum criteria:

1) Awareness and commitment:

Business reorganization plan should demonstrate that the managerial bodies of the bank, i.e. appointed person or persons from the bank:

- have supported the business reorganization plan and are committed to its implementation,
- have determined one or more organizational parts of the bank, responsible for the implementation of the business reorganization plan and appointed a person / persons to the functions of senior management in that part, i.e. parts,
- have requested cooperation and support of internal and external stakeholders.

2) Trustworthiness:

1. Business reorganization plan should exhibit a high level of reliability that its application would renew a long-term sustainability of the bank. That reliability should rely on realistic assumptions, analyses based on scenarios, as well as corresponding and specific performance indicators, which cover the entire banking group, entities, and business lines that would not be liquidated or sold;
2. All assumptions and performance indicators that need to be compared with the corresponding sectoral indicators and adjusted in line with the accessible macroeconomic forecasts;
3. In the part in which the business reorganization plan describes the manner in which the bank shall be able to realize an acceptable financial result, such result should be assessed in comparison with the peer banks and historical data;
4. Risks that are taken into account in the analysis in the business reorganization plan should be consistent with the risks to which the bank is exposed or may be exposed in its business operations;
5. The worst scenario should reflect a significant, although convincing change in basic assumptions compared to the basic scenario. Those changes should especially be focused towards assumptions that are the most relevant for the bank that is in reorganization;
6. Renewal of a long-term sustainability, even in the worst scenario, must not include additional application of resolution instruments outside of the area of application of the resolution programme that was implemented during the time of development of the business reorganization plan. The Agency shall not accept scenarios that envisage that the reorganization of bank would result in the onset of significant obstacles for the possibility of implementation of resolution. If such significant obstacles are determined, the Agency should inform the bank and determine the corresponding activities for the removal of aforementioned obstacles;
7. Business reorganization plan should demonstrate that the bank will be able to meet regulatory requirements;

3) Suitability of strategy and measures of reorganization:

1. Information in the business reorganization plan and its basic assumptions concerning the causes that had led to resolution and the strategy of reorganization should be in line with the assessment that is carried out by the Agency and with the independent valuation, for the purpose of determination of whether conditions for resolution are met in compliance with Articles 229 and 231 of the Law;
  2. Business reorganization plan should be feasible and realistic, and especially:
    - all internal measures and management measures should be implemented taking care of potential obstacles for implementation, such as labor law regulations or other requirements that result from contracts;
    - reorganization strategy, measures, key phases and performance indicators contained in the business reorganization plan should take into account interdependence between legal entities and business lines within the banking group. They may include business related, financial, and operational interdependencies;
    - reorganization strategy, individual measures, key phases, and performance indicators from the business reorganization plan should take into account the situation at relevant markets;
    - any sale of assets, entities, or business lines envisaged under the business reorganization plan should be adjusted to the situation at the relevant markets. The moment of implementation and the scope of those sales should also take into account the interest or the capacities of investors that are buying them;
    - measurements or assessments of value used in the course of calculation of expected revenues from the sale of assets, entities, or business lines envisaged under the business reorganization plan should be reasonable, reliable, and realistic.
  3. The period of reorganization should be the shortest possible, wherein one should take into account the following:
    - the necessity of facilitating sufficient time for implementation of the strategy and measures of reorganization in the most efficient manner possible in order to renew a long-term sustainability;
    - standards and practices at relevant markets,
    - the need for preservation of financial stability.
- 4) Principled nature:
1. Business reorganization plan should be in line with all business plans that had been developed by the bank, and that had been compiled in line with regulatory or legislated obligations,
  2. When the business reorganization plan covers measures that had been envisaged in the most recent versions of recovery or resolution plans developed in advance for the bank, those measures should be limited to the elements that are still applicable taking into account that the failure of the bank and resolution have occurred,
  3. Reorganization strategy should not jeopardize the objectives and principles of resolution referred to in Articles 222 and 223 of the Law.
- 5) Monitoring and evaluation:
1. All key phases and performance indicators from the business reorganization plan should be specific enough to be able to facilitate their monitoring,

2. Contents of the business reorganization plan and progress report shall facilitate the Agency to arrive at a conclusion that the business reorganization plan was appropriately implemented and that it would realize its objectives,
3. The Agency may require additional measures for implementation of monitoring, especially in relation to the timely flow of information in connection with the implementation of the business reorganization plan,
4. If the Agency appoints an independent expert to check, fully or partially, the assumptions and effects of the measures envisaged under the business reorganization plan, that independent expert should meet the standard of independence under the Decision on conditions and manner of performing independent assessment of value of assets and liabilities of banks before and during resolution proceedings of banks.

### **Coordination between the Agency and relevant authorities from other countries**

#### **Article 9**

When banks under resolution procedure operate in more than one country, the Agency, before approving the business reorganization plan, may:

- 1) communicate the business reorganization plan to other institutions for resolution that are affected by the reorganization in compliance with the existing memoranda on cooperation,
- 2) consider the communication of the business reorganization plan to the corresponding resolution body.

### **Final provisions**

#### **Article 10**

This Decision shall enter into effect on the eighth day from the date of its publication in the "Official Gazette of Republika Srpska".

No: UO-375/18

Date: February 26, 2018

PRESIDENT OF  
THE MANAGEMENT BOARD  
Mira Bjelac