BANKING AGENCY OF REPUBLIKA SRPSKA

OPERATIONAL GUIDANCE ON BAIL-IN PLAYBOOKS

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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 the Expectations for banks in resolution planning – guidelines (No. 01-582-1/24 dated 9 April 2024), the Director of the Banking Agency of Republika Srpska issued

OPERATIONAL GUIDANCE ON BAIL-IN PLAYBOOKS

1. INTRODUCTION

1.1. Background and rationale

The Banking Agency of Republika Srpska (hereinafter: the Agency) has published a document titled „Expectations for banks in resolution planning – guidelines (hereinafter: EfB). This document serves as a guide to the activities banks should undertake to ensure preparedness for a potential crisis and to facilitate the implementation of resolution proceedings. These activities must be carried out during the resolution planning phase, that is, while the bank is operating normally.

The bail-in is a resolution tool that may be applied on a stand-alone basis or in combination with other tools, depending on the specific case. Its effective application requires complete, accurate, and up-to-date information, which must be provided by the bank in a timely manner. Banks are required to meet the requirements set out in the EFB particularly the requirement to have a sufficient level of loss-absorption and recapitalisation capacity; this ensures that losses are distributed across the widest possible range of liabilities and enables the effective implementation of the resolution strategy. Banks are specifically expected to accurately and reliably identify and quantify the level of liabilities that, under the preferred resolution strategy, will be utilized for loss absorption and recapitalization.

In order to establish the prerequisites for the effective application of the bail-in resolution tool, and in accordance with the EfB, all banks licensed by the Agency for which the resolution plan designates the bail-in tool (either individually or in combination with another resolution tool) as the preferred method, pursuant to the Banking Law of Republika Srpska („Official Gazette of Republika Srpska", No. 04/17, 19/18, 54/19; hereinafter: the Law), must develop and adopt an appropriate playbook for the application of the bail-in tool (hereinafter: the Playbook). The Playbook shall be an internal bank document defining all internal and external procedures to be carried out by the bank, or by third parties on the bank's behalf, to enable the write-down and conversion of the bank's capital instruments and eligible liabilities, thereby ensuring the effective application of the bail-in tool. The Playbook must be developed in accordance with the guidelines set out in this document.

1.2. Expectations for the Playbook

The playbook is expected to cover at a minimum:

- an identification and a description of relevant governance arrangements for the bail-in execution, including an indication of responsibilities, reporting lines, roles of committees and the communication set-up;
- processes and timelines for identifying the bank's balance sheet items to which the write-down and conversion of capital instruments and eligible liabilities will be applied, as well as ensuring the availability of data for the execution of such write-down and conversion;
- a detailed description of the steps for the write-down and conversion of a bank's capital instruments and eligible liabilities;
- a detailed description of Management Information Systems (MIS) that support the processes set out in this playbook, all in line with Principle 5.3 – MIS capabilities from the EfB which provide the information and data necessary for the effective implementation of resolution tools;
- minimum requirement for own funds and eligible liabilities (MREL);
- involvement of third parties in the process of implementing the bail-in tool;
- potential impediments to the implementation of the resolution process.

The playbook is also expected to have an introduction with a description of the playbook validation process and a clear indication of the scope of instruments covered.

The description of processes is an integral part of the playbook. Banks are expected to cover the following elements:

- an identification and a description of the inputs to and outputs of the different processes: data sheets, specific documents and forms, etc.;
- a chronology and a description of events and tasks (an illustration of the chronology in a separate table would support clarity); and
- a description of operational procedures (e.g. in a flowchart).

Banks are expected to test the elements of the bail-in playbook, in particular by means of dry-runs, with special consideration for data provision. Chapter 4 provides the framework for these tests.

The playbook is expected to be in line with the content of this guidance, to be well structured and easy to understand. It should be practical in order to use it in a potential bank resolution case.

The playbook must be approved by the Bank's Management and updated at least once a year, taking into account: the results of dry-runs, feedback from the Agency, regulatory changes, material changes that have occurred within the Bank in the meantime, requests from external stakeholders regarding the external application of write-down and conversion, etc.

Material changes to the playbook compared to the previous version are expected to be clearly indicated. The involved units, departments and committees in the bank should be informed.

Banks are expected to list the remaining issues related to the operational implementation of the bail-in tool, so that these may be appropriately addressed in further communication with the Agency (e.g., legal constraints, the level of data automation, etc.).

2. BAIL-INABLE INSTRUMENTS

The scope of bail-inable instruments covered by the playbook may vary from bank to bank (depending on the bank's liability structure), but each capital instrument or eligible liability[1] should include a description of:

a. the creditor hierarchy classes covered in the event of bank bankruptcy or liquidation;
b. the type of instrument covered (e.g. capital item - CET1, AT1, T2, what type of bond is covered, whether it is a credit-based instrument, etc);
c. the market(s) where the instrument is listed for trading and the CSD where the instrument has been issued.

The banks are encouraged to include a summary of all the instruments covered in the playbook, in which, based on the characteristics set out in the aforementioned description, the amount of each instrument and its share in the total amount of all instruments to be used for write-down and conversion, in the context of applying bail-in instrument, should be specified. If the use of any instruments not currently covered by the playbook is planned, such instruments and a plan for their inclusion in the playbook must be specified.

[1] For the sake of simplification, the term "instruments" will be used, where appropriate and possible, in the remainder of this text, in place of the term "capital instruments and eligible liabilities".

3. CONTENT OF THE PLAYBOOK

3.1. Governance, communication and disclosure obligations

3.1.1. Governance framework

Under the EfB, banks are expected to have in place robust governance processes that adequately facilitate the preparation as well as the implementation of the resolution strategy, and the playbook should contain robust governance arrangements for the implementation of bail-in to ensure: a timely and accurate provision of relevant information on a regular and ad-hoc basis, effective oversight during both resolution planning and a possible crisis scenario and efficient decision-making at the time of bank resolution.

The governance framework should include the preparatory phase, the resolution weekend and the implementation phase (the bail-in execution), as well as the closing phase[2]. The overall governance framework should allow for a smooth transition from the early intervention and recovery phases into the resolution phase.

Governance should not be understood as an isolated element of the playbook, but as a horizontal element to be addressed throughout the playbook, closely linked to the internal processes for data provision, the identification of the perimeter of bail-inable instruments as well as the internal and external bail-in execution. To this end, the playbook is expected to identify and describe the following:

a) organizational units and committees (pre-existing or specifically designed for bail-in purposes) within the bank that are involved in the different stages of the bail-in implementation;
b) a point of contact and an alternate point of contact (with a reference to a job title and contact details) for each of the organizational units and committees responsible for the practical implementation of the bail-in tool;
c) specificities related to the legal structure of the group, if relevant for the bail-in;
d) the governance set-up, e.g. processes, decision-making timelines, as well as reporting lines, escalation and formal approval mechanisms, with a clear allocation of responsibilities. The roles and tasks of the different actors and committees and the interactions between them are expected to be clearly described, as well as the role of external stakeholders that are necessary for the implementation of write-down and conversion;
e) procedures for: identifying the staff to be involved in the operationalisation of the bail-in process; granting staff and relevant third parties (e.g. valuers) access to premises, IT systems and data; and ensuring confidentiality from staff and third parties involved in the resolution process (e.g. signing confidentiality agreements or secrecy protocols), in particular in the lead-up to the resolution weekend;
f) banks are encouraged to use flowcharts and diagrams to visualise the process workflows and the interaction between the different actors, organizational units and committees.

Time is a factor of the utmost importance for bail-in execution. Once the Agency requests information, it should be reported as soon as possible. The playbooks are expected to:

a. estimate and provide a timeline for the completion of all necessary tasks;
b. map staff to processes to assess if additional resources are needed to prevent bottlenecks or operational constraints, or if synergies could be created by merging procedures.

In the event that the bail-in execution entails the participation of external stakeholders (domestic or foreign), such stakeholders must be clearly specified in the playbook, for instance, identifying the stock exchanges or other regulated trading venues involved; the relevant registers; central counterparties (CCPs) in cases where securities are centrally cleared; as well as operational agents responsible for the issuance and/or listing of securities, among others.

Banks are expected to identify the preferred operational agent(s), whether internal or external, to use in case of a bail-in. When the bank is using:

a. **an external agent:** the bank is expected to explain whether it has already established the necessary relationship (including contractual documentation) and whether it uses the agent under business-as-usual conditions (for corporate actions foreseen in the prospectus). The bank is also expected to

[2] Resolution phases are explained in Section 1.3. of EfB.

explain whether its contractual documentation includes specific provisions ensuring that the agent would also support the exceptional corporate events stemming from the bail-in and to which extent the contract is resolution-resilient.

b. **an internal agent**, i.e. a business unit or another entity of the group: the bank is expected to describe in detail the processes in place to ensure that it can perform the role of the operational agent in case of bank resolution. In particular, the playbook is expected to explain:
    - which specific roles the organizational unit or entity within the bank performs in business-as-usual and which markets this covers;
    - how the bank plans to ensure that the organizational unit or entity remain operational in bank resolution;
    - whether the bank has established a resolution-proof contract or service level agreement for this purpose;
    - whether the organizational unit or entity could be realistically replaced by a third party if necessary (within what timeframe and at what cost).

3.1.2. Communication

Like governance, communication is crucial for all aspects and phases of the bail-in operationalisation. To make sure that the playbook fulfils its purpose as internal document covering all actions by or on behalf of the bank, the following elements related to bail-in execution should be included in the playbook (including cross-references to any relevant document):

a. the guiding communication principles, providing an overview of the communication strategy for bail-in purposes in the preparatory phase, during the resolution weekend and bail-in implementation, and in the closing phase;
b. the main communication steps in the overall chronological display of operational steps, to ensure a comprehensive overview of the process and to identify interdependencies between the steps;
c. a reference or a link to the bank's separate stand-alone communication plan, which should provide more detailed information on the bank's general communication approach and messages in resolution.

For the communication aspects included in the bail-in playbook, in order to cover the expectation regarding the timeline of operational steps on communication, the playbook should describe the related internal process, including the responsible organisation unit(s) or committee(s), the tasks to be conducted (including validation steps), the flow of information, including communication channels and outputs to be prepared. For external execution, it should also include which information needs to be communicated to which internal (when the bank is using an internal agent) or external stakeholder (in particular relevant market authorities, trading venues, agents and the CSDs, including contact details, as appropriate). Banks are encouraged to show this overview in a flowchart.

Regarding the timeliness of the communication, banks are expected to determine which information can be communicated to whom and at what point in time, bearing in mind legal restrictions and requirements, market reactions and potential threats to financial stability or successful resolution

The playbook should rely to the extent possible on the communication means and channels used in going concern with the different stakeholders, provided they remain available in crisis.

3.1.3. Disclosure obligations

The playbook should assess and incorporate the bank's disclosure obligations for specific information, which may arise prior to or during the bail-in execution (e.g., in connection with the issuance of a prospectus, etc.), in accordance with the relevant regulations governing this matter. Furthermore, the playbook should outline the processes for identifying specific disclosure obligations, as well as the operational steps required to facilitate the publication of the Agency's decision to initiate bank resolution proceedings, pursuant to Article 234, Paragraph 2 of the Law.

The assessment of disclosure obligations, which might arise prior to and during the bail-in period, should cover all jurisdictions in which the bank has listed securities in connection to which there is a certain disclosure obligation.

The assessment should indicate whether the bank plans to request the application of waivers or temporary exemptions from certain disclosure requirements. This assessment should include a consideration of whether and how the bank would seek to make use of potential delayed disclosures in order to avoid disclosing information prior to publication of the resolution decision, which could prejudice the successful resolution of the bank or could require the resolution decision to be accelerated.

3.2. Identification of instruments and provision of data

The EfB stipulates in Principle 2.2., that banks have to make arrangements to ensure that the information to be submitted to the Agency (on instruments, processes and data) for the operationalisation of bail-in is up-to-date, complete, accurate and has been subject to a quality assurance process. Moreover, the banks are expected to demonstrate their MIS capabilities in the playbook. This section therefore provides guidance on the expectations for the playbooks regarding the identification of bail-inable instruments and the gathering and provision of data points for those instruments.

3.2.1. Identification of instruments

Banks are expected to identify the different instruments in order to operationalise the bail-in. This is an important part of the playbook for two reasons:

a. it sets out the basis for the provision of data for implementing the bail-in tool based on the resolution decision by the Agency;
b. it is a precondition to executing the bail-in.

In this regard, banks are expected to identify two broad categories of liabilities:

- liabilities excluded from the scope of bail-in pursuant to Article 249 of the Law and
- capital instruments and eligible liabilities subject to the write-down and conversion powers under Article 230 and 249 of the Law.

Banks are expected to identify instruments depending on their type, creditor hierarchy rankings and bank-internal specifics. The sequence of operational steps to identify each type of instrument is expected to be shown in the playbook, including a clear timeline. Banks are also expected to highlight potential challenges and/or obstacles for each step, with the objective of continuously improving readiness and resolvability.

The Agency may exclude or partially exclude certain liabilities from the application of bail-in, in accordance with the Article 249 of the Law where:

a. it is not possible to bail-in that liability in a reasonable time despite the necessary activities that the Agency would have undertaken to ensure the timely and effective application of that instrument;
b. the exclusion is strictly necessary and is proportionate to achieve the continuity of critical functions and core business lines of the bank under resolution;
c. the exclusion is strictly necessary and proportionate to avoid giving rise to widespread contagion, in particular as regards eligible deposits held by natural persons and micro, small and medium-sized enterprises, which would severely disrupt the functioning of financial markets, including of financial market infrastructures, in a manner that could cause a serious disturbance to the economy;
d. the application of the bail-in tool to those liabilities would cause a destruction in value such that the losses borne by other creditors would be higher than if those liabilities were excluded from bail-in.

The identification of liabilities that might possibly be subject to discretionary exclusion by the Agency shall be done by the Agency at the point of resolution tool execution.

The playbook is expected to document any legal, financial, operational, tax and accounting features that may be relevant to identify the instruments, or to establish the necessary processes. To determine these features, banks are expected to take into account the aspects listed below. The list is indicative and not exhaustive.

a) **Common Equity Tier 1 (CET1) items** – the regulation on calculating capital makes the distinction between the items and instruments to be counted as own funds. The Agency should cancel or proportionally write down all shares (or other instruments of ownership) and any other CET1 items. The playbook should distinguish between and describe CET1 items and any other items not included in CET1, and assess the extent to which they may (or may not) contribute to loss absorption.

b) **AT1 instruments and T2 instruments** – are expected to be identified in their entirety (if necessary), regardless of whether or not they count as own funds:

- AT1 instruments grandfathered under the regulation on calculating own funds[3] should be treated in the same way as AT1 instruments which meet all of the conditions;
- T2 instruments that are only partially included in the calculation of own funds because they are subject to the amortisation regime[4] should be treated in the same way as those T2 instruments, which are fully included in the calculation of own funds.

c) **Identification of accounting and economic hedges** - the playbook is expected to identify any existing hedges impacting or associated to CET1 instruments, AT1/T2 instruments and bail-inable liabilities. These hedges could be:

- Accounting hedges, either under International Financial Reporting Standards (IFRS) or the legal accounting regulations applicable to banks in Republika Srpska, which have been applied with the aim of eliminating excessive volatility in a bank's profit and loss account, and which are expected to be appropriately adjusted following the application of the bail-in resolution tool;
- Economic hedges on the interest rate (e.g. floating – fixed) or on foreign exchange (FX) risk for bail-inable instruments, which could end up as open positions post-bail-in. Those open positions might generate additional losses.

The playbook is also expected to lay down how the relevant hedges for the instruments covered in the bail-in playbook can be identified at the point of resolution. The need for the identification and mapping results from the bail-in process potentially leading to open hedges.[5] This is relevant from a risk management perspective as the bank exposes itself to market risks in both cases. As this can create additional losses the bank will need to react appropriately (e.g. close out the hedge).

d) **Funding or guarantees by group entities** - banks should identify liabilities held by group entities (independent of whether they are funded directly or indirectly by the bank), as well as the intra-group liabilities guaranteed by the bank. This identification should consider the prudential treatment of the instruments prior to resolution and in case of conversion.

e) **Contingent liabilities[6] and provisions[7]** - the banks are encouraged to identify in the playbook the different types of contingent liabilities and analyse those that may generate a liability when they materialise at the resolution date. Banks are also encouraged to analyse provisions and the national legal and accounting framework regarding those provisions in resolution and insolvency;

f) **Treatment of accrued interests** - it is expected that the accrued interest will be written down or converted together with the principal.

g) **Governing law and contractual recognition clauses** - to assess potential impediments to the recognition of bail-in, banks are encouraged to include an analysis of their instruments with regard to governing law, as well as the enforceability of contractual recognition clauses for instruments' issuances under third-country law[8].

h) **Counterparties and contagion risks** - banks are encouraged to include an analysis of the major counterparties and the related sectors, if this counterparty/sector is a significant (e.g. top 50) shareholder, bondholder or (if covered by the scope of the playbook) depositor. While this may not be relevant for the

[3] Decision on calculating capital in banks, Article 16.
[4] Decision on calculating capital in banks, Article 23.
[5] There are two cases: (1) The hedge is still in the books but the hedges instrument is written down or converted, and (2) the hedge is subject to bail-in but the underlying instrument is still in the books. The first case is going to apply for all underlyings that have a lower creditor hierarchy rank than the derivatives (say, if the bank hedged its T2 issuance). In practice, this case is therefore expected to be more relevant than the second case. The second case implies that the underlying has a higher rank than the derivative.
[6] Contingent liabilities are not recorded on the balance sheet and could be, as such, reflected as off-balance sheet items. Not all off-balance sheet items are contingent liabilities.
[7] Contingent liabilities should be distinguished from accounting provisions. Provisions are defined as liabilities (recorded on the balance sheet) of uncertain amount. A provision may relate to a contingent liability, although this is not always the case.
[8] Banking Law, Article 256.

bail-in execution process itself, it contributes to understanding the impact of a bail-in on external counterparties, as well as on the ownership structure of the bank. This will support the Agency in assessing the effect on potential contagion risk.

3.2.2. Data provision

The bail-in playbook is expected to include a list with the data points necessary for the following purposes:

a. Calculation and setting the bail-in perimeter in the context of the entire resolution strategy;
b. Required assessments of the Agency, such as the assessment to partially or fully exclude eligible liabilities to achieve the continuity of critical functions or avoid significant adverse effects on financial market[9];
c. Implementation of the bail-in.

Examples for such data points are the ISIN, the name of the CSD, the principal amount and accrued interests[10]. It is recommended that the playbook includes a table that specifies process details (e.g. information source, responsible area, and if the data point is provided manually) with respect to relevant type of instruments (e.g. ordinary shares, T2 instruments, etc.).

The list of required bail-in data points is based on the minimum list of data points defined by the Agency for the purpose of write-down and conversion. If the bank includes additional data points that have not been previously defined by the Agency, the bank is expected to explain the reason for the inclusion of a specific data point.

In line with Principles 2.2 Operationalisation of write-down or conversion and 5.3 MIS capabilities to produce necessary information and data for the effective application of resolution actions of the EfB, the playbook is expected to demonstrate the bank's MIS capabilities to support the gathering and provision of bail-in data. In other words, the banks are expected to demonstrate in the playbook how the different data points will be produced per each type of instrument. It should include a reference to the involved units and interactions between IT systems, the different outputs and output recipients, and the potential committees/units that are necessary to validate the processes. Banks are encouraged to use flowcharts in order to support the description of interactions.

In order to demonstrate the MIS capabilities, the playbook is also expected to describe how long it would take to generate the data points per type of instrument, to which extent the generation process is automated, and for which items workarounds would be applied.

3.3. Internal execution

As a key element of the playbook, banks are expected to include a detailed description of all internal processes related to the decision of the Agency to write down instruments and convert them to equity.

This description is expected to be in line with the sequence of write-down and conversion events envisaged in Article 253 of the Law, to be presented in a sequential view, and to be presented in graphic and/or tabular forms. The description is expected to name the responsibilities and tasks per unit (and entities, if relevant), as well as the relevant IT systems, the interaction between IT systems, associated information outputs (e.g. specific data report) and the output recipient for each operational step. The description is expected to be done separately per type of instrument.

A clear and detailed timeline is expected to be set for each individual step (also in a calendar view as deemed relevant), assuming that the resolution scheme will be published, for example, on Sunday evening or Monday morning.

Banks are expected to highlight manual steps per type of instrument, including the impact of those steps on the time schedule and use of resources. It is also expected to highlight potential challenges and/or impediments for each step, with the objective of continuously improving bail-in readiness and resolvability (among other things, the Agency's authority for the temporary suspension of certain liabilities).

[9] Banking Law, Article 249.
[10] Banks are not required to populate any table with figures in the playbook though.

The process description should be based on the assumption that the implementation of the bail-in decision will be based on a provisional valuation. It is important for banks to ensure that the economic losses predetermined on the basis of that provisional valuation can be recognised in the accounts during the resolution weekend.

Banks are therefore expected to describe the process to update their accounting balance sheet following Valuation 1 and Valuation 2. These valuations will produce amount of losses to be absorbed. The accounting value of assets will have to be adjusted to take into account the losses identified in the provisional valuation. The accounting value of liabilities will have to be adjusted accordingly under the relevant accounting standards on a consolidated and on an individual basis. Based on the adjusted accounting balance sheet, own funds will have to be calculated on a prudential basis.

Banks are expected to describe the capabilities and processes to produce financial information (according to Article 232, Paragraph 7 of the Law), including estimations of own funds requirements, taking into account the available inputs (e.g. determination of post-resolution capital requirements set by the Agency) and including the provisional valuation results. Although not exhaustive, the following aspects are expected to be envisaged by banks while drafting their playbook:

a) **Legal impediments**: The playbook is expected to provide further detail on the impact of a bail-in on the statute/articles of association and to clearly state if there are obstacles to the application of the bail-in related to the legal form of the bank. Furthermore, the playbook is expected to consider the impact that a change of ownership due to the application of the bail-in can have on:
   - authorisations to operate in other countries;
   - triggers of specific notifications (e.g. state aid/regulatory notifications);
   - qualifying holding assessments;
   - memberships in group/sectoral contracts and trade associations;
   - compliance of operations with the relevant legislation, by-laws or statutes[11];
   - approvals of issuances of capital instruments as CET1 instruments. In particular, banks should be able to provide the relevant information to the Agency as soon as possible after bail-in;
   - any other approvals that authorities may require for the new shareholders.
b) **Accounting impediments**: Legal and statutory reserves might pose a challenge during bail-in, either because they cannot be written down below a defined minimum level or because they would require specific treatments, which are expected to be presented in the playbooks in accordance with applicable laws;
c) **Tax impact**: The bail-in execution might have several tax impacts that are expected to be assessed by the bank in the playbook to the extent possible for each operational step.
d) **Instrument-specific features**: Specific features might trigger additional considerations. For example, liabilities issued in foreign currencies might have to undergo an FX conversion before being written down or converted. Any ensuing tax effect is expected to be assessed in accordance with the previous point. Another example of specific features might be the structured nature of the liability (e.g. a structured note). Additional expertise might be required in order to write down/convert such a liability and apply the correct impact on the ledger. Unlisted instruments might also imply different execution steps.
e) **Special Purpose Vehicles SPVs**: Depending on the importance of the SPV, in case of write-down or conversion of the liabilities of the bank held by the SPV, the bank should consider to mirror the economic effects of the bail-in in the SPV's book. In this case, the bank is expected to demonstrate how this will be done.
f) **Hedges**: Following up on sub-section 3.2.1. Item c) Identifying accounting and economic hedges, new accounting and economic hedges might be considered after bail-in in order to limit the volatility of the P&L after resolution and to deal with the risks weighing on the new capital position. The playbook is expected to consider re-hedging as an operational step for the relevant instruments and the update of the related required hedge documentation;
g) **Accrued interests**: Banks are not only expected to explain the processes related to the bail-in of the instrument itself (i.e. the principal) but also to the (partial or full) decrease of the value of the

[11] For example, if a creditor has a restriction regarding the holding of shares in other entities.

corresponding accrued interest. This may involve processes, units and IT systems that are different from those for the principal amount (see also 3.2.1. Item d) Possible obligations and provisions for further information).

h) **Liabilities held by the bank itself**: Banks might hold instruments issued by themselves that fall into bail-inable classes (e.g. treasury shares; subordinated liabilities kept for market making and funding strategy purposes). Those instruments are expected to be clearly identified; an assessment of any impact on legal risk, tax or balance sheet reduction following bail-in is expected.

i) **Adjustment of assumptions**: In line with Article 15, Paragraph 5 of the Decision on the conditions and manner of performance of independent assessment of value assets and liabilities of the bank before and during resolution proceedings of the bank („Official Gazette of Republika Srpska" No. 20/18), the bank is expected to be able to apply adjustments to assumptions and accounting policies (i.e. the specific principles, bases, conventions, rules and practices applied by the bank to prepare its financial statements) necessary for the preparation of the updated balance sheet in a way that is consistent with the applicable accounting framework as much as possible. This includes production of an updated balance sheet (post-resolution) as well as an explanation of the necessary steps to be done for the adjustments of the systems to produce the balance sheet taking into account assumptions and adjustments arising from the valuation.

j) **Bail-in adjustments**: Assuming that the bail-in execution will be performed following the provisional valuation, any discrepancy between the definitive and provisional Valuation 2 could lead to a revision of the amount to be written down and/or converted. The playbook is expected to present the process through which the correction ensuing the definitive Valuation 2 will be undertaken and how the ledger will be updated. The bank should be ready to adjust the accounts once the definitive valuation is available.

3.4. External execution

According to EfB Principle 2.2., bail-in playbooks should contain information on arrangements for the external[12] execution of write-downs and conversions. Banks need to have systems and resources in place to generate rapidly the necessary information, including ISIN or other relevant information code and CSDs in which the securities are issued and are subject to safekeeping. It is also expected that playbooks identify the agents that would need to be involved in executing the write-down and conversion.

The bank is expected to describe the process to execute a write-down and conversion of relevant securities (including related timelines) and to identify potential obstacles to the execution of each necessary step. Securities may be aggregated where meaningful. e.g. per market issuance/listing, governing law, or per type of security. The expectations for internal execution listed in section 3.2. of this guidance will also apply for external execution.

This process for external execution will differ depending on, amongst others:

- Whether the securities are listed and traded on a regulated market;
- Whether the securities to be written down and converted and the new securities to be issued are held within one or several CSDs;
- the location (the country) of issuances, if any;
- Any other relevant specificities which may arise from the law governing securities, the rules of a stock exchange or a registry, etc.

If the need for a particular action rests on a decision by the Agency, this is expected to appear clearly in the playbook, and the bank is expected to mention on what assumptions this is based.

a) <u>Trading suspension and delisting [exchange]</u>

The bank is expected to identify and/or describe:

- Whether the security is listed and traded on a regulated market (and/or other trading venues), and, if yes, on which one, and, for each market, which is the relevant market authority;

[12] The external execution of write-down and conversion entails the involvement of certain stakeholders (third parties), such as CSDs, in order for the write-down and conversion to be carried out in the ledger.

- Whether the security would be cancelled and/or subsequently delisted from the exchange;
- The different steps involved in ensuring a trading suspension and delisting;
- Which information may be needed by the market operators, and by which time they would need to receive this information.

b) Write-down and cancellation [CSD]

The bank is expected to identify and/or describe:

- the ISIN or other codes and the name of the issuances;
- the internal and external stakeholders involved, and in particular the CSDs where the securities have been issued and are being safekept;
- The different steps involved in the write-down of the different securities with, to the extent possible, the time it would take to execute each step;
- The information necessary for the CSD to execute the write-down on its books;
- The different agent(s) that the bank would use to ensure that operational information is adequately transmitted to the relevant common depositories and common service providers;
- The relevant governing law;
- If the securities are meant to be cancelled, how cancellation would be ensured, i.e.:
    - Roles and responsibilities with regard to ensuring that the CSD cancels the securities in its books;
    - Under what circumstances the CSD would record the cancellation according to its internal rules;
    - Steps and duration of the cancellation process.
- The expected treatment of forthcoming payment events taking into account the creditor hierarchy, the steps that the bank would take to operationalise such treatment and the information it would provide to the relevant CSDs.

c) Conversion of securities and issuance of new shares or other instruments of ownership [CSDs]
The bank is expected to identify and/or describe, in addition to the items listed above:

- The CSD(s) where the equity securities will be issued and kept in book-entry form. If this CSD is different from the CSD in which the converted securities have been issued, this is expected to be clearly mentioned;
- How the security will be structured with a view to meeting the eligibility requirements of the relevant CSD(s), including the ICSDs, if appropriate;
- Where appropriate, the steps that would be followed (including information to be prepared, forms to be filled etc.) and time needed to prepare the new global note or similar document for registration with the CSDs and obtain ISIN or other codes for the new shares or other instruments of ownership;
- The different steps involved in the conversion and issuance with, to the extent possible, the time it would take to execute each step.

When the issuing CSD differs from the CSD executing the write-down and/or conversion - CET1 instruments are usually foreseen to be issued in the relevant domestic CSD in Republika Srpska . Some of the instruments that would be written down and/or converted are safekept in other CSDs, either in the same country or in a different country. In that case, the bank is expected to describe how an alignment can be ensured in spite of any de-synchronised operations at the different CSDs.

d) Listing and (re-)admission to trading and to clearing [exchange, CCP]

Per country and per type of securities that would be listed/admitted to trading (or re-listed/re-admitted to trading in case the security is not cancelled but merely temporarily suspended from trading), the bank is expected to identify and/or describe what type of securities it expects the instrument (re)admitted to trading to be. The bank should for example distinguish between:

- New CET1 instruments listed and admitted to trading for the first time;
- Partially converted debt instruments re-listed/re-admitted to trading or for which the suspension of trading would be lifted.

In cases where new instruments are foreseen to be listed and traded on a regulated market, the bank is expected to identify and/or describe:

- How it would be described in the information notice, prospectus or other documentation (in broad lines), as appropriate;
- How it would be structured with a view to meeting (if applicable) the listing requirements[13] of the relevant regulated market and the eligibility requirements of the relevant CCPs.

In all cases, the bank is expected to identify and/or describe:

- The operational timeline for ensuring (re-)listing and (re-)admission to trading, and the target date for submitting the request;
- The process for (re-)listing and (re-)admission for trading;
- Information needed by the exchange (besides the content of the information notice mentioned above), including consequential obligations of being listed.

e) Bail-in adjustments [CSD]

Where bail-in is based on a provisional valuation and a definitive valuation is established later in the process, this may have consequences for the extent of the cancellation, transfer or dilution of shares, and of the write-down or conversion of relevant instruments. The bank is expected to describe the steps it would take to ensure that the outcome of a possible definitive valuation is adequately reflected in the books of the relevant CSDs. This may happen, for example, through revaluation of bonds by increasing or decreasing the nominal value of the bond after the initial write-down, etc.

When the issuing CSD differs from the CSD executing the write-down and/or conversion, CET1 instruments are usually foreseen to be issued in the domestic CSD. If the issuing CSD differs from the CSD executing the write-down and/or conversion, the bank is expected to describe any discrepancies that could be caused by de-synchronised operations at these different CSDs and how alignment can be ensured. Elements that could support alignment are:

- The use of a single operational agent across markets;
- strict adherence to the bank resolution decision, e.g., the date for executing a write-down or conversion;
- Timely information flow to all relevant CSDs.

4. TESTING OF THE PLAYBOOK

4.1. Objectives and testing scope

In order to meet the requirements set in the this guidance, banks are expected to perform regular dry-runs.

No bail-inable liability should be excluded by default from the dry-run exercise.

4.2. Testing methodology

Dry-runs intend to test the operationalisation of the bail-in playbook and the MIS capabilities for providing up-to-date and complete information and data for bail-in execution and in order to test the processes explained in the bail-in playbook.

Banks are expected to include all sections of the bail-in playbook and MIS capabilities for bail-in data in the scope of dry-runs, with a particular focus on the areas that are essential for achieving resolvability (e.g. the implementation of the PRS). A staggered approach is to be taken, starting with a dry-run focused on

[13] Although Article 255, Paragraph 2, Item 3) stipulates that the Agency may carry out necessary actions or require that appropriate acts be adopted and all necessary actions be taken by other competent authorities to execute the write-down and conversion and/or the implementation of a bail-in tool, the bank should design an instrument that fulfills all such requirements.

data and a critical review of the internal execution process while other elements of the playbook shall be reflected in further, subsequent tests.

Banks are expected to perform the regular bail-in testing based on the guidance communicated by the Agency.

Banks are expected to identify open questions/issues in their dry-runs and in particular technical/operational and legal obstacles for the implementation of the bail-in tool. Banks are expected to provide a report of the dry-run comprising lessons learnt and a gap analysis.

4.3. Dry-run components

4.3.1. Governance and crisis management

Banks are expected to test the governance in place for the operationalisation of the bail-in tool in order to evaluate the roles and responsibilities and to practise crisis preparedness, escalation procedures and decision-making process.

Banks are expected to test the processes for the preparation of the communication for the operationalisation of the bail-in tool including preparedness and awareness of need for alignment of communication with the Agency and test the availability of quickly available and reliable communication.

Banks are expected to test the approval modalities and the robustness of quality assurance processes for the operationalisation of the bail-in tool.

4.3.2. Internal execution

With regard to internal execution, banks are expected to test the operationalisation of the write-down and conversion of capital instruments and bail-inable liabilities. Based on the aspects outlined above, banks are expected to test the processes/ workflows with associated timelines, which data points will need to be generated and specifically how processes are linked to them.

Furthermore, banks are expected to test the processes for: the identification of liabilities mandatorily excluded from bail-in; indicating certain liabilities that might require the Agency's assessment concerning a potential need for discretionary exclusions in resolution; flagging in the banks internal systems of liabilities subject to netting settings and identifying secured liabilities subject to collateral agreements.

The testing exercise of the internal execution should cover the following key elements:

- **Sequence of events and operational considerations** - banks are expected to test the sequence of events for the internal execution of the bail-in tool.
- **Accounting and balance sheet considerations** - banks are expected to test all relevant accounting/balance sheet considerations necessary to administer and implement the bail-in. In addition, the bank should test the following aspects:
  - test the loss recognition in the accounts/records of the bank;
  - test the approvals and the time scales for the recognition of the losses in the accounts (e.g. role of the Managemen and Supervisory Board, internal and external auditors, etc.);
  - test the impact of a write-down on any related hedging arrangements;
  - test the production of a new balance sheet/material line items (post-resolution) in line with the applicable accounting standards.
- **Legal considerations** - banks are expected to test all legal considerations that might occur in the context of the internal execution of the bail-in tool (e.g. treatment of employee stock option arrangements, amendment of the statute of the bank under resolution, etc.).
- **Tax considerations** - banks are expected to test/simulate (or, at least, critically reflect on) all tax considerations of the bank under resolution.
- **Communication and other considerations** - banks are expected to test the communication to management bodies that has to be prepared with regard to the internal execution of the bail-in tool, as well as any other considerations that have to be taken into account with regard to the write-down and conversion of capital instruments and eligible liabilities.

4.3.3. External execution

The purpose of dry-runs conducted by banks is to test and evaluate the operational readiness for bail-in execution of a bank itself, not the readiness of external parties or their processes (e.g. CSDs).

Preparatory steps to facilitate external execution and ensure certainty of the bail-in process are expected to be confirmed during dry-runs, while readiness of external parties or their processes shall remain out of the scope of the banks' dry-run. Preparatory steps that banks can take up until the point where data is received by the CSD include, among others: the responsibility for sending instructions, the availability of data points required, the time, tools, templates and responsibilities for preparing instructions and the data generation responsibilities and tools used by contributing divisions/units in the bank.

4.3.4. MIS capabilities

Successful implementation of the bail-in tool depends fundamentally on the capabilities of the banks to deliver, upon request from the Agency, timely, complete and high-quality data at short notice. Banks' ability to provide bail-in data should be considered in the context of the EfB setting out the capabilities that banks have to demonstrate in order to achieve their resolvability. One of these components addresses "Information systems and data requirements" and therefore directly refers to the appropriateness of banks' MIS to extract in a timely and complete fashion the liability data for bail-in implementation.

Banks should prepare their data infrastructure for bail-in and initiate necessary IT projects in order to become compliant with the Agency's requirements arising from the EfB.

Banks are requested to conduct testing of their MIS capabilities for the ad-hoc provision of bail-in data, and the main elements of the testing exercise (and report thereof) should cover: the availability of the data point, time needed to produce the data point in a going concern and a FOLTF situation, internal or external processes relevant for the data point, MIS system(s) involved, level of automation, sources as well as any obstacles encountered. Banks are expected to be able to produce the bail-in data points within 24 hours. Where applicable, banks are expected to provide clear evidence on the credibility of workarounds/manual adjustments.

Banks are expected to provide a report summarising the outcome and lessons learnt from the bail-in dry-run and elaborating on the main elements of the testing exercise as outlined above. Based on the results of the testing exercise and the follow-up discussions with the Agency, the banks should, if need be, refine their resolvability work programme to address the main shortcomings. In addition, the bail-in playbook might be updated following lessons learnt from the testing. The banks' work programme should enable the banks to increase the efficiency of their MIS capabilities progressively. Specifically, the said work programme should include remedial actions that address shortcomings regarding the availability, quality, accuracy, completeness and timely delivery of the bail-in data.

5. FINAL PROVISIONS

Operational guidance on bail-in playbooks shall enter into force on the eighth day from the date of adoption, and shall be published on the Agency's official website.

For a bank for which the Agency, in the resolution plan in effect on the date of entry into force of this act, has designated bail-in tool, whether applied individually or in combination with another resolution tool, as the preferred resolution tool, the expectations set out in this guidance shall be implemented by 31/12/2026.

For a bank for which, under the applicable resolution plan, bail-in tool, whether alone or in combination with another resolution tool, is not designated as the preferred resolution tool, but for which such a tool is subsequently determined, the expectations set out in this guidance should be implemented within two years from the date of receipt of the notification regarding the preferred resolution tool.

Number: D-17/24

Date: 20 June 2024

Director

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Srđan Šuput

ANNEX 1.

Bail-in dry-run scenario

For initiating the regular bail-in testing, upon request by the Agency, banks are expected to conduct a dry-run based on the following assumption setting:

- The order of the write-down and conversion will first be applied to outstanding own funds instruments on a pro-rata basis in each own fund class (CET1, AT1 and T2) and then follow, as a general rule, the order of the creditor hierarchy under the insolvency law applicable;[14]
- Losses occur at the level of the bank, if it is a banking group;
- Reference date shall be the closest date to the dry-run;[15]
- In principle, the total amount of losses to be absorbed should at least equal the overall capital requirement[16], and the recapitalisation action should lead to meeting the bank's own funds requirement, both on a consolidated and on an individual basis. The bank is expected to consider a larger amount of losses in order to make the outcome of the dry-run more relevant;
- CET1 items other than capital instruments and share premium accounts, such as retained earnings, accumulated other comprehensive income, other reserves, and reserves for general banking risks, would unrestrictedly absorb losses before write-down and conversion powers are applied to capital instruments and share premium accounts;
- For the purpose of this exercise, the bank and the Agency will agree on the potential application of a balance sheet depletion effect as applicable;
- To the extent that losses cannot be absorbed by outstanding ownership instruments, these instruments are cancelled and new ownership instruments pertaining only to a single hierarchy class (e.g. ordinary shares) will be issued to bailed-in creditors (i.e. no need to consider issuance of new AT1 or T2 instruments).

ANNEX 2.

Minimum bail-in data set



Минимум података
за потребе примјене

[14] Stipulated by Articles 269 and 279 of the Banking Law.

[15] For example, assuming that a hypothetical bank resolution were to take place over the weekend, a significant portion of the bail-in data should reflect the position as of the end of Friday (the reference date) immediately preceding the write-down and conversion itself.

[16] Overall capital requirement = Pillar I + Pillar II