

Pursuant to Article 9. Paragraph (1) Item h) and Article 19, Paragraph (1) Item c) of the Law on Banking Agency of the Federation of Bosnia and Herzegovina (“Official Gazette of the Federation of BiH”, issue No. 75/17), Articles 132, 133, 135, 136 and 248 of the Law on Banks (“Official Gazette of the Federation of BiH”, issue No. 27/17), the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina, at its session held on October 13, 2017, adopted the following

**DECISION
ON RECOVERY PLANS OF BANKS AND BANKING GROUPS**

I. GENERAL PROVISIONS

Subject of Decision

Article 1

- (1) This Decision shall prescribe in more detail the contents of the recovery plan of a bank, i.e. recovery plan of a banking group, over which the Banking Agency of the Federation of Bosnia and Herzegovina (hereinafter referred to as: The Agency) is performing the supervisory function, the manner and the deadlines for submitting the recovery plan and its amendments, and assessment of the recovery plan.
- (2) The bank shall be under obligation to develop the recovery plan in compliance with this decision that shall contain the measures that the bank would apply in case of a significant worsening of its financial condition, with the objective of re-establishing sustainable business operations and an adequate financial position of the bank, proportional to the type, the scope, and the complexity of the operations being performed by the bank, as well as with the risk profile of the bank.
- (3) The supervisory board of the bank shall, upon a proposal of the management of the bank, adopt the recovery plan, as well as amendments to the recovery plan, which shall be submitted to the Agency for reexamination and assessment. Contents of the recovery plans shall represent a commercial secret in compliance with Article 132, Paragraph (3) of the Law on Banks (hereinafter referred to as the Law).
- (4) The bank shall be under obligation to revise the recovery plan at least once a year, or when the following circumstances onset:
 - a) an event, i.e. a change that concerns the legal and/or organizational structure of the bank, the business model or the financial condition of the bank, which may have a significant impact on the final execution of the plan;
 - b) changes in the assumptions that were used in the course of development of the plan, which may have a significant impact on the final execution of those plans;
 - c) other changes that affect the contents of the recovery plan and the possibility of its application in full or application of one or more recovery measures that are contained in the recovery plan;
 - d) when the Agency so requests, on the basis of items a) or b) of this Paragraph, or when the Agency assesses that there are significant shortcomings in the plan, or significant obstacles in the implementation of the plan in compliance with Article 134, Paragraph (4) of the Law.
- (5) The bank shall be under obligation to regulate in the recovery plan or other internal enactments the manner and the pace of updating the recovery plan, including the manner and the pace of performing the assessment of whether circumstances have onset that may lead or have led to the onset of the changes referred to in Paragraph (4) of this Article.

Terms

Article 2

Individual terms being used in this Decision shall have the following meanings:

- a) individual recovery plan shall mean the recovery plan that the bank has developed in compliance with Article 132 of the Law;
- b) recovery plan of the banking group shall mean the recovery plan that the bank has developed plan in compliance with Article 135 of the Law;
- c) recovery plan shall mean an individual recovery plan or a recovery plan of the group;
- d) critical functions shall pertain to activities, services, or operations whose termination of performance would probably lead to a threat being posed on the stability of the financial sector or disruptions in the provision of necessary services to the real sector due to the size and market share of the entity that is providing them and its connectiveness with other actors in the financial sector, and especially taking into account the possibility of someone else taking over the performance of those activities, services, or operations, without impediments;
- e) core business lines shall be the business lines and services connected with those lines, whose performance executes a significant portion of revenues or profits for the bank or the banking group to which the bank belongs;
- f) critical services shall be those services that are being performed in one or more operating units of the bank or legal persons within the group (shared services) that are necessary for the performance of one or more critical functions;
- g) indicators (indicators) shall pertain to qualitative and quantitative financial data on the financial condition of the bank on the basis of which it is determined when a corresponding measure from the recovery plan may be undertaken;
- h) recovery measure shall pertain to a set of one or more managerial activities of strategies that need to be undertaken by the bank, which are defined under the recovery plan and which are designed with the objective of maintenance or re-establishment of financial stability in the situation of financial disturbances;
- i) recovery options (possibilities) represent one or more activities, agreements, measures, or strategies of the bank or the banking group covered under the recovery plan, which are envisaged for re-establishment of sustainable business operations of the bank or the banking group in situations of serious financial disturbances, whose main objective is to ensure sustainability of critical functions (if provided by the bank) and core business lines.

II. CONTENTS OF RECOVERY PLAN

Basic Information

Article 3

- (1) Recovery plan shall contain the following parts:
 - a) summary review of key elements of the recovery plan (hereinafter referred to as: summary);
 - b) information on the allocation of duties and responsibilities relating to the development, updating, and implementation of the recovery plan, i.e. information on the management of the recovery plan (hereinafter referred to as: information on management);
 - c) indicators of the threats upon the financial position and business operations of the bank;
 - d) strategic analysis;
 - e) communications plan and public disclosures;
 - f) analysis of preparatory measures, and
 - g) information of stress testing of the recovery plan.
- (2) The portions of the recovery plan referred to in Paragraph (1) of this Article shall represent separate and separately marked and described units in the recovery plan.

Summary of Recovery Plan

Article 4

Summary of the recovery plan should contain the following:

- a) a summary of the key portions of the recovery plan referred to in Article 3, Paragraph (1), Items b) to g) of this Decision, with a special insight into the part of the recovery plan under Item d) “strategic analysis”, whose review shall have to contain a list and a brief description of all recovery measures, assessment of effects of application of each recovery measure, as well as an assessment of the possibility of their implementation, and, therefore, an assessment of the total capacity of the bank to affect, by applying the determined recovery measures, the re-establishment of sustainable business operations and an adequate financial position of the bank in scenarios of financial disturbances;
- b) a summary of significant changes that have onset in the bank or the banking group or the recovery plan since the most recent delivery of that plan to the Agency;
- c) a review of organizational changes and/or changes in procedures and similar changes with the planned deadlines for their implementation, which are necessary for the implementation of the recovery plan.

Information on Management

Article 5

The recovery plan, in the part that relates to management, must include a detailed description of information on:

- a) the manner of development of the recovery plan, including the following:
 - 1) the role and the function of persons responsible for the preparation, implementation, and updating of each part of the plan, and of the plan in its entirety;
 - 2) description of procedures in the situations in which the recovery plan needs to be amended because of significant changes that affect the bank or the banking group and their environment;
 - 3) description of the manner in which the recovery plan is included in the system of corporate governance of the bank or the banking group and in the risk management system, especially in regard to the risk profile and the connection of the recovery plan with stress testing in the internal capital adequacy assessment process (ICAAP);
 - 4) if the bank is a part of a banking group, the description of the measures and arrangement that would be established within the framework of the group with the objective of ensuring the coordination and consistency of recovery measures at the level of the group and individual subsidiaries;
- b) the manner of approval of the recovery plan, including the following:
 - 1) information on whether the recovery plan was assessed by the internal auditor, external auditor, or the board of risks;
 - 2) confirmation of the fact that the recovery plan was assessed and approved by the supervisory board of the bank;
- c) conditions and procedures that are necessary for ensuring timely implementation of recovery measures, including the following:
 - 1) a detailed description of indicators in compliance with the requirements referred to in Articles 6 and 7 of this Decision;
 - 2) description of the procedure for decision making on the implementation of a certain recovery measure that would represent a response to the situation of a serious financial disturbance when individual indicators reach the value defined in the recovery plan for the consideration of undertaking the measures from the recovery plan (including the role and the functions of the persons who are involved in that procedure, the procedures that need to be applied, and the time and the manner of informing the Agency of the indicators having reached the determined values);
- d) consistency of the recovery plan with the general framework for risk management of the bank or the banking group, including the description of the early warning indicators that

are being used as a part of the regular internal process of risk management of the bank or the group, and which may represent a useful source of information for the management on whether there is a possibility of reaching the borderline value of the indicator from the recovery plan;

- e) system of internal information and reporting, including the description of the manner of ensuring timely availability of reliable information that are necessary for decision making on the application of recovery measures in situations of serious financial disturbances.

Indicators in the recovery plan

Article 6

- (1) The bank shall be under obligation to determine in the recovery plan the indicators that reveal potential vulnerabilities, weaknesses, or threats in different areas of business operations, and that, if they reach a certain borderline value, point to the fact that the corresponding recovery options can be undertaken for the purpose of preserving or re-establishing sustainable business operations and satisfactory financial position of the bank. The indicators shall, especially, cover the following areas of business operations:
 - a) capital;
 - b) liquidity;
 - c) profitability;
 - d) risk profile of the bank, and especially asset quality.
- (2) In addition to the areas referred to in Paragraph (1) of this Article, the bank shall be under obligation to determine the macroeconomic indicators (for example, changes in the gross domestic product) and market indicators (for example, changes in the exchange rate, changes in the credit rating, changes in the prices of shares), except if, in the recovery plan, it explains in detail and in a satisfactory manner, why those indicators are not appropriate for the bank, taking into account its legal structure, risk profile, size, and complexity of operations it is performing.
- (3) The indicators referred to in Paragraphs (1) and (2) of this Article relate to the financial position of the bank, if it concerns a recovery plan on the individual basis, or the financial position of the banking group, if it relates to a recovery plan of a banking group.
- (4) The indicators must be quantitative and qualitative and simple to monitor. The borderline value of the prescribed indicators must be higher than the minimum value prescribed, and sufficiently high to be able to ensure the consideration of measures from the recovery plan before any breach of the regulations that regulate those indicators, i.e. it shall have to be determined in such a manner to facilitate the bank to undertake, in a timely manner, the recovery measures, wherein the bank should consider the use of progressive levels (“the semaphore approach”) with the objective of informing the bank management of the fact that the indicators may reach a certain borderline value.
- (5) In the course of determination of indicators of business operations, one must take into account that they nature and the number correspond to the size of the bank, the complexity of operations, the risk profile of the bank, and the system of indicators that the bank is already using in the process of regular risk management.
- (6) The capital indicators referred to in Paragraph (1), Item a) of this Article must include the following, at the minimum: regulatory capital adequacy rate, regular core capital adequacy rate, and the financial leverage rate.
- (7) Capital indicators should be selected in such a manner to point to the significant existing or probable reduction of the amount and worsening of quality of the capital, and to an increase in the financial leverage.
- (8) Capital indicators should be included in the internal capital adequacy assessment process (ICAAP) and the existing risk management system.

- (9) The borderline values of the capital indicators should be determined in compliance with the risk profile of the bank and the time necessary for activation of recovery options, taking into account the possibility of recovery with that option, and how fast could the capital position change, depending on the individual characteristics of the bank.
- (10) The borderline values of the capital indicators should be determined in such a manner to ensure sufficient distance from the point of failing to meet the prescribed capital requirements, including the minimum of requirements that are prescribed under Article 27, Paragraphs (2) and (4) of the Law, but without taking into account the requirements for protective capital buffers that are prescribed in Article 27, Paragraph (5) of the Law.
- (11) The liquidity indicators referred to in Paragraph (1), Item b) of this Article must include, at the minimum: indicators of maturity matching of financial assets and liabilities, the liquidity coverage ratio (LCR), and the net stable financing ratio (NSFR).
- (12) Liquidity indicators must reflect short-term and long-term liquidity, as well as the financing needs of the bank, and point to any dependence on the money market and household deposits, and separate liquidity in different currencies, if relevant.
- (13) Liquidity indicators should also cover other potential needs for liquidity and sources of financing, and especially the sources of financing by the members of the banking group, as well as the needs that result from off-balance sheet items.
- (14) Liquidity indicators should be included in the internal liquidity adequacy assessment process (ILAAP) and the existing risk management system.
- (15) The borderline values of the liquidity indicators should be determined in compliance with the risk profile of the bank, taking into account how fast the liquidity situation may change depending on the specific characteristics of the bank, the time necessary for activation of recovery options, as well as the possibility of recovery with application of that option.
- (16) The borderline values of the liquidity indicators should be determined in such a manner to ensure sufficient distance from the point of failing to meet the prescribed liquidity requirements.
- (17) The profitability indicators referred to in Paragraph (1), Item c) of this Article must include, at the minimum: return on assets (ROA), return on capital (ROE), and significant losses on the basis of operating risk.
- (18) The asset quality indicators referred to in Paragraph (1), Item d) of this Article must include, at the minimum: the indicator of the share of nonperforming loans in total loans, the indicator of the growth rate of nonperforming loans, and the coverage of nonperforming loans with corrections of value.
- (19) Asset quality indicators should measure and facilitate the monitoring of developments in assets of the bank, including the quality of off-balance sheet exposures.
- (20) The bank shall be under obligation to explain in detail in the recovery plan the indicators and the borderline values of the indicators and to demonstrate that those values are set high enough to be effective.
- (21) The recovery plan must contain a precise definition of each selected indicator. If the calculation of an individual indicator is prescribed, the bank shall be under obligation to explain in the recovery plan each discrepancy from the prescribed manner of calculation of the selected indicator. The bank may omit some of the obligatory indicators if it explains, in the recovery plan, in detail and in a satisfactory manner, why those indicators are not appropriate for the bank in view of its legal structure, the risk profile, the size and the complexity of operations it is performing, but it shall be under obligation to include at least one indicators from each of the areas of business operations referred to in Paragraph (1) of this Article.
- (22) In the process of updating of the recovery plan, the bank shall be under obligation to reexamine the justifiability of using the selected indicators and their determined borderline values.

- (23) Indicators in the recovery plan and the borderline values determined for undertaking recovery options shall have to be:
- a) correspondent to the business model, the strategy, and the risk profile of the bank;
 - b) appropriate for the size and the complexity of operations being performed by the bank;
 - c) capable of warning of the situations of serious financial disturbances;
 - d) consistent with the existing risk management framework, as well as indicators in the capital plan, i.e. liquidity plan, and plans for ensuring the continuity of business operations;
 - e) included in the system of corporate governance and the decision-making process, in a manner that ensures that the members of the managerial bodies and other managers of the bank are timely and fully informed on the possibility of application of the corresponding recovery options. The process of decision making must be documented, of which the Agency must be informed timely and fully.
 - f) forward looking (in English, forward looking indicators).
- (24) The bank shall be under obligation to submit to the Agency a review of determined indicators for each area of business operations, as an integral part of the recovery plan (Attachment 1).

Monitoring of Indicators in Recovery Plan

Article 7

- (1) The bank shall be under obligation to establish an adequate system of regular monitoring of the selected indicators, and regulate, in internal enactments, the pace and the manner of monitoring, as well as the process of reporting.
- (2) If, on the basis of regular monitoring of selected indicators, the bank determines that they have reached a borderline value, the bank management shall be under obligation to make a decision, within the deadline of five working days, at the longest, on undertaking or abstaining from undertaking the recovery measures from the recovery plan, and to inform the Agency of that, without any delay. If the bank has made a decision on abstaining from undertaking the measures from the recovery plan, it shall be under obligation to explain that decision in detail.
- (3) The management of the bank may make a decision on undertaking the measures envisaged under the recovery plan, if the determined indicators have not reached the borderline values, and shall be under obligation to inform the Agency of that without any delays.

Strategic Analysis

Article 8

- (1) The bank shall be under obligation to determine, in the strategic analysis, the critical functions and the core business lines, and to determine the procedures that are necessary for ensuring their functioning in the situations of serious financial disturbances.
- (2) The critical functions and the core business lines must be determined in a sufficiently granular manner (for example, retail deposit operations, retail credit operations, corporate deposit operations, corporate credit operations, payment transactions, etc.).
- (3) When determining whether an individual function is a critical function, the Bank shall be under obligation to analyze the following, at the minimum:
 - a) the impact of termination of provision of that service on third parties and the financial system in its entirety;
 - b) the market of the subject service, at the minimum from the aspect of concentrations in that market;
 - c) the possibility of the provision of the subject service being taken over by another service provider, with a comparable scope and quality, and with acceptable costs for the client, within a reasonable deadline.
- (4) Strategic analysis in the recovery plan must include the following:

- a) information on the bank and the members of the banking group to which the recovery plan relates;
- b) recovery options and measures that would be applied within the framework of each of the determined options.

Information on Bank and Members of Banking Group from Recovery Plan

Article 9

- (1) Information on business operations of the bank, i.e. banking group, shall contain the following:
 - a) Description of the organizational structure of the bank, i.e. the banking group, with an organizational diagram of the bank, i.e. the banking group.
 - b) Description of business activities of the bank shall contain the following, at the minimum:
 - 1) summary description of the business strategy and the risk management strategy of the bank;
 - 2) description of the business model and the planned business activities of the bank;
 - 3) description of critical functions, with the list of reasons for determination of individual activities, services, or operations, as critical functions, i.e. explanation for why the bank determined that it had no critical functions;
 - 4) description of the core business lines of the bank;
 - 5) description of the procedures and methods that the bank applied in the analysis and determination of critical functions and core business lines;
 - 6) information on distribution of critical functions and core business lines within the bank, i.e. to subsidiaries;
 - 7) description of activities and systems in the bank that are necessary for continuous performance of operating activities of the bank.
 - c) Description of the economic, organizational, financial, and operational connections of the bank and other legal persons within a banking group, if the bank is a member of such a group, which shall contain, at the minimum:
 - 1) significant exposures and flows of capital and other forms of financing within the banking group, existing guarantees provided within the group, as well as guarantees whose contracting is, if necessary, envisaged under the recovery plan of the banking group;
 - 2) legally binding contracts and other agreements that are concluded within the banking group;
 - 3) the manner in which the members of the group are operationally connected so that the functions, that are significant for the group as a whole or for the bank or other members of the group, may be centralized with the bank or one of the other members of the group;
 - 4) agreements on financial support within the group, listing the specifics of those agreements (the name of members of the group as signatories to the agreement, the purpose and the conditions under which financial support is being provided, etc.).
 - d) Descriptions of connections with third persons, including the following information on:
 - 1) significant exposures and obligations of the bank towards one single person or a group of connected persons;
 - 2) significant products and services that the bank (or a member of the group, if it is covered by the recovery plan) is providing to other participants in the financial market;
 - 3) significant services that are being provided to the bank by third persons.
- (2) The bank shall be under obligation to submit to the Agency a review of its critical functions and core business lines as an integral part of the recovery plan (Attachments 2 and 3).

Recovery Options (Possibilities)

Article 10

- (1) The recovery plan must contain a broad selection of recovery options that shall represent a response to situations of significant worsening of the financial condition of the bank. Recovery options should be such that one can expect that their application would facilitate the bank to re-establish sustainable business operations and adequate financial condition.
- (2) Recovery options must be described in such a manner that it is possible to assess the performance and the applicability of each of the recovery options.
- (3) Recovery options should include regular measures that are usual in business operations of the bank or the member of a banking group covered by the recovery plan, as well as extraordinary measures. A certain measure from the recovery options may envisage changes in business operations of the bank or a member of the banking group and, in that case, such a fact cannot be the reason for its exclusion from recovery options.
- (4) The recovery plan shall, also, include options that the banks will undertake if conditions are met for early intervention in compliance with Article 164 of the Law.
- (5) The use of extraordinary financial support from budget and other public funds cannot be determined as a recovery option.

Contents of Recovery Options

Article 11

- (1) The bank shall be under obligation, in the portion of the recovery plan that relates to recovery options, to list the description of all recovery options with their detailed description and analysis of each of the options, and determine at which level of the borderline value of the selected indicator it is planned to consider and undertake each of the options.
- (2) Recovery options must contain a review and description of the planned activities, measures, strategies, or agreements from each of the following areas:
 - a) activities from the area of capital that are preservation or re-establishment of sustainable business operations and financial condition of the bank, whose objective is to ensure sustainability of critical functions and core business lines; including the agreements and measures whose main objective is to preserve or re-establish the necessary level of regulatory capital of the bank through recapitalization or internal measures for increasing regulatory capital, including the conversion of corresponding items of capital into shares, in order to improve the situation with capital of the bank;
 - b) activities from the area of liquidity, including the agreements and measures for ensuring access to source of financing in crisis situations, in order to ensure continuity in the performance of business activities and settlement of liabilities upon maturity. The aforementioned measures must include potential sources of liquidity, an assessment of available instruments of security and an assessment of possibility of reallocation of liquid assets within the group and/or between individual business lines;
 - c) the representation of the manner in which the bank could separate the critical functions and the core business lines from other operations, to the degree necessary;
 - d) activities and measures directed towards a reduction in risk or indebtedness or to changes in business activities and services of the bank and, therefore, an analysis of the possible sale of assets of the bank and shares in legal persons, i.e. sale or ceding of business lines of the bank;
 - e) measures that imply changes of members of managerial bodies and other managerial persons in the bank, changes in the allocation of duties and responsibilities of employees in the bank, closure of one or more organizational parts of the bank;
 - f) activities and measures whose objective is voluntary restructuring of liabilities of the bank, without them being the cause of onset of the status of default on liabilities or termination of contract or worsening of rating of the bank etc.;
 - g) other measures and activities whose objective is the preservation or re-establishment of sustainable regular business operations and stability of the financial condition of the bank.

- (3) In the course of development of the recovery plan, the bank may omit individual activities and measures listed in Items a) to g) in Paragraph (2) of this Article, but it shall be under obligation to explain their omission in detail.

Assessment of Effects of Each Recovery Option

Article 12

- (1) Each recovery option shall have to contain an assessment of effects of each individual activity and measure, which shall include the following:
 - a) assessment of financial and operational effect, with a list of expected effects on capital, liquidity, sources of financing, profitability, and business activities of the bank;
 - b) assessment of external effects and systemic consequences of application of a specific recovery option, with a list of expected impacts on critical functions of the bank, shareholders of the bank, clients, and other contractual parties, as well as on the remainder of the banking group, if the bank is a part of a group;
 - c) assumptions for valuation and all other assumptions for assessments in Items a) and b) of this paragraph, including the assumptions relating to marketability of assets and behavior of other participants in the financial market.
- (2) The assessment of effects referred to in Paragraph (1) of this Article shall contain a detailed description of procedures for determination of market value of critical functions and marketability of core business lines.

Assessment of Feasibility of Each Recovery Option

Article 13

- (1) Recovery options must contain an assessment of the possibility of implementation of each individual recovery option, which shall include the following:
 - a) assessment of the risk relating to the possibility of application of the recovery option, based on experiences of the bank thus far or of another participant in the market in the implementation of the same or other similar measures;
 - b) detailed analysis and description of possible significant obstacles for effective and timely implementation of the recovery plan, as well as the description of the manner in which the aforementioned obstacles may be removed;
 - c) analysis of possible obstacles for effective and timely implementation of the recovery plan including those obstacles, also, which are a consequence of the structure of the banking group or relations or agreements within that group, i.e. an analysis on whether there are legal or technical obstacles for fast transfer of capital or settlement of liabilities within the group, if those activities are planned under the recovery option. After the analysis and description of the possible significant obstacles, the bank must provide a description of the manner in which the aforementioned obstacles may be removed;
 - d) description of procedures that would ensure continuity of business operations in case of application of each individual recovery option.
- (2) The assessment of continuity of business operations referred to in Paragraph (1), Item d) of this Article shall include the analysis of:
 - a) existing operating activities of the bank (for example, information management systems, relations with suppliers, activities of human resource management);
 - b) the bank's access to market infrastructure (for example, access to the clearing system, payment transactions systems etc.);
 - c) all the agreements and measures that are necessary for retaining continuous access to necessary financial market infrastructure,
 - d) all the agreements and measures that are necessary for retaining continuous functioning of operating processes of the bank or members of the banking group covered under the recovery plan.

- (3) Recovery options must contain an assessment of deadlines for implementation of each of the recovery options and the time necessary for that option to yield an effect.
- (4) Recovery options must also contain an assessment of effectiveness of recovery options and adequacy of indicators in the selected scenarios of serious financial disturbance. The aforementioned assessment must determine which of the recovery options is adequate for a specific scenario, the possible effect of individual recovery options, i.e. the consequences of individual recovery options, their applicability, as well as the possible significant obstacles and deadline for implementation of recovery options.
- (5) The obstacles referred to in Paragraph (4) of this Article shall imply all the factors that may have a negative impact on the timely implementation of the recovery option, and especially the operational, legal, and reputational risks to which the bank is exposed in its business operations.
- (6) The bank shall be under obligation to submit to the Agency a review of recovery options as an integral part of the recovery plan (Attachment 4).

Communications Plan and Public Disclosures

Article 14

- (1) The communications plan and public disclosures, as an integral part of the recovery plan, must contain a detailed plan of internal and external communications for the case of implementation of the recovery plan, which shall contain the following, at the minimum:
 - a) plan for internal communication, i.e. plan for information within the bank on the implementation of the recovery plan, which shall, especially, cover the information of members of bank management, the supervisory board of the bank, managers of organizational parts of the bank, representatives of employees (trade unions or similar), and others, as well as communication with them;
 - b) plan for external communication, i.e. the plan for informing third persons on the implementation of the recovery plan, specifically shareholders and other investors, depositors, competent institutions, other contractual parties, and the public;
 - c) proposals for efficient prevention, i.e. mitigation of consequences of possible negative reactions of the market.
- (2) The recovery plan shall also contain an analysis of the manner in which the communications plan referred to in Paragraph (1) of this Article would be applied in case of implementation of one or more activities and measures from the recovery plan, wherein one must take into account also the potential special circumstances in connection with the application of individual recovery options.

Preparatory Measures

Article 15

- (1) The recovery plan shall contain an analysis of the preparatory measures that the bank or the banking group, covered under the recovery plan, has undertaken or should undertake for the purposes of facilitating the implementation of the recovery plan or improvements in its efficiency and effectiveness.
- (2) The recovery plan shall also define the deadline for implementation of the preparatory measures.
- (3) The measures referred to in Paragraph (1) of this Article shall also cover all activities necessary for overcoming and removing obstacles for efficient application of recovery options.

Stress Scenarios

Article 16

- (1) The bank shall be under obligation to determine in the recovery plan a set of scenarios of serious financial disturbances in different hypothetical situations, on the basis of which options and effects of implementation of the recovery plan will be tested.

- (2) The type and number of scenarios referred to in Paragraph (1) of this Article shall be determined by the bank taking into account the type, the scope, and the complexity of operations it is performing. A systematically significant bank, as well as a bank whose net balance sheet assets exceed BAM 500 million, shall be under obligation to use three scenarios, at the minimum, of serious financial disturbances, specifically:
 - a) a scenario that covers systemic events that could have serious negative consequences upon the financial system and/or the real sector, including the termination of operations of the other contractual party that would impact the financial stability of the country, a reduction of accessible liquidity, an increased country risk and outflow of capital from the country in which a significant portion of exposures of the bank is located, unfavorable developments in the price of real estate and other forms of assets in the market, and a macroeconomic crisis;
 - b) a scenario that covers events that relate to the bank, and that could have significant negative consequences for the bank or the banking group, including the termination of operations of the other contractual party significant for the bank, a significant outflow of liquid assets of the bank, significant losses on the basis of the bank's investments and/or operating risk, disrupted reputation of the bank or the banking group, and unfavorable developments in the price of real estate and other forms of assets in one or more markets to which the bank is, to a significant extent, exposed;
 - c) a combination of scenarios under Items a) and b) of this Paragraph that appear simultaneously and affect each other.
- (3) The bank that is not systemically important and whose net balance sheet assets do not exceed BAM 500 million may implement stress testing by applying one of the scenarios that cover several events referred to in Items a) and b) of Paragraph (2) of this Article, and which are specific for that bank or that banking group.
- (4) The spread of scenarios for testing for the bank, especially the ones that are important, should also include slow developing and fast developing events.
- (5) The bank may omit some of the events under Items a) and b) of Paragraph (2) of this Article, if after implementing an analysis it determined that some of those events are not applicable to the bank, wherein it shall be under obligation to explain such omission in detail in the recovery plan.
- (6) The bank shall be under obligation to implement, once a year at the minimum, the stress testing of its recovery plan and to submit to the Agency, together with the recovery plan, a review of scenarios for testing the recovery options, as an integral part of that process (Attachment 5).

Requirements for Stress Scenarios

Article 17

- (1) Each individual scenario for the testing of the recovery plan must meet the following requirements:
 - a) that it is based on events that are the most relevant for the bank or the banking group, taking into account, especially, the model of business operations and the model of financing of the bank, business activity, the size, structure, and connections of the bank with other participants in the financial system, as well as the shortcomings and weaknesses identified in business operations of the bank or the banking group;
 - b) that the events envisaged in the scenario must be such that they may cause the termination of operations of the bank unless the measures from the recovery plan are applied in a timely manner (recovery options);
 - c) that the scenario is based on events that are extraordinary, but possible.
- (2) The bank shall be under obligation to include into each of the stress scenarios, to the extent applicable, the assessment of effects of those events on each of the following aspects of business operations of the bank or the banking group:

- a) accessible capital;
 - b) accessible liquidity;
 - c) risk profile;
 - d) business operations, including payment transactions and settlement systems;
 - e) reputation.
- (3) In the course of development of stress scenarios that would lead to the situation of the business model of the bank not being sustainable in the absence of successful application of measures from the recovery plan, the bank shall be under obligation to take under consideration the possibility of development and application of scenarios on the basis of reverse stress testing, which shall imply the initial assumption that the financial conditions of the bank are such that one may expect, soon, the onset of the status of default on liabilities of the bank, after which the causes that lead to such a situation are determined.

III. RECOVERY PLAN DEVELOPMENT

Recovery Plan Development, Adoption, and Auditing

Article 18

- (1) The risk function of the bank shall be under obligation to:
- a) coordinate the development of the recovery plan;
 - b) monitor the indicators and report to the management of the values of selected indicators;
 - c) develop scenarios and implement stress testing of recovery plans;
 - d) report to the management on the process of development, the need for updating and implementing the recovery plan, and on results of stress testing of recovery plans.
- (2) The bank shall be under obligation to ensure that the persons who are in charge of development of the recovery plan are not, at the same time, the persons in charge of implementation of stress testing of recovery plans.
- (3) Internal audit of the bank shall be under obligation to perform the assessment of recovery plan, as well as of the process of development, adoption, and monitoring of execution and effects of application of the recovery plan, of which it shall inform the management and the supervisory board of the bank.

Recovery Plan of Banking Group

Article 19

- (1) The superior bank of a banking group over which the Agency is performing control on consolidated basis on the basis of Article 157 of the Law shall be under obligation to compile and submit to the Agency for approval the recovery plan of the banking group, which shall determine recovery measures for the purpose of achieving stability and re-establishment of adequate financial condition at the level of the banking group as a whole and of each individual members of that group, taking into account the financial position of other members of that group.
- (2) The recovery plan of a banking group shall contain measures and activities whose implementation is required at the level of the banking group as a whole, especially of the parent company and each of the members of that group individually, as well as the manner that ensures coordination and consistency of implementation of measures and activities determined under the recovery plan.
Provisions of this Decision shall also apply to the contents of the recovery plan of a banking group.
- (3) The recovery plan of a banking group shall be submitted by the bank to the Agency in compliance with Article 135, Paragraph (3) of the Law.

IV. DEADLINES, MANNER OF SUBMITTING, AND ASSESSMENT OF THE RECOVERY PLAN

Deadlines and Manner of Submitting Recovery Plan

Article 20

- (1) The bank shall be under obligation to update the existing recovery plan once a year, or, if necessary, develop a new recovery plan and submit it to the Agency by September 30 of the current year at the latest in electronic format and hard copy.
- (2) The bank shall be under obligation to update the recovery plan after each important change, also, in compliance with Article 132, Paragraph (4), Items b) and c) of the Law, and submit it to the Agency without any delay.
- (3) The bank shall be under obligation to submit the recovery plan that it updated upon a request of the Agency pursuant to Article 132, Paragraph (4), Item d) of the Law, within the deadline that is stipulated in the request of the Agency.
- (4) The decision of the supervisory board on adoption, i.e. updating, needs to be attached to the recovery plan that is being submitted to the Agency.

Recovery Plan Assessment

Article 21

- (1) The Agency shall be under obligation to assess, within the deadline of six months from the date of delivery of the recovery plan, whether the recovery plan of the bank meets the conditions that are prescribed under Article 133 of the Law and this Decision, in the manner and within the deadlines as regulated in Article 134 of the Law.
- (2) If the submitted recovery plan contains significant shortcomings or obstacles for the implementation of the plan, the Agency shall inform the bank of its assessment and order the bank to submit a revised plan that shows how those shortcomings and obstacles would be taken into consideration within a reasonable deadline.
- (3) If the bank fails to submit the revised plan, or if the Agency determines that the revised recovery plan does not, in an adequate manner, remove the shortcomings and obstacles determined in the initial assessment, the Agency may undertake against the bank the corresponding supervisory measures and, if necessary, demand from the bank the execution of measures in compliance with Article 134, Paragraph (5), Items a) to f) of the Law.
- (4) The Agency shall, in the course of assessment of the recovery plan of a banking group, assess the following:
 - a) to which extent does that plan contribute to achieving stability at the level of the banking group as a whole and of each of its members individually, wherein special attention shall be paid to the following:
 - 1) the possibility that the application of recovery options at the level of the group re-established the adequate financial position of members of the group without it posing a threat upon the financial position of the group as a whole;
 - 2) whether the application of individual recovery option would facilitate regular business operations of the group and its members;
 - 3) to which extent have in the recovery plan of the banking group various managerial structures of individual members of that group and possible legal obstacles for its application been taken into account;
 - b) to which extent does the recovery plan of the banking group contain solutions for removal of obstacles determined on the basis of stress testing of that plan, and if those obstacles cannot be removed, have alternative options been envisaged for recovery that would achieve the objective;
 - c) to which extent does the recovery plan of the banking group remove the actual or legal obstacles for transfer of capital or settlement of liabilities, and whether alternative measures are envisaged that would achieve the objective.
- (5) In the course of assessment of the recovery plan of a banking group, the Agency shall take into account the type of operations being performed by the members of the group, as well as

their connections with other companies, i.e. groups, as well as the significance of the group for the banking system in its entirety, as well as the impact on other participants in the financial market.

V. TRANSITIONAL AND FINAL PROVISIONS

Article 22

Transitional Provisions

- (1) The Director of the Agency shall, within the deadline of 60 (sixty) days from the date of entry into effect of this Decision, adopt Guidelines in which minimum criteria shall be prescribed for application in the assessment of individual recovery plans and recovery plans of bank groups.
- (2) The bank shall be under obligation to submit to the Agency the first recovery plan in compliance with this Decision by September 30, 2018.
- (3) Attachments 1, 2, 3, 4 and 5 to this Decision shall comprise its integral part, and those shall be the following: review of indicators of the recovery plan, review of critical functions of the bank, review of core business lines of the bank, review of recovery options of the bank, and the review of scenarios used.

Article 23

Entry into Effect

- (1) This Decision shall enter into effect on the eighth day from the date of its publication in the “Official Gazette of the Federation of BiH”.

No: U.O.-08-13/17
Sarajevo, October 13, 2017

PRESIDING MEMBER
OF THE MANAGEMENT BOARD

Ljerka Marić, M.Sc. Economist, in person

Attachment 1

Indicators in the recovery plan*

Indicator name**	Early warning level	Level triggering recovery plan options ***
1. Capital indicators		
a) regulatory capital adequacy rate		
b) Common Equity Tier 1 capital ratio (CET1 capital ratio)		
c) financial leverage rate		
2. Liquidity indicators		
a) maturity matching of financial assets and liabilities up to 30 days		
b) maturity matching of financial assets and liabilities up to 90 days		
c) maturity matching of financial assets and liabilities up to 180 days		
d) liquidity coverage ratio (LCR)		
e) net stable financing ratio (NSFR)		
3. Profitability indicators		
a) return on assets (ROA)		
b) return on capital (ROE)		
c) significant losses on the basis of operating risk		
4. Asset quality indicators		
a) share of nonperforming assets in total loans		
b) rate of growth in nonperforming loans		
c) coverage of nonperforming loans with correction of values		

* The bank shall add rows for additional indicators in the recovery plan that it has determined, and that are not listed in the table.

** If the bank has, in the recovery plan, explained why it would not apply any of the above listed indicators, it shall insert "not applicable" in the column for "level triggering the recovery plan options".

*** If the bank has determined several levels for activation of various options, the level on which the first option is triggered shall be inserted.

Attachment 2

Critical functions

Functions	Does the interruption in the provision of this function affect any third parties and the financial system overall?	Impact of the bank or the banking group on the market? (Concentrations in the market)	Is there an option for the provision of the subject service to be taken over adequately by another service provider?	Is the function a critical function?*	Critical services for the provision of critical functions?

* List the reasons for identifying the function as a critical function.

Attachment 3

Core business lines

Core business lines	Explanation for why the business line is deemed a core business line?

Attachment 5

Scenarios

Name of the scenario	Types of scenarios			Fast / slow developing events	Shocks and their parameters	Application of reverse stress tests	Value of the indicators after applied shock	Options applicable in the scenario	Value of indicators after applying the option
	Specific	Systemic	Combined						