BANKING AGENCY OF
REPUBLIKA SRPSKA
BANJA LUKA

EXPECTATIONS FOR BANKS IN RESOLUTION PLANNING

- GUIDELINES -

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Pursuant to Article 22, Paragraph 1, Item f) of the Law on the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 59/13 and 4/17), Article 22, Paragraph 4, Item m) of the Statute of the Banking Agency of Republika Srpska ("Official Gazette of Republika Srpska", No.: 63/17), and Articles 224 and 225 of the Banking Law of Republika Srpska ("Official Gazette of Republika Srpska", No.: 4/17, 19/18 and 54/19), the Director of the Banking Agency of Republika Srpska issued

EXPECTATIONS FOR BANKS IN RESOLUTION PLANNING
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1. INTRODUCTION

The Banking Law of Republika Srpska (hereinafter: the Law), which entered into force in 2017, introduced new measures to address operational issues within the banking system; consequently, the Banking Agency of Republika Srpska (hereinafter: the Agency) was assigned new tasks and competencies. The Agency's mandate is to restructure any individual bank facing difficulties in a manner that minimizes the impact on the real economy and the financial stability of Republika Srpska.

The Agency plays a proactive role in bank resolution. The Agency prepares and develops bank resolution plans prior to the onset of a crisis, thereby enhancing the feasibility of resolution and aiming to prevent the potential adverse effects of a bank failure on the economy and the financial system.

1.1. The role of the Agency and banks in resolution planning

1.1.1. The role of the Agency

The Agency is the competent institution for bank resolution,[1] meaning it possesses the legal authority to address the situation of a bank determined to be failing or likely to fail. There are two possible outcomes for resolving such a situation: (1) initiating standard bank liquidation or bankruptcy proceedings, or (2) initiating bank resolution proceedings.

In order to make a well-founded and objective decision on whether to initiate (1) liquidation or bankruptcy proceedings or (2) resolution proceedings over a bank, the Agency first assesses the feasibility and credibility of carrying out liquidation or bankruptcy. Thus, if a bank encounters difficulties and prior measures, whether undertaken by the bank itself or the private sector, including measures by the Supervision Unit, fail to stabilize its operations, liquidation or bankruptcy becomes the primary option, with resolution considered only thereafter.

The criteria and conditions that must be met to reach a well-founded and objective decision on whether to initiate (1) liquidation or bankruptcy proceedings or (2) resolution proceedings over a bank are stipulated by the Law[2] and by-laws. The assessment of these stipulated criteria involves (1) assessing the feasibility and credibility of liquidating or bankruptcy of a bank (2) assessing the public interest, and these assessments are conducted during the resolution planning process.

It should be emphasized that the aforementioned assessments are not carried out at the point when the bank's condition is such that it is failing or likely to fail; rather, all necessary procedures are performed during the drafting or updating of the resolution plan.

When the assessment determines that initiating liquidation or bankruptcy proceedings over a bank is neither credible nor feasible, the resolution planning process establishes a resolution strategy to be applied to the bank, the one that best achieves the stipulated resolution objectives while minimizing the adverse effects on the real economy and the financial system.

When selecting a resolution strategy for an individual bank, the Agency shall assess the resolvability[3], i.e. the feasibility of implementing the selected resolution strategy for a specific bank and whether any

[1] Banking Law of Republika Srpska, Article 221, Paragraph 1.
[2] Banking Law of Republika Srpska, Article 227.
[3] The possibility of a bank resolution is referred to in English professional jargon as "resolvability".

impediments to such implementation exist. If significant impediments to the bank's resolution are identified, the Agency has the legal authority to mandate the bank to undertake measures to eliminate thereof.[4] Consequently, the Agency plays a proactive role in bank resolution, since through the resolution planning process, the Agency develops potential bank resolution scenarios in advance and undertakes all actions within its power and jurisdiction to ensure the bank can be restructured in accordance with the selected strategy.

1.1.2. The role of banks in achieving resolvability

Although in bank resolution the Agency plays a leading role derived from the legal framework, it is a misconception that achieving resolvability (i.e., a bank's readiness for successful resolution) is solely the Agency's task and responsibility, while banks serve merely as passive subjects without any role or accountability. On the contrary, banks themselves play a significant role in achieving their own resolvability, and this obligation stems from the statutory requirement[5] that a bank shall be obliged, upon the Agency's request, to provide all necessary assistance and submit the information and data required for drafting and updating the resolution plan, as well as immediately notify the Agency of any changes to such data.

When drafting or updating a resolution plan, the Agency assesses the extent to which a bank can be resolved, and in this process, it focuses, *inter alia*, on potential impediments regarding the planned resolution strategy. Upon completion of the drafting or updating resolution plan, the Agency provides the bank with a summary of the resolution plan key elements[6], ensuring that each bank is informed of the resolution strategy envisaged for it, as well as the planned resolution scheme and resolution tools to be applied, should it be determined that the bank is failing or likely to fail. Therefore, banks are expected to play an active role in identifying and eliminating impediments within the planned resolution strategy, as well as to engage in active coordination and communication with the Agency, since this represents the most effective way to ensure the resolvability, that is, to ensure the bank is prepared for a successful resolution process. It is the Agency’s task to determine how identified impediments to a bank resolution can be overcome and to reiterate that the Agency is not the sole participant in this process, but the banks themselves are also expected to play an active part.

1.2. Purpose, scope, and structure of this document

This document serves as a guide to the activities banks should undertake to ensure readiness for a potential crisis situation and to facilitate the resolvability. These activities must be carried out during the resolution planning phase, that is, while the bank is operating normally.

Achieving resolvability is an interactive process between the Agency and the banks. Banks themselves are best positioned to ensure adequate preparation for their own resolvability, therefore the Agency expects banks to work continuously towards achieving resolvability in line with the preferred resolution strategy and instruments outlined in the resolution plan of the bank or banking group.

The Agency shall support and guide banks in achieving resolvability through the following activities: (a) publishing the document **„Expectations for banks in resolution planning – guidelines“**, (b) publishing additional operational instructions and guidelines to banks, as needed; and (c) collaborating with banks on an individual basis.

The Agency’s expectations outlined in this document represent the required steps and procedures that banks must undertake and implement within the specified timeframes to facilitate the execution of a potential resolution process. These activities are general in nature, and their implementation will vary from bank to bank, in accordance with the principle of proportionality and communication with the Agency. This means that the Agency may request additional information, data, and analyses regarding specific areas of operations, even if not explicitly covered by this document, where it is necessary to ensure the resolvability of a specific bank as part of resolution planning. In light of the principle of proportionality, the Agency may decide not to apply all the stated expectations in full to a particular bank, if it concludes that doing so is appropriate and proportionate to that bank's specific characteristics.

[4] Banking Law, Article 228.
[5] Banking Law of Republika Srpska, Article 225, Paragraph 1.
[6] Banking Law of Republika Srpska, Article 224, Paragraph 4.

The Agency will amend or supplement this document as necessary, or issue additional instructions and guidelines for its implementation, which banks should take into account when meeting these expectations.

This document is structured around areas, principles, and expectations. Areas (first level) represent business activities under normal operating conditions where banks must undertake specific steps to ensure that a resolution process can be carried out. Each area comprises specific principles derived from the regulatory framework (second level), which in practice translate into a set of expectations (third level). Consequently, the detailed activities banks must implement to enable resolution over them are referred to as the *Expectations for banks* (hereinafter: expectations).

Any provision applicable to a bank also applies to a banking group, even if not explicitly stated.

1.3. Resolution phases

Bank resolution consists of two phases: (1) the resolution planning phase and (2) the crisis management phase. To better understand the purpose of each phase, viewed in the context of the aforementioned expectations, a brief overview of the activities within each phase is provided below.

Banks are well-acquainted with the resolution planning phase through their ongoing interactive work on developing and updating resolution plans. The crisis management phase encompasses activities such as enhanced monitoring of a bank identified as failing or likely to fail, the drafting of decisions required to initiate the resolution process, and the monitoring of their implementation. This phase is further subdivided into three phases: (a) preparation for initiating the resolution process, (b) the "resolution weekend" and implementation of the resolution strategy, and (c) the closing of the resolution.

1.3.1. Resolution planning

Resolution planning (drafting and updating of resolution plans) encompasses:

- Analysis of the legal, operational, and financial structures of banks;
- Identification of critical functions and core services;
- Analysis of capital and funding structures;
- Selection of resolution strategies, including the selection of resolution tools, as well as the determination of the minimum requirement for own funds and eligible liabilities (MREL) that banks must maintain.

Additionally, the resolution planning phase includes an assessment of the extent to which a bank is resolvable and the bank's overall readiness for the implementation of a resolution strategy. This involves identifying potential impediments to resolution and, where necessary, developing an action plan to address the identified impediments. In any case, a necessary condition for successful resolution planning is the accurate and timely provision of all required information and data to the Agency.

1.3.2. Preparation for the initiation of resolution proceedings

During this phase, which covers the period immediately preceding the decision to initiate resolution proceedings, the Agency prepares for the adoption of an adequate resolution scheme. In this phase, valuation of the bank's assets and liabilities[7] (for a bank that is failing or likely to fail) must be conducted, specifically:

- to determine whether the conditions for bank resolution or the conditions for write-down and conversion have been met (so-called Valuation 1);
- to enable a decision on the selection of the appropriate resolution tool and scheme, i.e. write-down or conversion, and to ensure that all of the bank's losses are fully reported in its business books and financial statements (so-called Valuation 2).

The capability of banks' management information systems is a key factor in ensuring the availability of accurate and timely information and data in an acceptable format to enable the performance of Valuations 1 and 2. Banks are expected to demonstrate the capabilities of their management information systems in accordance with the Agency's instructions and guidelines.

1.3.3. "Resolution weekend" and implementation of resolution scheme

The "resolution weekend" begins the moment the decision to initiate resolution proceedings is issued and lasts until the next business day, when markets open. Since this period coincides with the weekend[8], the decision to initiate resolution proceedings is typically issued on Friday and remains in effect until Monday morning, when markets open (marking the start of the bank's standard operations). This period encompasses all processes necessary to implement the resolution tools.

Depending on the resolution instrument(s) applied, the business operation restructuring phase follows this stage.

1.3.4. Closing of resolution

Following the application of resolution scheme(s) and tool(s), the Agency must ensure that an independent valuation of assets and liabilities is carried out to determine whether the bank's shareholders and creditors would have been better off had insolvency proceedings been initiated against the bank instead of resolution proceedings (so-called Valuation 3).

2. SEVEN KEY AREAS FOR THE RESOLUTION PLANNING PROCESS

The areas of the bank that are key to the resolution planning process are:

- Governance;
- Loss-absorbing and recapitalization capacity;
- Liquidity and funding in resolution;
- Operational continuity and continuity of access to financial market infrastructures;
- Information systems and data requirements;
- Communication and
- Separability and restructuring.

2.1. GOVERNANCE

The objective in this area is for banks to establish robust governance processes that adequately support the developing and implementation of a resolution strategy. A bank's robust governance system should ensure:

- timely and accurate provision of all necessary information on a regular and ad hoc basis;

[7] In accordance with Article 232 of the Banking Law of Republika Srpska and the Decision on the conditions and method of conducting an independent valuation of bank's assets and liabilities prior to and during the bank resolution process.

[8] In fact, the implementation of resolution scheme can be carried out on any day, for instance, from Wednesday to Thursday, but since that leaves less time to execute the scheme, it is usually done over the weekend.

- effective oversight of resolution planning processes, including in crisis situations, and
- an effective decision-making process during the bank's resolution.

The efficient and timely developing and implementation of a resolution strategy require the existence of adequate bank management systems and procedures to facilitate the making of suitable and necessary decisions. To this end, management positions should be adequately staffed to support resolution planning, and management systems and structures should ensure both the making of necessary decisions and effective oversight. This entails defining and allocating responsibilities among organizational units and the bank's senior management, including the bank management board. The bank should designate a responsible member of the management board to oversee and be accountable for resolution, including ensuring the bank's compliance with requirements arising from the resolution planning process. Furthermore, the responsible management board member is tasked with integrating resolution planning into the bank's overall management processes. The bank must ensure that the management board and senior management exercise appropriate oversight over the individuals responsible for implementing the principles outlined in this document.

In addition to the developing and implementation of the resolution strategy, the bank must ensure appropriate governance during the implementation of that strategy. This applies in particular to the establishment of appropriate procedures and controls to ensure the regular updating of the bank's valuations in the event of material changes and/or indications that existing valuations are no longer accurate.

2.1.1. Principles

[Principle 1.1] Active involvement of management board and senior management

The bank's management board and senior management should ensure all necessary support for achieving resolution objectives and operationalizing the bank's resolution strategy.

The bank's management board should be actively involved in the resolution planning process. Banks are expected to appoint a designated member of the management board, as well as a member of senior management with relevant experience, to manage all activities related to resolution planning.

The duties and responsibilities of the designated management board member and the senior management member are outlined in the following overview:

Responsible management board member	Senior management member
- Shall be responsible for providing all information and data required for the developing/updating of the resolution plan, which includes responsibility for the bank staff in charge of resolution activities.	- Coordinates and manages all bank-level resolution planning activities (unless this is performed by the responsible management board member).
- Should ensure the bank's compliance with all requirements during resolution planning.	- Acts as the contact persons with the Agency regarding bank resolution.
- Should ensure that resolution planning is integrated into all of the bank's management processes.	- Should ensure that there is no parallel or inconsistent communication with the Agency.
- Propose the composition of relevant bank bodies (committees, etc.) or the establishment of new ones, to enable the bank to adequately support resolution planning.	- Coordinates the operationalization of the resolution strategy (preparing and testing all necessary steps for the potential implementation of the resolution strategy during the resolution planning process) and participates in all tests assessing the bank's operational readiness.
- Sign all submissions to the Agency or establish appropriate arrangements for the delegation of authority top-bottom, in accordance with the bank's internal control systems, policies, and general acts (e.g., the submission of stipulated data and information for the developing/updating of the resolution plan).	

- Regularly informs other members of the management and supervisory board about the progress of activities related to resolution planning, as well as about options for the bank's resolution. This must be documented in the minutes of the management and supervisory board meetings.

- Should ensure appropriate resources and personnel for resolution activities.

- Proposes individuals at senior executive levels who will be responsible for leading and/or coordinating activities related to resolution planning.

[Principle 1.2] Governance for resolution activities

Governance processes and arrangements should ensure that resolution planning is integrated into the bank's overall governance system and supports the developing and implementation of the resolution strategy.

Banks are expected to:

- ensure adequate staffing for all positions governing the resolution process, so that all necessary decisions can be made in a timely manner, before, during, and after the implementation of the bank's resolution;
- establish clear lines of responsibility, including reporting channels and escalation procedures bottom-up to the bank's management body. Also they should ensure clear approval processes, and all of this must be covered and documented in the bank's relevant policies and general acts;
- ensure that, when making strategic decisions, the impact of such decisions on the bank's resolvability is taken into account (e.g., mergers and acquisitions, status and organizational changes, IT changes, the use of intra-group guarantees, etc.);
- inform the Agency in a timely manner of all planned material changes, such as changes to the business model, bank structure, operating systems (e.g., IT infrastructure changes) and governance arrangements, that could affect resolution planning activities, the implementation of the preferred resolution strategy, or the bank's resolvability;
- ensure an efficient flow of information regarding resolution between the management board, senior management, and other relevant personnel in order to fulfill obligations prior to, potentially during, and after the implementation of resolution and
- ensure that intragroup service providers have their own governance structure, clearly defined reporting lines, and contingency plans, so that services can continue to be provided even during a potential resolution process. The provision of intragroup services must not receive any preferential treatment in the event of the failure or resolution of any group member.

[Principle 1.3] Assurance of the accuracy of information and data submitted to the Agency and their review by internal audit

Banks should establish processes to verify the accuracy and completeness of the information and data submitted to the Agency for resolution planning purposes. Furthermore, internal audit should continuously review such information and data.

Banks are expected to:

- establish processes to verify the accuracy and completeness of all information and data relating to resolution;
- have arrangements in place to ensure the completeness and accuracy of data;
- ensure that all information and arrangements related to resolution are subject to ongoing review by internal audit (resolution planning activities should be an integral part of the internal audit annual work plan);

- ensure that the audit committee monitors the effectiveness of internal control systems regarding the accuracy and completeness of the bank's data and information used for resolution purposes, and that the committee receives and reviews the relevant reports;
- ensure that the audit committee or another bank body periodically reviews these arrangement.

[Principle 1.4] Strategy testing and operationalization

Banks should describe all operational aspects of the resolution strategy in their procedures, including the accompanying roles, responsibilities, and escalation procedures, and regularly test and assess these aspects.

As the operational aspects of the resolution strategy depend on the resolution instrument(s) to be employed, banks are expected to demonstrate testing and operationalization capabilities in accordance with the principles set out below, as well as any additional requirements of the Agency.

2.2. LOSS-ABSORBING AND RECAPITALIZATION CAPACITY

Banks must maintain an appropriate level of capital and eligible liabilities to enable them to absorb operating losses or, where applicable, undergo recapitalization in order to restore their regulatory capital adequacy ratio to a level that ensures continued, uninterrupted operations, maintains sufficient market confidence in the bank, and guarantees the continuity of critical functions during and after the resolution process.

The Law[9] defines the eligible liabilities that are excluded from write-down or conversion into capital when the bail-in resolution tool is applied. However, in addition to the eligible liabilities excluded from write-down or conversion under the Law, the Agency may fully or partially exclude specific eligible liabilities from such write-down or conversion, subject to specific requirements stipulated by the Law.[10]

To enable the Agency to fulfill its statutory obligation and appropriately allocate losses among creditors, banks must establish suitable internal processes and procedures, management information systems, and related arrangements in order to identify liabilities that are excluded by the Law from write-down or capital conversion and to support the Agency in assessing potential additional exclusions based on specific statutory powers. In any event, banks are expected to support the Agency in the implementation of resolution tools.

The minimum requirement for own funds and eligible liabilities (hereinafter: the MREL requirement or MREL) is a requirement imposed on banks by the Agency to ensure the continuous maintenance of a specific minimum level of own funds and eligible liabilities, thereby enabling banks to implement their preferred resolution strategy. Meeting and maintaining the MREL requirement is a crucial element in achieving bank resolvability. Banks must consider not only the volume of capital and eligible liabilities included in the MREL calculation but also their structure, as the Agency may impose an additional requirement regarding the appropriate MREL structure, aligned with the ranking of liabilities in the event of bank liquidation or bankruptcy. [11] That additional requirement is determined if the Agency assesses that there is a risk that creditors in the bank resolution process would incur greater losses than they would in bankruptcy proceedings.

2.2.1. Principles – Loss-absorption and recapitalization level

[Principle 2.1] Minimum loss-absorption and recapitalization level

Banks must hold a sufficient level of capital to absorb losses and facilitate recapitalization, ensuring that losses are distributed across the widest possible range of liabilities and that the resolution strategy is successfully implemented.

Banks are specifically expected to accurately and reliably identify and quantify:

[9] Banking Law of Republika Srpska, Article 249, Paragraph 1.
[10] Banking Law of Republika Srpska, Article 249, Paragraph 4.
[11] Banking Law of Republika Srpska, Article 269.

- the level of liabilities that, under the preferred resolution strategy, will be used to absorb losses and for recapitalization;
- the level of liabilities excluded from write-down or conversion under the Law;
- the level of liabilities unlikely to be used for loss absorption and recapitalization, taking into account, at a minimum:
  - maturity,
  - ranking (priority order),
  - instrument holder and transferability,
  - risks of the liability being excluded from write-down or conversion, and
  - amount.

Liabilities not excluded from write-down or conversion should be ranked according to the order of priority applicable in bank liquidation or bankruptcy proceedings. Banks must provide all information necessary to estimate the recovery amounts for creditors and shareholders in the event of bank bankruptcy, broken down by priority ranking, in order to satisfy statutory safeguards[12] ensuring that creditors and shareholders do not incur greater losses in resolution than they would in bankruptcy proceedings.

[12] Banking Law of Republika Srpska, Article 257.

[Principle 2.2] Operationalisation of write-down or conversion

Banks must establish appropriate internal processes and procedures, governance information systems and mechanisms, whether internally or through third parties, to support the operationalisation of write-down or conversion, and must regularly assess and test their effectiveness so that, upon the Agency's request, they can provide all necessary data regarding liabilities subject to loss absorption within a very short timeframe.

The bank's management board must adopt procedures for the operationalisation of write-down or conversion ("bail-in playbook"[13]), which must cover at least the following:

- all governance mechanisms, activities, and processes to be undertaken by the bank (or on its behalf) to ensure the effective implementation of write-off or conversion;
- the sequence of events based on the expected timeline for the resolution process; the legal, operational, accounting, and tax aspects associated with each type of eligible liability in the implementation of write-down or conversion; and the governance arrangements applicable to each event in the sequence;
- arrangements for implementing the write-down or conversion, including communication channels with external parties critical to their implementation (e.g., the Central Securities Depository, etc.). Banks should have systems and resources in place to rapidly (within a few hours) obtain up-to-date information on: (1) the securities subject to write-down or conversion, including the name and issue code (ISIN – International Securities Identification Number), and (2) the name of the central securities depository (CSD) where the securities are registered. Banks should be able to identify agents, if such agents are required for the implementation of the write-down or conversion;
- arrangements to ensure that the information and data submitted to the Agency for the operational implementation of the write-down or conversion are complete and accurate.

2.2.2. Principles – Minimum requirement for own funds and eligible liabilities (MREL)

[Principle 2.3] Ensuring a sufficient amount of MREL eligible liabilities to meet MREL requirement

Banks should ensure a sufficient amount of MREL eligible liabilities to meet the MREL requirement determined by the Agency in accordance with the Decision on minimum requirements for own funds and eligible liabilities.

Banks are expected to:

- be ready at all times to provide the Agency with all data and information necessary for determining the MREL requirement, and
- meet the MREL requirement at all times.

[Principle 2.4] MREL eligible liabilities

MREL eligible liabilities constitute a subset of eligible liabilities and may be used to absorb losses and recapitalize the bank, including a certain amount of subordinated debt. The bank is required to continuously maintain MREL eligible liabilities in an amount sufficient to cover losses and recapitalization.

Banks are expected to:

- provide the Agency with all necessary data and information (including legal opinions, where required) regarding the eligibility of own funds and liabilities used in the write-ff or conversion procedure;
- in the interest of legal certainty regarding the write-down or conversion of eligible liabilities governed by foreign law, wherever possible, include or supplement contractual terms with appropriate provisions stating that such liabilities are subject to write-down or conversion in the event that the bail- tool is applied in resolution;

[13] The Agency shall issue general guidelines for the development of bail-in playbook.

- reduce potential excessive exposure to the household sector through senior and subordinated debt, and provide the Agency with all necessary data and information regarding such exposure in order to assess potential impediments to resolution and to remedy them;
- where such an obligation is stipulated, notify the Agency in advance of all eligible liabilities containing contractual clauses requiring prior approval, including eligible liabilities with a residual maturity of less than one year, that are intended to be called, redeemed, repaid, or repurchased prior to their scheduled maturity.

2.3. LIQUIDITY AND FUNDING IN RESOLUTION

Banks need to establish processes and possess the capability to: (1) assess liquidity and funding needs under a resolution strategy implementation scenario; (2) calculate and report on liquidity positions in resolution; and (3) identify and mobilize appropriate collateral that can serve to secure additional funding during and after the resolution process.

It is reasonable to assume that banks will face additional liquidity requirements due to information asymmetry regarding the viability and continuity of their business operations following the resolution process. Even under such circumstances, banks must ensure the fulfillment of all their obligations in accordance with contractual terms. Therefore, banks need to develop appropriate methodologies to assess liquidity needs as early as possible during the implementation of a resolution strategy. In this regard, banks should be able to identify and report on total unencumbered assets that can be quickly utilized as collateral for additional funding, as well as describe any potential constraints (legal, regulatory, operational, etc.) affecting their use under stress conditions. To meet these expectations, banks should leverage systems already developed for the needs of the Supervision Unit.

2.3.1. Principles

[Principle 3.1] Assessment of liquidity and funding needs in resolution

Banks should develop methodologies to assess liquidity and funding needs under various assumptions during the implementation of a resolution strategy, as well as identified sources of liquidity.

Banks are expected to identify key liquidity factors under resolution conditions and analyze them based on the nature of the crisis situation (e.g., solvency crisis, liquidity crisis, etc.), while also analyzing the risks affecting these liquidity factors (e.g., deposit outflows, liquidity needs for payment system settlements, etc.).

Banks should also develop methodologies to simulate cash flows from assets, liabilities, and off-balance-sheet items under various resolution scenarios, as well as to project liquidity coverage capacity across different time horizons.

Simulations should include:

- contractual cash inflows and outflows;
- assumed cash inflows and outflows that typically materialize and
- the trend of the liquidity coverage and its liquidity value following the application of assumed adjustment factor.

Cash flows and additional funding sources should be simulated:

- aggregate in the reporting currency KM and at the level of each material currency, including currencies significant for participation in financial market infrastructures (clearing, settlement, etc.);
- across specific time horizons, ranging from the overnight period to a sufficient period following resolution (e.g., six months).

When assessing liquidity and funding sources, as well as when implementing the resolution strategy, banks are expected to adopt a conservative approach and pay particular attention to:

- legal, regulatory, and operational impediments related to the transfer of liquidity, particularly between members of a banking group;

- obligations arising from payment, clearing, and settlement activities, including potential liquidity effects of risk management activities undertaken by financial market infrastructures or intermediaries;
- potential contract suspensions and terminations, as well as close-out netting rights, that a counterparty might exercise in the event of bank resolution;
- legal and operational impediments to the timely pledging of available collateral;
- peak intraday liquidity needs;
- where available, central bank liquidity facilities, including the terms and conditions for their use (e.g., eligible collateral, collateral-to-loan ratio, duration of use, etc.).

Banks are expected to provide a documented rationale for the key assumptions underpinning their estimates and to incorporate the results of the aforementioned analyses into their liquidity strategy for resolution scenarios and the associated funding plan.

[Principle 3.2] Measurement and reporting of the liquidity situation in resolution

Banks should establish processes and resources to measure and report on their liquidity situation and funding needs in the event of bank resolution, as well as on available funding sources.

Banks are expected to demonstrate their ability to measure and report on liquidity positions on a very short-term basis. Furthermore, banks are expected to be able to forecast their net liquidity position across various time horizons, including the intraday period, and report on:

- cash inflows and outflows (distinguishing between contractual and behavioral cash flows);
- liquidity coverage capacity and its liquidity value following the application of assumed adjustment factors.

Banks are expected to justify the assumptions used in assessing liquidity coverage capacity, such as adjustment factors, rollover rates, outflow rates, etc.

[Principle 3.3] Identification and mobilization of collateral during and after resolution

Banks should establish processes and resources to identify and mobilize assets that can serve as collateral to secure additional funding sources. To ensure the efficient use of such available collateral during resolution, banks should account for the time required for its mobilization, as well as the steps necessary to undertake to make it acceptable to counterparties.

To this end, banks are expected to be capable of:

- identifying available collateral:
  - identifying all assets that could potentially qualify as eligible collateral for resolution-related funding (e.g., liquid assets across various tiers and, specifically, illiquid assets);
  - distinguishing between encumbered and unencumbered assets and defining the legal status of all collateral (i.e., whether pledged or unpledged);
  - monitoring the status of unencumbered and available collateral on an individual basis, for each material currency;
  - reporting in detail on available collateral (asset type, currency, location, credit quality, central bank eligibility, etc.), even during periods of rapidly deteriorating business conditions;
- operationally mobilize collateral:
  - develop and document all necessary operational steps (including the timeframe and management processes) for collateral mobilization;
  - focus specifically on assets that are harder to sell on the market (e.g., loan receivables, etc.).
- assess the ability to mobilize collateral and, at least once a year, assess and test the bank's operational readiness to mobilize available collateral (e.g., the ability to sell, pledge in repo arrangements, obtain funding against collateral, etc.).

2.4. OPERATIONAL CONTINUITY IN RESOLUTION AND ACCESS TO FMI SERVICES

Banks should have adequate operational arrangements in place to ensure the continuity of critical services necessary for maintaining critical functions and core business lines required for the effective implementation of the resolution strategy and the subsequent restructuring of operations. Banks should establish the necessary processes and arrangements to ensure continued access to payment services, clearing services, settlement systems, and custody services, as well as other financial market infrastructures (FMIs), before, during, and after the bank's resolution.

Operational continuity entails the bank's ability to implement the resolution strategy from an operational perspective. In this regard, appropriate mechanisms should be established to ensure the uninterrupted provision of services necessary for:

- maintaining the provision of the bank's critical functions to the real economy and financial markets ("critical services");
- supporting the bank's core business lines necessary for the successful implementation of the resolution strategy and the subsequent restructuring of operations ("essential services").

The aforementioned services are collectively referred to as “relevant services”.

Operational continuity involves identifying and mapping the interdependencies of relevant services with critical functions and core business lines, conducting risk assessments, implementing risk mitigation measures, and taking steps to enhance resolution readiness, including the use of appropriate Management Information Systems (MIS).

Operational continuity is also crucial regarding financial market infrastructure (FMI) services, such as payment, clearing, settlement, and custody services, regardless of whether these services are provided directly or through intermediaries. Without access to these services prior to and during resolution, banks would be unable to continue operations, which could jeopardize business stabilization and prevent them from performing critical functions.

In this regard, banks should maintain a clear overview of their use of such services and develop contingency plans, as well as measures to ensure continued access to FMI services.

2.4.1. Principles – Operational continuity in resolution

[Principle 4.1] Identification and mapping of interdependencies for operational continuity

Banks should identify all relevant services, as well as operational assets and functions/personnel, in order to ensure the continuity of critical functions and core business lines necessary for the effective implementation of the resolution strategy and the consequent restructuring of operations. All relevant services should be mapped against legal entities, critical functions, core business lines, and the contracts governing relevant services.

Banks are expected to:

- carry out and maintain a comprehensive identification of all relevant services (whether provided within the group or by third parties), as well as the operational assets and functions/personnel involved. Services considered non-relevant are those: (1) the disruption of which does not have a material impact on the continuity of critical functions and core business lines, and (2) that can be provided by another provider within a reasonable timeframe and at a comparable scope regarding subject matter, quality and price;
- carry out and maintain a comprehensive mapping of relevant services to critical functions, core business lines and legal entities (providing or receiving the services), as well as to relevant assets and functions/personnel, including their location (physical location within the group). These operational interdependencies should also encompass services provided across multiple providers (e.g., an intragroup provider that has subcontracted the service to a third party);
- carry out and maintain the mapping of relevant services to the contracts governing them;
- develop and maintain a database, i.e., a “service catalogue” that is up-to-date and searchable. This catalogue should consolidate all mapped information that can be reliably accessed for the purpose of planning or implementing resolution, including in crisis situations.

Banks are also expected to ensure that all contracts with third parties or intra-group providers are adequately documented and contain all the information necessary for the Agency to make appropriate decisions in accordance with its statutory powers (e.g., replacing a service provider, etc.).

[Principle 4.2] Assessment of operational continuity risk

Banks should comprehensively assess the risks to operational continuity during resolution, such as: the disruption of relevant services, inability to access operational assets, and the absence or unavailability of necessary personnel. The outcome of this risk analysis should indicate to the bank the extent to which its operational arrangements can support the operational implementation of the resolution strategy and the restructuring of business operations following resolution.

After identifying and mapping relevant services, operational assets and functions/personnel (Principle 4.1), banks are expected to assess the risk of disrupting these interdependencies under resolution conditions. The risk assessment should be based on potential instances of service disruption (e.g., unilateral contract termination by a provider, etc.).

The risk analysis should take into account the following elements:

- the law applicable to the contractual relation and the potential consequences of its application;
- the location and legal status (e.g., ownership or lease) of the relevant assets;
- the potential unavailability of relevant functions/personnel during resolution.

As part of the risk analysis, banks are expected to analyze the following: (1) whether contracts are adequately documented, (2) whether prices and additional costs are agreed upon based on market principles, and (3) whether service providers possess adequate financial resources to continue providing services during and after the bank's resolution (see Principle 4.3).

[Principle 4.3] Actions to mitigate risks to operational continuity and measures to improve preparedness for resolution

Banks should adequately manage identified risks regarding operational continuity during resolution through mitigation activities and measures to enhance their resolution preparedness, thereby also supporting the bank's restructuring following resolution.

Banks are expected not only to define but also to implement activities to mitigate risks related to operational continuity during resolution.

Banks should ensure the continued application of contracts governing the provision of relevant services in the event of bank resolution (regardless of whether the provider is an intra-group entity or a third party), i.e. they must ensure such contracts remain in force during resolution. This means the provisions of these contracts should ensure:

- that termination, suspension, or modification due to bank resolution or post-resolution restructuring is precluded;
- the possibility of transferring service provision from the current recipient to a new recipient due to bank resolution;
- necessary support from the service provider in the event of a transfer to a new provider or a new service recipient;
- continuity of service provision to a group entity divested during resolution.

To ensure that service provider contracts remain in force during resolution, the bank may supplement them with appropriate contractual provisions or apply relevant regulations.

If a bank is unable to amend or supplement contracts to ensure their continued validity during the resolution process, it is expected to notify the Agency thereof and present an alternative strategy for review (e.g., replacing the service provider and the possibility of agreeing on the required terms with a new provider).

Banks are expected to maintain clear, transparent, and market-based pricing and costs for the relevant services they receive, so that the associated costs during bank resolution can be accurately estimated in advance and appropriate decisions made accordingly.

Banks are expected to determine whether providers of relevant services are financially stable during resolution and to ultimately ensure their financial stability:

- the method banks use to ensure the service provider's financial stability depends on whether the provider is an entity within the banking group, an unregulated entity[14] within the banking group, or an entity outside the banking group;
- if relevant services are provided by an unregulated entity within the group, that entity is expected to hold adequate liquid assets (at least 50% of annual fixed operating expenses), which must be segregated from the group's other assets. This entails holding appropriate liquid assets or deposits with entities outside the group. If relevant services are provided by an entity outside the group, banks are expected to conduct due diligence on its financial operations.

Banks are expected to establish arrangements ensuring access to relevant operational assets in the event of bank resolution, such as licensing or lease agreements, and to ensure that such agreements remain in effect during resolution. If a bank cannot secure this, the assets in question are expected to be owned or leased by the service provider or the service recipient.

Banks are expected to establish contingency plans ensuring that relevant functions remain adequately staffed during resolution, where these plans include:

- retention plans (including management and processes) outlining measures the bank can take in the short term, prior to and during resolution, to mitigate the attrition of staff in relevant functions;
- activities the bank will undertake to replace staff leaving relevant functions with new personnel possessing adequate experience and knowledge;
- where necessary, arrangements for addressing employee-related risks, which will serve a dual purpose during resolution.[15]

Banks should take into account relevant regulations governing employment relations and associated requirements, such as, for instance, prior approvals for changes in roles and responsibilities and the corresponding financial compensation.

[Principle 4.4] Identifying, mapping, and assessing dependencies on financial market infrastructures

Banks should identify all critical and essential FMI services based on the service providers (regardless of whether they receive these services directly from an FMI or through an intermediary) in order to map them to legal entities, critical functions and core business lines.

Banks are expected to:

- identify all FMI service providers they utilize, as well as trading venues. Direct FMI service providers are understood to include payment systems, settlement systems, and similar, while indirect FMI service providers are understood to include entities offering payment, clearing, settlement, or custody services, such as correspondent or custodian banks;
- identify which FMI services are necessary for the continuity of critical functions ("critical FMI services") and core business lines ("essential FMI services"). In achieving this objective, banks are expected to develop an objective approach, taking into account, inter alia, the impact of a cessation of or reduction in access to:
  - critical functions and core business lines;
  - the operations of core clients, specifically for FMI intermediaries;
- map each critical or essential FMI service to the legal entity, as well as to the critical function and core business lines to which it relates and

[14] An unregulated entity is understood to be an entity that is not subject to prudential regulation regarding capital and liquidity on an individual basis.

[15] For example, the existence of an agreement that would, on a temporary basis, enable a group entity to have functions performed by employees of another entity.

- identify their roles (e.g., whether it involves custody, liquidity provision, etc.).

Banks should include this information in the FMI contingency plan (see Principle 4.6) and submit it to the Agency in an appropriate report upon request.

[Principle 4.5] Understanding the requirements for continued access

Banks should: (1) have a clear picture of all prerequisites for the continuity of access to critical and essential FMI services, and (2) conduct a documented assessment of potential financial and operational requirements that FMI service providers may demand prior to and during the resolution process.

Banks are expected to:

- have a clear picture of all prerequisites for the continuity of access to critical and essential FMI services. Based on rules and agreements with FMI service providers, banks are expected to identify and document significant obligations, particularly financial and operational ones, and consider which obligations the bank or its legal successor (following resolution) might struggle to fulfill. Furthermore, based on these rules and agreements with FMI service providers, they should identify any significant obligations toward other service providers that are necessary for utilizing FMI services;[16]
- consider what actions[17] FMI service providers might take and under what circumstances and timeframes (immediately or after several days), in the event of the bank's resolution;
- consider potential liquidity requirements across various crisis scenarios they might face, and ensure appropriate assessments are in place, along with data on credit lines and their utilization;
- explain, within their FMI contingency plans, the methodology underpinning their assessments of liquidity requirements under stress scenarios. They are also expected to include, where appropriate, additional information regarding potential demands (e.g., fee increases that other service providers facilitating access to FMIs might impose).

[Principle 4.6] FMI contingency plan and measures to ensure continuity in access to FMI services

Banks should develop an FMI contingency plan containing detailed and implemented measures to ensure continued access to FMI services, or to facilitate the orderly transfer or termination of such access. This includes: (1) measures to maximize the likelihood of meeting all access requirements prior to and during the bank's resolution process, and (2) other measures supporting resolution.

Banks are expected to develop an FMI contingency plan to support continued access to FMI services. This plan is essentially an operational playbook, approved by the bank's management, which, for each critical and essential FMI provider or intermediary should include:

- mitigation measures addressing anticipated actions by FMI service providers prior to and during resolution;
- the infrastructure, processes, and operational arrangements that banks activate to meet the requirements of FMI service providers;
- activities banks could undertake to mitigate the risk of service interruption or a reduction in the scope of access to FMI services that would impact the performance of critical functions and core business lines.

In this regard, banks are expected to consider the following measures to enhance their resolvability:

[16] Such as communication service providers (e.g., SWIFT), IT service providers (e.g., when a specific application is necessary to access an FMI), etc.

[17] For example, additional trading requirements, reductions in credit lines, etc.

- if their contracts with FMI intermediaries or other service providers necessary for access to FMI are not resolution-resilient, they should be made resolution-resilient through appropriate bilateral amendments;[18]
- to identify potential substitutes[19] for the FMI services they use, as well as the relevant legal jurisdictions.

2.5. INFORMATION SYSTEMS AND DATA REQUIREMENTS

Banks must establish adequate management information systems (MIS), the capacity to conduct appropriate assessments, and the technical and technological infrastructure necessary to support: (1) the development and updating of resolution plans[20], (2) the execution of fair and realistic valuations of assets and liabilities[21], and (3) the effective implementation of resolution tools[22], including under conditions of rapidly deteriorating business performance.

Banks must ensure the availability of all necessary information and data to enable the Agency to develop and regularly update resolution plans, and they must cooperate with the Agency to the fullest extent possible in achieving this objective. To this end, as part of the regular annual assessment of a bank's resolvability, the Agency will evaluate the banks' capacity to collect and provide such information and data to the Agency or to independent valuers.

In order to gather the necessary information and data for conducting the regular resolvability assessment, the Agency will also utilize information and data held by the Supervision Unit.

In this Section, the term MIS capabilities encompasses MIS/databases, the capacity to perform adequate assessments (valuations), and technological infrastructure.

2.5.1. Principles

Overarching expectations

Banks are expected to establish adequate management systems, ensure data and information accuracy, and put in place arrangements that guarantee business continuity, thereby ensuring their Management Information System (MIS) capabilities meet the principles set out below, both prior to and during resolution.

As part of their governance arrangements[23], banks are expected, under the direct oversight of senior management, to establish effective governance arrangements enabling their MIS to provide, in a timely manner, all information and data required for both resolution planning and implementation, while adhering to the principles outlined below.

In particular, banks are expected to demonstrate that their governance arrangements include adequate:
- processes for the consistent collection and aggregation of data at the bank-wide or group level, as well as for their timely reporting;
- processes, communication channels, and allocation of responsibilities for the exchange of data and information with the Agency and/or an independent valuer;
- systems and processes for controlling and verifying data accuracy, as well as for ensuring the continuity of MIS capabilities.

Banks are expected to demonstrate that their arrangements and controls regarding the accuracy of information and data are operational and that they are capable of ensuring their MIS capabilities are adequately prepared for resolution. To this end, periodic testing and appropriate upgrades of MIS

[18] See Principle 4.3, which outlines the features contracts should contain and the steps banks should undertake to ensure continuity (i.e., that contracts remain in force) to the greatest extent possible during resolution.
[19] It is unlikely that potential replacements would be available during the "resolution weekend," but they could play a significant role during the business restructuring.
[20] Banking Law of Republika Srpska, Article 225, Paragraph 1.
[21] Banking Law of Republika Srpska, Article 232.
[22] Banking Law of Republika Srpska, Article 235.
[23] See Section 2.1.

capabilities must be carried out. Testing should demonstrate whether MIS capabilities are aligned with the principles set out below, specifically whether they encompass:

- rapid delivery of information and data to the Agency, an independent valuer, or another relevant party;
- consistent data aggregation at the bank-wide or group-wide level;
- sensitivity and flexibility of internal valuation models.

Banks should report the results of the testing (validation) to their management and the Agency. Reports on testing (validation) results should also detail any identified deficiencies and the measures taken to rectify them. Banks are also expected to maintain up-to-date documentation describing the reliability of these capabilities in meeting the principles set out below. This documentation should describe the source systems used for data generation, as well as their operation, implemented control mechanisms, and the parties involved in data preparation and validation.

Taking into account the principles established in Section 2.4, the Agency expects banks to put in place arrangements ensuring the continuity of critical MIS capabilities during and after resolution, regardless of whether the activities are transferred or retained. These arrangements should be included in the bank's contingency plan.

[Principle 5.1] MIS capabilities to provide information and data necessary for the preparation and update of resolution plans

Banks should establish MIS capabilities to provide the information and data necessary for resolution planning.

Among other things, banks are expected to:

- complete reporting templates related to resolution accurately, completely, and in detail;
- provide information and data in accordance with Principles 5.2 and 5.3 set out below.

Banks are expected to provide a detailed description of the arrangements designed to ensure up-to-date information and data for the preparation and updating of resolution plans, and to make these available to the Agency at all times upon request.

Regarding the specific MIS, database, and reporting capabilities supporting operational continuity arrangements, banks are expected to:

- maintain comprehensive and up-to-date MIS/databases with search functionality, ensuring rapid access to information and data required for resolution and subsequent business restructuring. This specifically includes:
  - the service catalogue specified in Principle 4.1;
  - a searchable database of service provision contracts.

[Principle 5.2] MIS capabilities to produce necessary information and data for the execution of a fair and realistic valuation of assets and liabilities

Banks should establish MIS capabilities that provide up-to-date and complete information and data for a fair and realistic valuation of assets and liabilities.

Banks are expected to:

- conduct a self-assessment of the availability of information and data during the resolution planning phase, including capabilities for their aggregation, report the results of this analysis to the Agency, and, where necessary, initiate a dialogue regarding measures for potential improvements;
- test the bank's capacity to provide relevant information and data for the valuation of assets and liabilities or for financial due diligence;

- explain and substantiate the databases, assumptions, and methodologies used for each internal valuation model.

[Principle 5.3] MIS capabilities to produce necessary information and data for the effective application of resolution actions

Banks should establish MIS capabilities that provide up-to-date and complete information and data for the implementation of resolution tools, even under rapidly changing conditions.

Banks are expected to demonstrate the following:

- the capabilty to: (1) adequately assess their loss-absorption capacity, (2) ensure the availability of information and data required to carry out bail-in. In this regard, banks are expected to have:
  - an information database covering every capital instrument and security issued by the bank/group;
  - a process for updating such information;
  - an analysis determining the eligibility of issued securities as capital or as eligible liabilities;
  - detailed records of financial contracts;
  - where transfer instruments are envisaged, for each asset or liability planned for transfer: (1) the capability to secure the information necessary to value the assets and liabilities, and (2) the capability to provide all relevant participants with rapid and easy access to the necessary information and data;
  - the capability to provide multiple data sets simultaneously, for example, for liquidity purposes (see Section 2.3) and for the valuation of assets and liabilities under time pressure and in conditions of financial stress.

2.6. COMMUNICATION

Banks should have communication plans in place to ensure timely and consistent communication with key stakeholders and to support the implementation of the resolution strategy, including governance arrangements for the effective execution of these plans.

It is reasonable to expect that bank resolution will generate significant interest among various stakeholders; consequently, a lack of adequate communication could negatively impact the successful implementation of the resolution process. Carefully devised communication is crucial for building trust while simultaneously reducing uncertainty surrounding the bank resolution process.

In the event of bank resolution, the coordinated provision of information to key stakeholders should aim to achieve the following objectives:

- ensuring that the bank provides shareholders and creditors with information regarding resolution decisions;
- ensuring that holders of insured deposits and other protected creditors are informed of their protected status;
- ensuring that employees, clients, suppliers, FMI service providers, and other interested parties are informed of resolution decisions;
- maintaining confidence in the market where the bank operates and preventing other parties from taking actions that could adversely affect the implementation of the resolution process.

In this regard, the bank's communication plan should be prepared during the resolution planning phase.

2.6.1. Principles

[Principle 6.1] Communication plan

Banks should develop comprehensive communication plans to inform all key stakeholders about the effects of bank resolution; their primary task is to prevent panic and resolve any resulting uncertainties.

In this regard, banks are expected to:

- identify key external and internal stakeholders (at the group level) which need to be informed about the resolution process, including providers of services and operational assets;
- prepare and maintain an up-to-date list of key external and internal stakeholders;
- prepare a targeted communication strategy for each stakeholder group, with defined messages aligned with the resolution strategy determined by the Agency. The communication plan for each stakeholder group should:
    - contain key messages that foster confidence in the bank during resolution. These messages should be strong, consistent, and easily understandable, and should include, among other things:
        - general statements tailored to prior communications and the resolution tools that may be applied to the bank;
        - information regarding the consequences of resolution for each stakeholder group, aimed at enhancing certainty and predictability;
    - determine when communication with a specific stakeholder group is necessary;
    - define a strategy and procedures to prevent information leak;
    - identify communication leads and the parties responsible for information distribution (organizational unit or function);
    - identify effective communication channels and the infrastructure required to implement the resolution strategy and disseminate messages;
    - supplement key messages by developing templates for documents and emails, FAQs, and other tools (e.g., establishing a call center, etc.) to be used during the resolution process;
    - identify all communication with market participants required by regulations.

[Principle 6.2] Communication governance

Banks should establish governance arrangements for implementing the communication plan in close cooperation with the Agency.

Banks are expected to:

- incorporate the expectations set out in Principle 6.1 into their governance arrangements;
- assign responsibilities for drafting and executing the bank resolution communication plan (e.g., determining whether a specific organizational unit or function is responsible);
- define approval processes for all aspects of the communication plan, including final approval for the dissemination of messages;
- ensure that staff responsible for communication are aware of their roles when communicating with identified stakeholder groups during crisis situations, all in coordination with the Agency;
- have arrangements in place to ensure compliance with the specified requirements regarding information confidentiality;
- ensure the necessary infrastructure and resources for effective communication with identified stakeholder groups. This may include infrastructure used in day-to-day operations as well as additional infrastructure (e.g., engaging a specialized public relations firm, increasing call center capacity to handle an expected surge in inquiries, etc.);
- proactively inform the Agency if stipulated information disclosure requirements could impact the implementation of the resolution strategy;
- establish processes for monitoring the implementation of the communication plan.

2.7. SEPARABILITY AND RESTRUCTURING

A bank's structure, complexity, and interdependencies should not pose obstacles to the operational implementation of the resolution strategy or the achievement of resolution objectives.

A bank's legal, operational, and financial structure can create impediments to the effective implementation of resolution tools.

To ensure that a bank's structure, complexity, and interdependencies do not hinder resolution, the assessment of resolvability should include the following evaluations:

- Changes to the banks' structure

Based on the assessment of the bank's resolvability, the Agency is empowered[24] to require changes to the bank's structure and organization, where such measures are necessary and proportionate in order to reduce or remove impediments to the application of resolution tools and to ensure and enhance the bank's resolvability. In this regard, the Agency shall assess the extent to which it is necessary to change the bank's structure or reduce the complexity of the group to ensure resolvability. Should the preferred resolution strategy entail the separation of particular entities from the group, it may be necessary to reduce the group's financial and operational interdependencies in advance to ensure continued access to critical functions during resolution.

The Agency shall apply such structural measures only if they are necessary and proportionate to ensure the bank's resolvability.

- Separability

Separability refers to the manner in which critical functions and core business lines could be legally and economically separated from other functions to the extent necessary to ensure continuity in the event of a bank failure. The assessment of separability involves evaluating assets and liabilities, related services, personnel, infrastructure, as well as other legal, financial, and IT interdependencies, in order to provide options regarding the scope of the transfer. Banks are required to prepare an initial analysis of the feasibility of separating critical functions and core business lines and to submit it to the Agency during the serolution planning process.

- Business restructuring plan

The bank bail-in tool, applicable where the bank continues operations, may be employed if there is a realistic prospect that its application, combined with measures implemented under a business restructuring plan and the achievement of relevant resolution objectives, will enable the bank to restore financial stability and long-term sustainability.[25]Accordingly, potential business restructuring measures designed to achieve the relevant resolution objectives should be considered as early as the resolution planning stage. Furthermore, it is crucial that the bank is capable of implementing business restructuring measures in a timely and effective manner in the event of resolution.

Therefore, an assessment of the key elements of business restructuring should be prepared during the resolution planning phase. For this purpose, banks may, to a certain extent, rely on assumptions contained in their recovery plans.

Depending on the potential resolution tools applicable to the bank, analyses regarding separability are of particular importance within the business restructuring plan (e.g., in the event of the winding-down or sale of business lines or entities).

[24] Banking Law of Republika Srpska, Article 228.
[25] Banking Law of Republika Srpska, Article 248, Paragraph 2.

2.7.1. Principles

[Pincíple 7.1] Structure, complexity and interdependencies

Banks should identify, reduce, and eliminate unnecessary complexities in their structure if these pose a potential risk to the implementation of the resolution strategy.

Banks are expected to, where necessary and proportionate to the specific case:

- consider measures to achieve the operational independence of material entities in support of the resolution strategy, particularly if it envisages the separability and/or restructuring of business operations;
- ensure that the legal and operational structure is not excessively complex or interconnected, so as to guarantee continuity of access to critical functions during resolution. Where necessary, banks are expected to undertake measures to reduce complexity or simplify their legal structure;
- align the group's legal structure with critical functions and core business lines;
- ensure that the number of business entities and the complexity of the group structure do not impede the application of the envisaged resolution tools;
- establish a legal structure and intra-group funding arrangements that facilitate the implementation of the resolution strategy.

[Principle 7.2] Separability analyses for partial transfer tools

Banks for which a partial transfer is envisaged should conduct separability analyses to prepare for the partial transfer strategy[26].

Banks are expected to carry out initial separability analyses. These analyses should be conducted based on: (1) the existing structure and (2) the structure following the implementation of recovery plan scheme. In this regard, regulatory, legal, contractual, and economic safeguards should be considered.

The analyses should include the following:

- a description of closely linked activities (as well as associated services) that can be separated from the rest of the group without undue delay or disproportionately high costs;
- an assessment of whether assets, liabilities, services, employees, and associated infrastructure can be transferred to third parties;
- an assessment of whether assets and liabilities that do not relate to critical functions and core business lines, but are included in the perimeter of the potential transfer, can be transferred;
- a description of the intended treatment of payment, clearing, and settlement activities - whether they are included in the perimeter of the transfer or fall within the perimeter of liquidation;
- a description of IT systems and licensing rights, employees, and critical shared services necessary for the new perimeters;
- a self-assessment of potential constraints on separability;
- a description of the necessary operational actions and the expected timeframe required to provide information and prepare an assessment;
- a description of potential costs associated with the aforementioned transfer perimeters;
- a description of liquidity and funding needs for the new transfer perimeters, as well as potential funding sources (post-resolution).

[26] For example, regarding the application of resolution tools such as: the sale of shares or assets, rights, and liabilities; asset separation; and the bridge bank tool.

[Principle 7.3] Business restructuring plan after bank bail-in

Banks for which the Agency, as part of its resolution strategy, envisages the use of a bank bail-in tool and the continuation of business operations, must identify and assess tools to restore financial stability and long-term sustainability, and examine in detail the measures contained in the business restructuring plan.

The Agency expects banks to prepare assessments of key elements of the business restructuring plan in advance so that they are ready for resolution. In this regard, banks are expected, inter alia, to: (1) identify and describe tools to restore financial stability and long-term sustainability, and conduct an initial assessment of those tools; (2) specify the timeframe for their implementation, including a description of the necessary steps; and (3) ensure the necessary capabilities so that the Agency is able to evaluate the elements referred to in (1) and (2) during the resolution process.

Potential business restructuring tools may include, but are not limited to, the following:

- restructuring of all activities;
- changes to operational systems and infrastructure;
- discontinuation of loss-making activities;
- restructuring of existing activities that have the potential to be competitive;
- sale of assets and business lines;
- winding down of trading activities.

In this regard, banks are expected to consider and identify business restructuring options or tools from the recovery plan that might not be utilized during the recovery phase, as well as those not identified in the recovery plan but capable of contributing to long-term sustainability. For instance, while the implementation of such tools may not have a direct impact on capital or liquidity, they contribute to the overall achievement of resolution objectives.

Where the winding down and/or sale of business segments or groups is envisaged as a business restructuring tools, banks are expected, while also taking the recovery plan into account, to identify: (1) the relevant entities or business lines, the method of their winding down or sale, and the expected costs and liquidity requirements under various assumptions, (2) financing and services that the remaining part provides or needs to provide and (3) the products and services that will cease to be offered because they do not support the achievement of resolution objectives or the use of resolution tools.

When analyzing the tools, banks are expected to:

- demonstrate how long-term sustainability will be restored through the envisaged tools. In this regard, banks should consider:
  - the potential costs and consequences of business restructuring for the income statement and balance sheet;
  - a description of potential funding needs during the business restructuring phase and potential funding sources;
  - potential inflows from the divestment of assets, entities, or business lines envisaged in the business restructuring plan;
- outline the necessary steps and the expected timeframe for implementing the envisaged tools;
- conduct an assessment based on the following assumptions:
  - analyses are conducted based on: (1) the existing structure and (2) the structure following the implementation of resolution tools;
  - whether state aid rules apply. The envisaged tools should be aligned with the requirements set out in the business restructuring plan, which aims to restore long-term sustainability with minimal use of public funds and to mitigate potential negative effects on competition.

The analyses should be supported by appropriate information to enable the Agency to assess the impact of business restructuring on critical functions and financial stability, for example by: (1) stating the assumptions used, such as macroeconomic indicators; (2) projecting the impact on the income statement and balance sheet; and (3) describing changes in key financial parameters. In this regard, banks are encouraged to utilize available documentation prepared for other purposes, such as recovery plans and similar.

3. PHASE-IN OF THE EXPECTATIONS FOR BANKS

The Agency's previously stated expectations regarding bank resolution planning are to be implemented gradually. The tables below outline the phase-in dates for the expectations in the dimensions of Governance and Communication which banks implemented in 2022 (Table a), as well as an overview of the dimensions and the method for defining dates for the gradual implementation of expectations regarding the remaining dimensions (Table b). Banks are expected to build the necessary capabilities within the defined dates to meet the expectations set out in this document.

Exceptionally, the Agency may set different dates for an individual bank if required due to the bank's specific characteristics or particular circumstances.

Table a)

DIMENSIONS	Implementation date
GOVERNANCE	implemented in 2022, continuously monitored
COMMUNICATION	implemented in 2022, continuously monitored

Table b)

DIMENSIONS	Implementation date
LOSS ABSORBING AND RECAPITALISATION CAPACITY	a) defined by the Decision on the MREL requirement; b) to be defined by guidelines for the bail-in playbook
LIQUIDITY AND FUNDING IN RESOLUTION	to be defined by guidelines on liquidity and funding in resolution
OPERATIONAL CONTINUITY IN RESOLUTION AND ACCESS TO FMI SERVICES	to be defined by guidelines on operational continuity in resolution and access to FMI services
INFORMATION SYSTEMS AND DATA REQUIREMENTS	to be defined by guidelines on MIS
SEPARABILITY AND RESTRUCTURING	to be defined by guidelines on separability

4. GLOSSARY

Arrangement	An arrangement is any agreement, contract, policy, procedure, guideline or practice governing the provision of a service.
Bail-in	Please refer to the definition of bail-in tool.
Dual-hatting	Describes situations where an employee paid by one legal entity provides services to another entity within the group.
Essential services	Services associated with core business lines, whose continuity is necessary for the effective implementation of the resolution strategy and any consequent restructuring.
Essential FMI services	Payment, clearing, settlement or custody services, provided by an FMI or by an FMI intermediary, which are necessary for the continuity of one or several core business lines (please refer to the definition of "Essential services").
FMI	It derives from the English term "Financial Market Infrastructures" and refers to financial market infrastructures such as payment services, clearing, settlement, custody services, and others.
FMI Intermediaries	FMI service providers that are not themselves FMI participants.
Sale of shares, or assets, rights, and liabilities tool	As defined by Articles 241 and 242 of the Banking Law of Republika Srpska and the Decision on the sale of shares, assets, rights, and liabilities of a bank under resolution.
Bridge bank tool	As defined by Articles 243–246 of the Banking Law of Republika Srpska and the Decision on bridge bank.
Separability tool	As defined by Article 247 of the Banking Law of Republika Srpska and the Decision on issuing consent and approval to an asset management company.
Bank bail-in tool	As defined by Articles 248–256 of the Banking Law of Republika Srpska and the Decision on minimum requirements for own funds and eligible liabilities.
International Securities Identification Number – ISIN	The International Securities Identification Number (ISIN, ISO 6166) is the recognised global standard for unique identification of financial instruments.
Clearing	The process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, including the netting of orders and the establishment of final positions for settlement. Sometimes this term is also used (imprecisely) to cover settlement.
Core business lines	Business activities and services associated with such activities, the performance of which generates a significant portion of the income or profit for the bank or the banking group to which that bank belongs.
Critical functions	Activities, services, or operations the discontinuance of which would likely jeopardize the stability of the financial sector or disrupt the provision of essential services to the real economy, due to the size and market share of the entity performing them and its interconnectedness with other participants in the financial sector, particularly taking into account the possibility of another party seamlessly taking over the performance of these activities, services, or operations.
Critical services	Core operations, activities, and services performed for a single business unit or legal entity (dedicated services) or for multiple business units or legal entities (shared services) within a banking group, which are necessary for the provision of one or more critical functions.
Critical FMI services	Payment, clearing, settlement, and custody services provided by a financial market infrastructure (FMI) or an intermediary that are necessary for the performance of one or more critical functions.

Material entities	Material entities are the most significant entities within the group due to their provision of key funding or their generation of a significant portion of income.
Operational assets	An asset that is not a financial asset and that is required to perform relevant services, such as real estate, intellectual property, patents, software, hardware, IT systems and applications, and data warehouses. Operational assets are critical/essential where access to them is required in order to perform a critical/essential service.
Resolution-resilient features include the following:	1. *Non-termination, suspension or modification* Service providers may not terminate, suspend or amend terms and conditions of service provision on the grounds of resolution, given that the obligations under the contract continue to be performed. 2. *Transferability of the service provision* The provision of services may be transferred or assigned to another entity based on a decision by the Banking Agency of Republika Srpska as part of the implementation of the resolution strategy. 3. *Support in transfer or termination* In the case of transfer of service provision due to resolution, the current provider should ensure the transition of service provision to a new provider or to a new recipient, provided that the obligations under the contract continue to be performed. In the case of termination during resolution/restructuring, the provider should ensure continuity of service provision on the same terms and conditions for a reasonable period, e.g. 24 months. 4. *Continued service provision to a divested group entity* Services can continue to be provided by the current intra-group provider to entities divested from the group as part of resolution/restructuring. Service provision should continue for a reasonable period, e.g. 24 months, provided that the obligations under the contract continue to be performed.
Business restructuring plan	The restructuring of the bank's business operations following the application of the bail-in resolution tool must be achieved through the implementation of a business restructuring plan, in accordance with Article 254 of the Banking Law of Republika Srpska.
Business lines	A set of activities, processes and operations that is developed by the bank for clients (third parties) to achieve the business goals.
Relevant services	Services which underpin (i) the bank’s critical functions to the economy (critical services) and (ii) core business lines (essential services) for which continuity is necessary for the effective implementation of the resolution strategy. These categories may overlap. This applies analogously to operational assets and staff.
Group entity	Each legal entity that is part of a group.
No Creditor Worse Off (NCWO)	The No Creditor Worse Off principle states that no creditors or shareholders of a bank should incur greater losses in resolution than they would have incurred under normal insolvency proceedings.

5. FINAL PROVISIONS

Upon the entry into force of the Expectations for Banks in resolution planning – Guidelines, the Expectations for Banks in resolution planning – Guidelines (No. 01-101-1163-1/22 dated 16 June 2022) shall cease to be in effect.

The Expectations for Banks in resolution planning – Guidelines shall enter into force on the eighth day following their adoption and shall be published on the Agency's official website.

Number: 01-582-1/24

Date: 9 April 2024

Director

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Srđan Šuput