

Pursuant to Article 101-105 of the Banking Law of Republika Srpska (“Official Gazette of Republika Srpska”, 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”, No.: 59/13 and 4/17), and Article 6, Paragraph 1, Item b and Article 19, Paragraph 1, Item b of the Statute of Banking Agency of Republika Srpska (“Official Gazette of Republika Srpska”, No.: 63/17), the Management Board of the Banking Agency of Republika Srpska, on its 44th session held on 11 December, 2017 issued the

**DECISION
ON RECOVERY PLANS OF A
BANK AND A BANKING
GROUP**

Subject of the Decision

Article 1

- (1) This Decision shall stipulate in detail: content of the recovery plan of a bank, i.e. of the recovery plan of a banking group which the Banking Agency of Republika Srpska (hereinafter: Agency) supervises on a consolidated basis, manner and deadlines for deliverance of the recovery plan and its amendments, and minimum quantitative and qualitative indicators and the recovery plan assessment.
- (2) The bank shall, in accordance with this Decision, draft the recovery plan which shall contain measures and strategies the bank shall undertake in case of significant deterioration of its financial condition, and in order to re-establish sustainable operations and appropriate financial position of the bank, taking into account the size and organizational structure of the bank, the scope, type and complexity of operations it performs, as well as the bank risk profile.
- (3) At the bank management board proposal, the bank supervisory board shall adopt the recovery plan and its amendments, which shall be delivered to the Agency for consideration and assessment. The content of recovery plans shall represent a business secret, in accordance with Article 101, Paragraph 3 of the Banking Law of Republika Srpska.
- (4) The bank shall revise the recovery plan at least annually or when the following circumstances arise:
 - 1) change in legal and/or organizational structure of the bank, change of business model and/or financial condition of the bank, which may significantly influence the final realization of the recovery plan or may require its amendments,
 - 2) change of assumptions used when drafting the recovery plan, which may significantly influence the final realization of the recovery plan,
 - 3) other changes which have an influence on the content of recovery plan and possibility of its full application or application of one or more recovery measures which are contained in the recovery plan and
 - 4) at the Agency’s request, when the Agency assesses that the plan contains significant deficiencies or important obstacles in plan implementation according to Article 103, Paragraph 4 of the Banking Law of Republika Srpska or when the Agency requests such based on changes stated in Items 1 and 2 of this Paragraph.
- (5) By means of the recovery plan or other internal enactments the bank shall stipulate the manner and dynamics of recovery plan updating, also including the manner and dynamics of assessing whether circumstances, which may lead or led to the occurrence of changes from Paragraph 4 of this Article, have risen.

Terms

Article 2

Terms used in this Decision shall have the following meaning:

- 1) individual recovery plan shall be the recovery plan which the bank drafted in accordance with Article 101 of the Banking Law of Republika Srpska,
- 2) recovery plan of the banking group shall be the recovery plan which the parent bank of the banking group drafted or the recovery plan of the banking group with superior holding, i.e. superior parent company, which the bank drafted under the control of that holding or company, seated in Republika Srpska, in accordance with Article 105 of the Banking Law of Republika Srpska,
- 3) the recovery plan shall be individual recovery plan or the banking group recovery plan,
- 4) recovery measure shall be a set of one or more managerial activities or strategies which the bank must undertake, which are defined by the recovery plan and are drafted in order to maintain or re-establish the bank financial stability in case of financial disturbances, in accordance with Article 102 of the Banking Law of Republika Srpska,
- 5) option (possibility) for recovery shall represent one or more activities, agreements, measures or strategies of the bank or the banking group covered by the recovery plan, which are intended for re-establishment of sustainability of operations of the bank or the banking group in cases of severe financial disturbance, and whose main goal is to ensure sustainability of critical functions (if the bank provides them) and key business activities,
- 6) indicators shall be quantitative and qualitative financial data on the bank financial condition, based on which it is determined when appropriate measure stemming from the plan may be undertaken,
- 7) critical functions shall be activities, services or operations in accordance with the definition from Article 2, Paragraph 1, Item 34 of the Banking Law of Republika Srpska,
- 8) key business activities shall be business activities and services related to the activities whose performance generates a significant portion of income or profit for the bank or the banking group to which that bank belongs, in accordance with the definition from Article 2, Paragraph 1, Item 35 of the Banking Law of Republika Srpska,
- 9) critical services shall be those services whose basic activities or operations (transactions with certain intention) are those which are performed in one or more business units of the bank or legal persons within the group (shared services), and are required for performance of one or more critical functions.

Recovery plan content

Article 3

- (1) The recovery plan shall contain the following parts:
 - 1) brief overview of recovery plan key elements,
 - 2) information on division of duties and responsibilities related to drafting, updating and implementing the recovery plan, i.e. information on recovery plan management,
 - 3) indicators of vulnerability of financial position or different segments of operations of the bank, based on the bank operation indicators,
 - 4) strategic analysis (information on operations of the bank, i.e. the banking group, from the aspect of key business activities and critical functions, as well as relationship of the bank, i.e. the banking group with persons within the group or third persons, and defining measures of recovery and activities which would have been undertaken in application of every determined recovery measure),

- 5) information on recovery plan stress testing,
 - 6) plan of internal and external communication and public disclosure in case of recovery plan implementation and
 - 7) analysis of preparation measures which have been undertaken or should be undertaken for the purpose of easier implementation of the recovery plan or improvement of its efficiency.
- (2) Parts of the recovery plan referred to in Paragraph 1 of this Article shall be individual and separately marked and described unities in the recovery plan.
 - (3) Data and information contained in the bank recovery plan related to the banking group to which the bank belongs shall represent complete data and information on that banking group, which the Agency does not supervise on consolidated basis, unless stipulated otherwise.

Recovery plan overview

Article 4

Recovery plan overview must contain:

- 1) brief overview of parts of the recovery plan referred to in Article 3, Paragraph 1, Items 2-7 of this Decision, with special reference to the recovery plan part under Item 4 (“strategic analysis”), whose overview must contain a list with a brief description of all recovery measures, assessment of effects of application of every recovery measure, as well as assessment of possibility of implementation of every recovery measure, and with that assessment of total capability of the bank in terms whether the application of determined recovery measures may impact re-establishment of sustainable operations and financial position of the bank in scenarios of financial disturbances,
- 2) overview of organizational changes and/or changes in procedures and similar changes with planned deadlines for their implementation, which are required for the recovery plan feasibility and
- 3) brief overview of significant changes which occurred in the bank or in the banking group or in the recovery plan from the last deliverance of recovery plan to the Agency.

Recovery plan management

Article 5

Recovery plan management implies information which shall include detailed description of procedures of recovery plan drafting, detailed description of updating procedures, i.e. revision of the recovery plan, and shall contain the following descriptions:

- 1) duties and responsibilities of persons in charge of drafting, updating and implementing individual parts of recovery plan and the plan as a whole, with mandatory inclusion of all organizational units whose activities are significant for the recovery plan drafting,
- 2) description of procedures in cases when it is necessary to amend the recovery plan due to significant changes which influence the bank or the banking group and their environment,
- 3) manner in which the recovery plan is included in the management system in the bank or in the banking group and in the risk management system, particularly given the risk profile and relatedness of the recovery plan with stress testing for the purpose of internal capital adequacy assessment process (ICAAP),
- 4) if the bank is a part of the banking group, it is required to describe measures and agreements which shall be established within the banking group in order to ensure coordination and compliance of recover measures and activities at the level of the banking group and individual group members, and for the purpose of maintaining or re-establishing appropriate financial position of the banking group and its members,

- 5) procedure of recovery plan approval and information about by means of which policies and procedures and other bank enactments such procedure has been regulated, as well as confirmation that the recovery plan was subject of assessment made by the internal audit and the bank risk committee, and that the same has been approved by the bank supervisory board,
- 6) conditions and procedures necessary to ensure timely application of recovery measures, including:
 1. detailed description of indicators in accordance with Articles 6 and 7 of this Decision, description of procedure of decision making on implementation of individual recovery measures which are being applied when individual indicators are met, i.e. when they reached determined value by means of the recovery plan, whereby the conditions for consideration and determination which recovery measure should be applied as a reaction to the case of financial disturbance are created,
 2. description of duties and responsibilities of persons included in that process, covering procedures which are necessary to apply, and deadlines and manner of informing the Agency that the indicators have reached determined values. If the risk committee is included in these processes, duties and responsibilities of that committee members should be described,
 3. procedures that follow set time frame for decisioning on undertaking individual recovery measures, as well as when and how relevant competent institutions shall be informed on the fact that the indicators have reached determined limit values,
 4. detailed description of ICAAP findings and stress test results which are being used for purposes of that procedure, and which reflect possible sensitive points, weaknesses and threats to capital position, liquidity condition, profitability and asset quality, also including the bank risk profile,
- 7) consistency of recovery plan with the risk management system in the bank or in the banking group, including the description of all relevant indicators and limit values the bank uses as a part of regular internal process of risk management in the bank or in the banking group in its regular operations (early warning indicators), which are useful as source of information for management bodies whether there is a possibility to reach an upper limit value of indicators from the recovery plan and
- 8) systems of management and internal informing and reporting related to undertaking recovery activities and measures, including the description of manner in which it shall be ensured that information required for implementation of recovery measures are available in a reliable and timely manner to the persons and management bodies within the bank and/or the banking group, who/which participate in decision making on undertaking activities from the recovery plan, then the description of procedures and deadlines envisaged for issuance of such decision, as well as the manner and deadline of informing the Agency on consideration, i.e. undertaking recovery measures in cases of disturbance and deterioration of the bank financial condition.

Operation indicators in recovery plan

Article 6

- (1) By means of the recovery plan the bank shall as mandatory determine quantitative and qualitative indicators based on which weakness, deficiency and possible endanger of the financial position of the bank or its different operation segments are identified, which imply that certain options for recovery can be undertaken when the same reach certain limit value, and in order to maintain or re-establish sustainable operations and appropriate bank financial position.

- (2) Limit value of stipulated indicators must be higher than minimum stipulated value, and high enough to ensure consideration of measures from the recovery plan before the violation of regulation governing these indicators, i.e. must be determined in such manner to enable the bank to timely undertake recovery measures, whereby the bank must consider the usage of progressive levels (“traffic light approach”) in order to inform the governing bodies that the progressive levels of indicators have reached certain limit value.
- (3) When determining operation indicators it must be taken into account that their nature and number correspond to the size of the bank, operation complexity, the bank risk profile and indicator system the bank already uses in the process of regular risk management.
- (4) Consideration on indicators must be included in the management system and in the decision making process in a manner which provides members of the governing bodies and senior management of the bank with timely and complete information on the possibility of application of appropriate option for recovery. Decision making process must be recorded, about which the Agency must be timely and fully informed.
- (5) The recovery plan must be adjusted to the bank business model and strategy, in order to be adequate for the bank risk profile, and must be adjusted to the management system, existing plan indicators for preservation of capital or liquidity, and plan indicators for maintaining business continuity in the future.
- (6) The bank must include in the recovery plan minimum mandatory indicator categories, as follows:
 - 1) capital indicators: regulatory capital ratio, CET 1 ratio and leverage ratio,
 - 2) bank liquidity indicators: maturity mismatch of financial assets and liabilities and liquidity coverage ratio (LCR),
 - 3) profitability indicators: asset profitability – ROA, capital profitability – ROE, and significant losses under operational risk,
 - 4) balance and off-balance sheet asset quality indicators: share of non-performing loans (NPL) in bank total loans, NPL growth rate and NPL provisioning.
- (7) Apart from indicators referred to in Paragraph 6 of this Article, the bank shall determine macroeconomic indicators (e.g. change in gross domestic product, change in price of government debt securities) and market indicators (e.g. change in credit rating, exchange rate, change in share price), except in case when the bank in the recovery plan in detail and satisfactory manner explains why such indicators are not suitable, i.e. applicable for the bank from the aspect of risk profile, size and complexity of operations the bank performs, organizational, i.e. legal structure of the bank.
- (8) The bank should consider inclusion of other additional indicators for each category, particularly for capital and liquidity categories, which are contained in strategies, policies, procedures of ICAAP and internal liquidity adequacy assessment process (ILAAP), as well as the existing system of risk management.
- (9) Limit values of capital indicators should be determined in accordance with the bank risk profile and time required for recovery option activation, taking into account the possibility of recovery with that option, and how fast the capital position may change depending on individual characteristics of the bank.
- (10) Limit values of capital indicators should be determined in such manner that the bank is sure that it will not find itself in a situation where it must violate capital requirements, including minimum requirements in accordance with Article 37, Paragraph 4 and 5 of the Banking Law of Republika Srpska, but without taking into consideration requirements for capital buffers which are defined by Article 37, Paragraph 6 of the same Law, i.e. Articles 39 and 40 of the Decision on calculating capital in banks.
- (11) Liquidity indicators referred to in Paragraph 6, Item 2 of this Article must reflect short term and long term liquidity, the bank funding requirements, demonstrate the bank’s dependence on money markets and retail deposits, and separate liquidity in different currencies, if such is

of significance for the bank. Liquidity indicators should also cover other potential requirements for liquidity and founding sources, particularly funding sources from the banking group members, and requirements stemming from off-balance sheet items, and the same must be included in the bank ILAAP.

- (12) Limit values of liquidity indicators should be determined in accordance with the bank risk profile, taking into account how fast liquidity position may change depending on the bank specificity, as well as time required for implementation of recovery options and possibility of recovery with the implementation of such options. Limit values of liquidity indicators should be determined in a manner that the bank is sure that it will not find itself in a situation where it must violate liquidity requirements.
- (13) Asset quality indicators referred to in Paragraph 6, Item 4 of this Article should be measures and should facilitate the possibility of monitoring the bank asset quality trends, also including the quality of off-balance sheet exposures.
- (14) In the recovery plan, the bank shall explain the selection of indicators within each category, as well as their limit values, and shall test the justification of usage of selected indicators and their determined limit values in the procedure of regular updating of the recovery plan, in accordance with Article 101, Paragraph 4 of the Banking Law of Republika Srpska.
- (15) The bank shall deliver to the Agency its overview of indicators for each category, as an integral part of the recovery plan (Attachment 1).

Monitoring of indicators in recovery plan

Article 7

- (1) The bank shall establish an appropriate information system management, which should enable regular monitoring of indicators from the recovery plan, in order to timely undertake appropriate recovery measures, and define, by means of internal enactments, dynamics, manner of monitoring and reporting thereof.
- (2) If the bank, by means of regular monitoring of selected indicators, ascertains that they have reached limit value determined for undertaking measures from the recovery plan, the bank management board shall within maximum five working days issue a decision on undertaking or restraining from undertaking recovery measures from the recovery plan, and inform the Agency thereof without delay. If the bank issued the decision on restraining from undertaking measures from the recovery plan, it shall elaborate such decision in detail.
- (3) The governing bodies may issue the decision on undertaking measures from the recovery plan despite the fact that determined indicators failed to reach limit values envisaged for undertaking measures, and the bank management shall inform the Agency about such decision without delay.

Strategic analysis

Article 8

- (1) In the strategic analysis, the bank shall determine critical functions, key business activities, and relationship of the bank, i.e. the banking group with persons within the group or third persons, describe key steps for maintaining such business activities and critical functions, and based on that determine different options (possibilities for recovery), determine activities and measures that would have been used within each of options in case of a significant deterioration of the bank financial condition, especially when the bank is recapitalized in order to re-establish sustainable operations and appropriate financial position of the bank

- (2) Critical functions and key business activities must be determined in detail, such as deposit activities with retail, deposit activities with legal entities, lending activities with retail, lending activities with legal entities, payment transactions, electronic banking, securities operations and similar.
- (3) When determining whether some of the functions is critical, the bank shall at least analyze the following:
 - 1) impact of termination of provision of a certain service on third parties and financial system as a whole,
 - 2) market of subject service at least from the aspect of concentration at that market and
 - 3) possibility that provision of such service may be taken over in a reasonable time by another service provider, in the scope, quality and with an acceptable costs for the bank client, and that is not contrary to the Banking Law of Republika Srpska.
- (4) Strategic analysis must include the following:
 - 1) information on the bank's and group members' operations, i.e. the banking group as a whole,
 - 2) options (possibilities) and measures of recovery which would have been applied within every of determined options.

Information on operations of the bank and the banking group

Article 9

- (1) Information on operations of the bank, i.e. the banking group shall contain the following:
 - 1) description of organizational structure of the bank, i.e. the banking group, with organizational scheme of the bank, i.e. the banking group,
 - 2) description of business activities of the bank shall at least contain:
 1. brief description of business strategy and risk management strategy of the bank,
 2. description of business model and planned activities of the bank,
 3. description of critical functions of the bank, stating reasons for determining certain activities, services or products and other activities as critical functions or explanations why the bank determined that there are no critical functions,
 4. description of key business activities,
 5. description of processes and methods the bank applied when analyzing and determining critical functions and key business activities,
 6. information on allocation of critical functions and key business activities within the bank,
 7. description of activities and systems in the bank necessary for continued performance of operational activities of the bank,
 - 3) description of economic, legal, organizational, financial and operational connectedness of the bank and other legal entities within the banking group, if the bank is a member of such group, which shall refer at least to:
 1. significant exposures and flows of capital and other forms of funding within the banking group, existing issued guarantees within the group, as well as guarantees whose contracting is envisaged by the banking group recovery plan, when necessary,
 2. legally binding contracts and other agreements concluded within the banking group,
 3. manner in which group members are operationally connected so that the functions significant for the group as a whole or for the bank or other members of the group may be centralized at the bank or at one of other group members,

4. agreements on financial support within the group, stating their relevant details (name of group members signatories of the agreement, purpose and conditions under which financial support is provided and other).
- 4) description of connectedness with third parties (external connectedness) shall include the following information:
1. on significant exposures and obligations of the bank towards one person or a group of related persons (contractual parties),
 2. on significant products and services which the bank (or group member, if included in the recovery plan) provide to other participants at the financial market (e.g. providing inter-banking loans, syndicated loan arrangement, custody services, agent services and similar),
 3. on infrastructure of the financial market the bank uses directly or indirectly (e.g. payment transaction systems and similar systems) and
 4. on significant services provided to the bank by third parties.
- (2) The bank shall deliver to the Agency an overview of its critical functions and key business activities as an integral part of the recovery plan (Attachment 2 and 3).

Recovery options (possibilities)

Article 10

- (1) The recovery plan must contain a wide selection of recovery options which the bank shall apply as a response to the situation of significant deterioration of the bank's financial conditions, and they should be as such that it can be expected that their application shall enable the bank to re-establish sustainable operations and appropriate financial condition.
- (2) Recovery options must be determined and described in a manner which facilitates the assessment of effects and feasibility of each recovery option.
- (3) Recovery options should include regular measures which are usual in operations of the bank or member of the banking group covered by the recovery plan, and contingency measures. Certain measure from the recovery options may envisage changes in operations of the bank or member of the banking group, and in that case such fact cannot be a reason for its exclusion from the recovery options.
- (4) The recovery plan shall also include recovery measures the bank shall undertake in case that the Agency imposed towards the bank one or more early intervention measures, in accordance with Article 202 of the Banking Law of Republika Srpska, when the bank cannot assume the use of extraordinary public financial support from budget or other public funds as a recovery option.

Recovery option content

Article 11

- (1) In the recovery options, as a part of the recovery plan, the bank shall list all options with their detailed description and analysis of each option, and determine at which level of limit value of selected indicator the consideration of undertaking each option is planned.

- (2) Recovery options must contain overview and description of planned activities, measures, strategies or agreements, which relate to:
 - 1) activities and measures related to capital whose undertaking is necessary in order to preserve or re-establish sustainable operations and financial condition of the bank, and whose objective is to ensure sustainability of critical functions and key business activities, including recovery measures and activities in order to maintain or re-establish required level of regulatory capital of the bank by means of recapitalization or internal measures of increase of regulatory capital, including conversion of appropriate capital items into shares, in order to improve the bank capital position,
 - 2) activities, agreements and measures from the area of liquidity, which shall ensure access to funding sources in case of occurrence of contingency (crisis), in order to ensure continuity in performing business activities and settlement of matured obligations, whereas the stated measures must include potential liquidity sources, assessment of available collateral and assessment of possibility of redistribution of liquid funds within the group and/or between individual business activities,
 - 3) demonstration of the manner in which the bank could separate critical functions and key business activities from other activities, to the extent necessary,
 - 4) activities and measures directed to mitigation of risk or indebtedness or to the change of business activities and services of the bank, and according to that, analysis of possible sale of bank asset and share in legal entities, i.e. sale or assignment of the bank business activities,
 - 5) measures which imply changes of the members of governing bodies and other managerial persons in the bank, changes in distribution of duties and responsibilities of the bank employees, and closing of one or more bank organizational units,
 - 6) activities and measures whose goal is voluntarily resolution of the bank obligations, where the same would not lead to the onset of default status or contract termination or deterioration of bank's rating or similar,
 - 7) other measures and activities whose objective is to preserve or re-establish sustainable regular operations and stability of the bank's financial condition.
- (3) When drafting the recovery plan, the bank may exclude certain activities and measures stated in Items 1-7 of Paragraph 2 of this Article, but shall be obliged to explain in detail their exclusion.

**Assessment of effect and feasibility of
each recovery option**

Article 12

- (1) Each recovery option must contain the assessment of effect of each individual activity and measure, which includes the following:
 - 1) assessment of financial and operational effects, stating expected effect on capital, liquidity, funding sources, profitability and business activities of the bank,
 - 2) assessment of external effects and systemic consequences of application of certain recovery option, stating expected impact on the bank critical functions, bank shareholders, clients and counterparties, as well as on the remaining of the banking group, if the bank is its part,
 - 3) assumptions for valuation and all other assumptions necessary for the assessments stated in Items 1 and 2 of this Paragraph, also including the assumption of assets marketability and behavior of other participants at financial market,

- 4) analysis of application of recovery option for employees, including analysis of costs which may arise by application of certain activities and measures within each option.
- (2) Assessment of effects referred to in Items 1-3 of Paragraph 1 of this Article shall include detailed description of procedures for determining market value of critical functions and marketability of key business activities, operations, as well as the bank assets.
- (3) Recovery options must contain assessment of possibility of feasibility of each individual recovery option, which shall include the following:
 - 1) assessment of risk in relation to the possibility of application of recovery option based on previous bank experience or other participant at the market in implementation of the same or other similar measures,
 - 2) detailed analysis and description of possible significant obstacles for efficient and timely implementation of the recovery plan, and description of manner in which such obstacles can be eliminated,
 - 3) analysis of possible obstacles for efficient and timely implementation of the recovery plan if such activities are planned by the recovery option or other significant obstacles which may have a negative effect on timely implementation of the recovery option, such as in particular legal, financial, operational and reputation risks. After the analysis and description of possible significant obstacles, the bank shall provide description of manner in which stated obstacles can be eliminated,
 - 4) description of procedure for ensuring continuity of business operations in case of application of each individual recovery option, which shall include the analysis of:
 1. existing operational activities of the bank (e.g. information system, relations with suppliers, activities on human resource management and similar),
 2. bank's access to market infrastructure (e.g. access to clearing system, payment transaction system and similar), and description of measures and agreements necessary to implement in order to ensure maintenance of unhindered access to required infrastructure of financial market and systems,
 3. all agreements, measures and activities necessary for maintaining constant functioning of operational processes of the bank in continuity, including infrastructure and informational support of the bank or member of the banking group covered by the recovery plan.
 - 5) assessment of deadlines for implementation of each recovery option and time needed for that option to produce an effect,
 - 6) assessment of efficiency of recovery options and adequacy of indicators in selected scenarios of severe financial disturbance, whereas it must be determined which of the recovery options is adequate for particular scenario, possible effect of individual recovery options, i.e. consequences of individual recovery option, their feasibility, and possible significant obstacles and deadline for implementation of recovery options.
- (4) The bank shall deliver to the Agency an overview of recovery options as an integral part of the recovery plan (Attachment 4).

Recovery plan testing

Article 13

- (1) In the recovery plan, the bank shall draft a number of stress scenarios of severe financial disturbance in various hypothetical situations based on which it will test the possibility and effects of the recovery plan implementation.
- (2) Type, scope and complexity of operations the bank performs shall determine the type and the number of scenarios, whereas a systemically important bank shall be obliged to use at least three scenarios of severe financial disturbance, i.e. at least one scenario for each of the below stated types of events, that is:
 - 1) systemic event for which there is a risk that the same shall cause severe negative

consequences for financial system and/or real sector, including termination of operations of the counterparty which would influence the financial stability of the country, decrease of available liquidity, increased country risk and outflow of capital from the country in which a significant portion of the bank's exposure is located, unfavorable trends in real estate prices and other forms of assets at the market and macroeconomic crisis,

- 2) event which relates to the bank, and which could have severe negative consequences for the bank or the banking group, including termination of operations of the counterparty significant for the bank, significant outflow of the bank liquid funds, significant losses per bank's placements and/or per operational risk, damaged reputation of the bank or the banking group and unfavorable trends in real estate prices and other forms of assets at one market or more markets to which the bank is exposed to a larger extent and
 - 3) combination of events referred to in Items 1 and 2 of this Paragraph, which happen simultaneously and affect each other.
- (3) Non systemically important bank may use one scenario which covers several events referred to in Paragraph 2, Items 1 and 2 of this Article, specific for that bank of the banking group.
 - (4) Spectrum of scenarios for bank testing should also include slow developing and rapid developing events.
 - (5) The bank may exempt some of the events referred to in Items 1 and 2, Paragraph 2 of this Article, if after conducted analysis it determines that some of these events are not applicable to the bank, whereas the bank shall be obliged to explain in detail such exemption from the recovery plan.
 - (6) The bank shall be obliged to, at least on an annual basis, conduct stress testing and together with the recovery plan, deliver to the Agency an overview of scenarios for recovery option testing, as its integral part (Attachment 5).

Requirements for stress scenarios

Article 14

- (1) Each individual scenario for recovery plan testing must meet the following requirements:
 - 1) should be based on events that are the most significant for the bank or the banking group, particularly taking into account the business model and funding model of the bank, business activity, size, structure and relatedness of the bank with other participants in the financial system, and particularly identified deficiencies and weaknesses in the operations of the bank or the banking group,
 - 2) events envisaged in the scenario must be as such that they can cause termination of the bank's operations if measures from the recovery plan (recovery options) are not timely applied and
 - 3) that the scenario is based on extraordinary, contingency events, whose occurrence is possible.
- (2) In every stress scenario, the bank shall, to the extent applicable, include the assessment of effects of events envisaged by that scenario on each of the following aspects of the operations of the bank or the banking group: available capital, available liquidity, risk profile, profitability, unhindered performance of activities related to the participation in payment transaction systems and securities settlement systems and bank reputation.

- (3) When drafting stress scenarios which would lead to the situation that the bank business model is not sustainable without successful application of measures from the recovery plan, the bank shall consider the possibility of development and application of scenarios based on reverse stress testing, which implies initial assumption that the financial condition of the bank is such that it can be soon expected the onset of default status in terms of the bank's obligations, after which causes that lead to such condition are being determined.

Plan of communication and informing

Article 15

- (1) Plan of communication and informing, as an integral part of the recovery plan, must contain detailed plan of internal and external communication in case of implementation of the recovery plan, which shall at least define the following:
 - 1) internal communication, i.e. the plan of informing within the bank on recovery plan implementation, which in particular shall contain informing members of the bank management, the bank supervisory board, heads of the bank organizational units, employees' representative (union or similar) and other, as well as the plan of communication with them,
 - 2) external communication, i.e. the plan of informing third parties on recovery plan implementation, that is shareholders and other investors, competent institutions, counterparties, deponents, investors and public in general and
 - 3) proposals for efficient prevention, i.e. for mitigating all consequences of possible negative market reactions.
- (2) The recovery plan shall also contain analysis of manner in which the plan of communication referred to in Paragraph 1 of this Article would be applied in case of implementation of one or more activities and measures from the recovery plan, whereas special communication needs and circumstances related to the application of certain recovery option must also be envisaged.

Preparation measures

Article 16

- (1) The recovery plan shall contain the analysis of preparation measures which the bank or the banking group covered by the recovery plan undertook or should undertake for the purpose of easier implementation of the recovery plan or improvement of its efficiency and effectiveness.
- (2) Preparation measures referred to in Paragraph 1 of this Article shall include all activities necessary for overcoming and eliminating obstacles identified in the recovery plan, and for efficient application of recovery options.
- (3) Deadline for implementation of preparation measures shall also be defined by the recovery plan.

Drafting, adopting and auditing the recovery plan

Article 17

- (1) Risk management function:
 - 1) coordinate recovery plan drafting,
 - 2) monitor indicators and report to the bank management on indicator values determined by the recovery plan,
 - 3) draft test scenarios and conduct recovery plan stress testing and
 - 4) report to the bank management on the process of drafting, necessary updating and implementing the recovery plan, and on the recovery plan stress testing results.
- (2) The bank shall be obliged to ensure that persons responsible for recovery plan drafting are not simultaneously in charge of implementing the procedure of recovery plan stress testing.

- (3) The bank internal audit shall conduct assessment of the recovery plan, and procedures of drafting, adopting and monitoring of implementation and the effects of recovery plan application, about which it will inform the bank management and supervisory board.

Banking group recovery plan

Article 18

- (1) Parent bank of the banking group, which the Agency supervises on a consolidated basis in accordance with Article 181, Paragraph 3 and Article 215 of the Banking Law of Republika Srpska, shall draft and deliver to the Agency for approval the banking group recovery plan, which shall define recovery measures in order to achieve stability and re-establish appropriate financial condition at the level of the banking group as a whole and each individual member of that group, taking into account financial position of other members of the same group.
- (2) The banking group recovery plan shall contain measures and activities whose implementation is required at the level of the banking group as a whole, especially parent company and each individual member of that group, as well as the manner by means of which coordination and consistency in implementation of measures and activities determined by the recovery plan are ensured. The provisions of this Decision shall also be applied to the content of the banking group recovery plan.
- (3) Recovery plan of the banking group with parent company shall be delivered to the Agency by the bank in accordance with Article 105, Paragraph 3 of the Banking Law of Republika Srpska.

Deadlines and manner of delivering the recovery plan

Article 19

- (1) According to Article 101, Paragraph 4, Items 1-3 of the Banking Law of Republika Srpska, the recovery plan which is regularly updated on an annual basis, as well as the recovery plan that has been updated due to any significant change in legal or organizational structure of the bank, changes in the bank's operations or changes of its financial position, as well as in case of other changes which influence the content of recovery plan and possibility of its application, the bank shall deliver to the Agency without delay, immediately after it has been adopted by the bank supervisory board .
- (2) The recovery plan that has been updated on the Agency's request in accordance with Article 101, Paragraph 4, Item 4 of the Banking Law of Republika Srpska, the bank shall deliver to the Agency within the deadline defined by the Agency's request.
- (3) The bank shall deliver the recovery plan to the Agency in electronic and hard copy form no later than September 30th of the current year, accompanied with the decision of the supervisory board on adopting, i.e. updating of the same.

Recovery plan assessment

Article 20

- (1) The Agency shall within six months from the day of recovery plan deliverance assess whether the bank recovery plan meets requirements stipulated by Article 102 of the Banking Law of Republika Srpska and this Decision, in a manner it is regulated by Article 103 of the Banking Law of Republika Srpska.
- (2) In case delivered recovery plan contains significant deficiencies or obstacles for plan implementation, the Agency shall inform the bank on its assessment and order the bank to deliver revised recovery plan, which shall demonstrate in which manner such deficiencies and obstacles will be resolved in a reasonable timeframe.
- (3) In case the bank fails to deliver revised plan or in case the Agency determines that by revised recovery plan deficiencies and obstacles determined by initial assessment are not adequately eliminated, the Agency may impose to the bank appropriate supervisory measures, and if necessary, request from the bank implementation of measures in accordance with Article 103,

Paragraph 5, Items 1-6 of the Banking Law of Republika Srpska.

- (4) When assessing the banking group recovery plan, the Agency shall assess the following:
- 1) to which extent that plan contributes to the achievement of stability at the level of the banking group as a whole and each its individual member, whereby special attention shall be dedicated to the following:
 1. by applying recovery options at the group level whether there is a possibility to re-establish appropriate financial position of the group member without endangering financial position of the group as a whole,
 2. whether applying certain recovery option would enable regular operations of the group and its members,
 3. in the banking group recovery plan, to which extent various managerial structures of individual members of that group and possible legal obstacles for its application were taken into account,
 4. to which extent the banking group recovery plan contains solutions for eliminating obstacles determined based on stress testing of this plan, and if such obstacles cannot be eliminated, whether alternative measures aimed at achieving the objective are envisaged and
 5. to which extent by means of the banking group recovery plan realistic or legal obstacles from transfer of capital or settlement of obligations are being eliminated, whether alternative measures aimed at achieving the objective are envisaged.
- (5) When assessing the banking group recovery plan, the Agency shall take into account the type and scope of operations group members perform, as well as their relatedness with other companies, i.e. groups, and the significance of the group for the banking system as a whole, as well as the impact on other participants at the financial market.

Final provisions

Article 21

- (1) The first recovery plan in accordance with this Decision the bank shall deliver to the Agency no later than six months from the date of this Decision coming into force, and with initial financial data as of 31/12/2017.
- (2) Attachments from this Decision shall represent its integral part, that is: overview of recovery plan indicators, overview of bank critical functions, overview of bank key business activities, overview of bank recovery options and overview of used scenarios.
- (3) This Decision shall come into force on the 8th day from the date of its publication in the Official Gazette of Republika Srpska.

Number: UO-329/17

Date: 11 December, 2017

PRESIDENT OF THE
MANAGEMENT
BOARD
Mira Bjelac

Indicators in recovery plan

Indicator name *	Indicator limit value**	Level of activation of recovery plan options**
1. Capital indicators		
1.1. Regulatory capital ratio		
1.2. CET1 ratio		
1.3. Leverage ratio		
2. Liquidity indicators		
2.1. Maturity mismatch of financial assets and liabilities up to 30 days		
2.2. Maturity mismatch of financial assets and liabilities up to 90 days		
2.3. Maturity mismatch of financial assets and liabilities up to 180 days		
2.4. Liquidity coverage ratio (LCR)		
2.5. Net stable funding ratio (NSFR)		
3. Profitability indicators		
3.1. Asset profitability (ROA)		
3.2. Capital (equity) profitability (ROE)		
3.3. Significant losses under operational risk		
4. Asset quality indicators		
4.1. Share of non-performing loans (NPL) in total loans		
4.2. NPL growth rate		
4.3. NPL provisioning		
5. Macroeconomic indicators ***		
5.1. according to Article 6, Paragraph 7 of the Decision		
6. Market indicators ***		
6.1. according to Article 6, Paragraph 7 of the Decision		

* The bank shall add rows for additional recovery plan indicators that it determined by the recovery plan, and which are not listed in this Table.

** If the bank determined more limit values of indicators for activation of different options, it shall list each of these levels for activation of different options, and shall mark the level at which the first option is activated.

*** If the bank, in the recovery plan, in detail explains that macroeconomic and/or market indicators are not relevant for the bank, i.e. are not applicable, in the column “level of activation of recovery plan options” it shall write a note “not applicable” (Article 6, Paragraph 7 of the Decision on recovery plans of a bank and a banking group).

Overview of bank's critical functions

Bank's critical function	Does the termination of providing this function has influence on third parties and financial system as a whole?	Impact of the bank or the banking group on market (market concentration)	Is there a possibility of unhindered assuming of adequate performance of the function by another entity?	Is the function critical? *	Critical services for providing critical functions

* List reasons for identification of the function as critical.

Overview of bank's key business activities

Key business activities	Explanation why business activity is deemed as key

Overview of scenarios for testing options for bank recovery

Scenario name	Scenario type			Fast/slowly developing events	Shock and their parameters	Application of reverse stress testing	Indicator value after applied shock	Options applied in scenario	Indicator value after applied option
	Based on systemic events	Based on events specific for the bank	Based on combination of systemic and specific events						