

Pursuant to Article 36a, paragraph 4, Article 36b, paragraph 8, Article 36d, paragraph 4 and Article 127a, paragraph 6 of the Law on Banks (RS Official Gazette, Nos 107/2005, 91/2010 and 14/2015) and Article 15, paragraph 1 of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/20014, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 and 40/2015 – Constitutional Court decision), the Executive Board of the National Bank of Serbia hereby issues the following

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

### **Introductory provision**

1. This Decision sets forth the contents of the recovery plan of a bank or a banking group subject to consolidated supervision of the National Bank of Serbia (NBS), the manner and deadlines for submission of the recovery plan and updated recovery plan, as well as the drawing up and assessment of the banking group's recovery plan.

A bank shall prepare the recovery plan in accordance with this Decision, taking into account the bank's size and organisational structure, scope of activities and the type of the business it carries out, as well as the bank's risk profile.

A bank shall update the recovery plan at least once a year, or more frequently at the NBS request, as well as in the event of changes in the bank's legal or organisational structure, its business operations and financial position (when such changes are materially significant), as well as in the event of other changes that affect the contents of the recovery plan and its feasibility.

A bank shall set forth in its internal acts the manner and frequency of updating the recovery plan, including the assessment of whether the circumstances from paragraph 3 of this Section have occurred.

Activities regarding the drawing up and updating of the recovery plan may be partially outsourced.

### **Contents of a bank's recovery plan**

2. A bank's recovery plan shall contain the following parts:

- 1) brief overview of the recovery plan (hereinafter: the recovery plan summary);
- 2) information on the division of duties and responsibilities relating to the drawing up, updating and implementation of the recovery plan (hereinafter: information on governance);
- 3) strategic analysis;
- 4) indicators of threats to the bank's financial position and business operations;
- 5) communication plan;
- 6) analysis of preparatory measures;
- 7) information on recovery plan testing.

Parts of the recovery plan set out in paragraph 1 of this Section shall be separate and distinctly marked sections within the plan.

Unless prescribed otherwise, data and information contained in the bank recovery plan relating to the banking group to which a bank belongs shall also comprise data and information on the banking group that is not subject to NBS consolidated supervision.

### **Recovery plan summary**

3. The recovery plan summary shall contain the following:
  - short overview of the parts of the recovery plan from Section 2, paragraph 1, subparagraphs 2)–7) of this Decision, whereas the strategic analysis summary shall contain an overview of the bank's overall recovery capacity as stated in Section 8, paragraph 3 of this Decision,
  - short overview of significant changes that occurred in the bank, banking group or the recovery plan since the last submission of the recovery plan to the NBS, and
  - organisational changes, changes in procedures and other similar changes necessary for the plan to be feasible, including planned deadlines for their implementation.

### **Information on governance**

4. The part of the recovery plan relating to information on governance shall contain in particular:

- detailed description of the recovery plan drawing up process,
- detailed description of the recovery plan updating process,
- information on the duties and responsibilities of persons responsible for drawing up, updating and implementation of individual parts of the recovery plan and of the plan as a whole,
- information on appropriate human and organisational resources and technical means necessary for implementation of the recovery plan.

The description of the recovery plan drawing up and updating processes shall also contain a description of the recovery plan approval process and information on the bank acts which regulate the said process, as well as information on whether the recovery plan was reviewed by the internal audit, external auditor or the bank's audit committee.

In addition to persons from paragraph 1, subparagraph 3 of this Section, the recovery plan drawing up and updating process must include all organisational units whose competence includes activities relevant for plan drawing up, especially those whose competence includes risk management, treasury operations, information technology and compliance, as well as members of managing bodies, other persons from the bank's management, and relevant committees of the bank.

Within information on governance, a bank shall describe the manner in which it integrated the recovery plan in its corporate governance system and risk management system, especially the manner in which the activities relating to recovery plan drawing up, updating and implementation are connected with the bank's risk profile, the internal capital adequacy assessment process (ICAAP) and the carrying out of stress tests within that process, as well as indicators and limits the bank uses in relation to risk management in its regular operations (e.g. early warning signals).

If a bank is a banking group member, information on governance shall also include a description of activities and agreements within the group ensuring the coordination and harmonisation of measures and activities to be taken in order to maintain or restore the adequate financial position of the group and its individual members.

5. A bank shall provide in its information on governance a short description of the process of taking recovery plan activities and measures, and shall give information on indicators from Section 13 of this Decision, on persons and bodies

participating in the decision-making process on taking recovery plan activities, the procedures and deadlines envisaged for such decision-making, as well as on the manner and deadlines for informing the NBS on considering and/or taking recovery plan measures.

The description from paragraph 1 of this Section shall contain a short description of the system of communication within the bank and/or banking group, i.e. of the manner in which the bank ensures timely availability, updating and reliability of the information from the said paragraph and other information necessary for making the decision to take recovery plan activities in case of a significant deterioration in the bank's financial condition.

### **Strategic analysis**

6. In the strategic analysis, a bank shall determine its core business lines and critical functions, as well as the interconnectedness of the bank and/or banking group with persons within the group or third parties, and shall determine based on that different recovery options, and activities and measures to be applied within each of the options in the event of a significant deterioration in the bank's financial condition, especially when the bank is undercapitalised, in order to restore the bank's viability and adequate financial position.

Strategic analysis shall contain the following:

- 1) information on the bank's and/or banking group's performance;
- 2) recovery options and measures to be implemented within each option in order to restore the bank's viability and adequate financial position (hereinafter: recovery options).

### **Information on the bank's and/or banking group's business operations**

7. Information on the bank's and/or banking group's business operations shall contain the following:

- 1) description of the bank's and/or banking group's organisational structure including the organisational chart;
- 2) description of the bank's business activities, in particular:
  - brief description of the business strategy and risk management strategy,
  - description of the business model and planned business activities of the bank,

- core business lines of the bank,
  - list of critical functions of the bank stating, if applicable, the reasons for identifying certain activities, services or operations as critical functions, and/or explaining the reason why the bank determined that it has no critical functions,
  - description of the procedures and methods the bank applied in determining its core business lines and critical functions,
  - information on the distribution of core business lines and critical functions within the bank and/or to its subordinated companies;
  - description of bank activities and systems necessary for continuity of the bank's operational activities;
- 3) description of the economic, legal, organisational and operational interconnectedness of entities within the banking group, if the bank is a member of a banking group, particularly:
- information on significant exposures and capital flows and other forms of financing within the banking group, as well as the issued guarantees and guarantees whose issuance is envisaged for the purpose of implementation of the banking group's recovery plan,
  - information on important contracts and other agreements concluded within the group,
  - description of the manner in which members of the group are operationally interconnected (for instance in a way that functions significant for operations of the whole group or some members of the group are centralised with one member),
  - information on intra-group financial support agreements;
- 4) description of interconnectedness with third parties, which includes:
- information on significant exposures of the bank towards one entity or a group of related entities and the bank's liabilities,
  - description of significant products and services provided by the bank to other financial market participants,
  - description of significant services provided to the bank by third parties.

Along with the recovery plan, a bank shall submit to the NBS an overview of its core business lines and critical functions on the form provided in Annex 1.

### **Recovery options**

8. Based on information from Section 7 of this Decision, a bank shall identify recovery options applicable in the event of significant deterioration in its financial condition so as to ensure that the bank is prepared to manage possible crisis situations in order to restore the bank's viability and adequate financial position and to ensure the bank's resilience to future crisis situations.

Recovery options must be determined in such a way that the NBS can assess the feasibility and impact of each option.

In the part of the recovery plan relating to recovery options, a bank shall first give a list and short description of all recovery options, an assessment of the bank's overall recovery capacity, i.e. assessment of the extent to which the application of the determined recovery options leads to the restoration of the bank's viability and adequate financial position under severe financial distress scenarios, as well as an assessment of the feasibility and impact of each option.

Along with the recovery plan, a bank shall submit to the NBS an overview of recovery options on the form provided in Annex 2.

9. A bank's recovery plan shall determine recovery options which shall include:

1) activities and measures relating to capital and liquidity required to maintain or restore the bank's viability and adequate financial position, whose main objective is to ensure sustainability of the bank's core business lines and critical functions;

2) activities and measures whose main objective is to maintain or restore the adequate capital level of a bank through an increase in capital or other measures, also including the conversion of appropriate capital elements into shares and other equity instruments;

3) activities and measures ensuring access to funding sources in the event of unforeseen circumstances in order to ensure business continuity and timely settlement of liabilities, also stating potential liquidity sources, the assessment of available security instruments and assessment of the possibility of redistribution of liquid assets within the group or between specific business activities;

4) analyses of when, how and under what conditions a bank shall submit a request to use a liquidity loan or other lending facilities that may be approved to banks by the NBS in accordance with regulations, as well as information on the type of adequate security instruments that a bank shall provide to the NBS in such cases;

5) description of the manner in which the bank, to the extent necessary, might separate critical functions and core business lines from other operations;

6) activities and measures aimed at mitigating risk or reducing indebtedness, or changing bank's business activities and services, and in accordance with this, the analysis of the possible sale of assets and share in legal entities, and/or sale or assignation of specific business activities of the bank;

7) measures envisaging a change in members of management bodies and other persons from the bank's management, changes in the division of duties and responsibilities of bank employees, and the closing of one or more organisational units;

8) activities and measures aimed at voluntary restructuring of bank's liabilities without causing the default status, contract termination, downgrade of the bank's rating etc;

9) other measures and activities aimed at maintaining or restoring the bank's viability and adequate financial position.

Recovery options also include measures a bank shall take when conditions for early intervention from Article 113 of the Law on Banks (hereinafter: the Law) are met.

Recovery options of a bank may envisage activities and measures taken in the course of its regular operations, as well as extraordinary activities and measures.

If recovery options of a bank do not include specific activities and measures from paragraph 1 of this Section, a bank shall provide a detailed explanation for the exclusion of those activities and measures.

10. A recovery plan shall contain the following data for each recovery option from Section 9 of this Decision:

1) assessment of the impact of implementation of an option on the bank's financial and operational position which implies the expected impact on solvency, liquidity, funding, profitability, and business activities of the bank;

2) assessment of the external impact and systemic consequences of the implementation of a recovery option which shall include the expected impact on the bank's critical functions, shareholders, clients, and other counterparties, as well as on the rest of the banking group if the bank is a member of a banking group;

3) analysis of recovery plan application on employees, including the analysis of expenses that may arise on that account.

The part of the recovery plan relating to recovery options shall also contain assumptions used when carrying out the impact assessment from paragraph 1 of this Section, including assumptions of assets marketability and actions of other participants in the financial market.

The impact assessment from paragraph 1 of this Section shall contain a detailed description of procedures for determining the market value of critical functions and marketability of the bank's core business lines, as well as of bank assets.

11. The part of the recovery plan relating to recovery options shall contain an assessment of the feasibility of those options including the following:

1) assessment of the probability of achieving the objective intended by the implementation of a recovery option;

2) assessment of the risks associated with of the implementation of a recovery option based on the bank's experience or other market participant's experience in the implementation of such options or other similar measures;

3) detailed analysis and description of possible significant obstacles to effective and timely implementation of the recovery plan including those that are a consequence of the banking group structure or relations or agreements within the group, and/or the analysis of whether there are practical or legal obstacles to prompt transfer of capital or settlement of liabilities within the group, if such activities are envisaged by the recovery option;

4) description of the manner of removing the obstacles from subparagraph 3) herein;

5) description of procedures ensuring business continuity in the event of implementation of each option; the description shall contain an analysis of the bank's existing operational activities (e.g. bank information systems, relation with suppliers and HR management) and the bank's participation in payment systems, in the Central Securities Depository and Clearing House, other securities settlement systems and other similar institutions, as well as a description of measures and actions that need to be taken to ensure smooth performance of these activities, and/or unhindered access to these systems;

6) assessment of the timeframe for the implementation and effectiveness of each recovery option;

7) assessment of the effectiveness of recovery options and the adequacy of indicators in scenarios of severe financial distress from Section 16 of this Decision; the assessment shall determine adequate recovery options for the scenario of severe financial distress, as well as potential consequences of those recovery options, their feasibility, potential obstacles and deadlines for their implementation.

The obstacles from paragraph 1, subparagraph 3) of this Section shall refer to all factors that may negatively affect timely implementation of a recovery option, especially operational, legal and reputational risks a bank is exposed to in its operations.



## **Indicators of threats to the financial position and business operations of a bank**

12. The recovery plan of a bank shall establish indicators which reveal vulnerabilities, weaknesses and threats to the bank's financial position or different segments of business operations (hereinafter: indicators) which shall indicate, upon reaching a certain value (hereinafter: threshold), that appropriate recovery options may be taken in order to maintain or restore the bank's viability and adequate financial position.

The indicator threshold must be determined in a way that enables that recovery plan measures be taken in a timely manner, and if an indicator refers to a prescribed indicator from Section 13 of this Decision, the value of the threshold must be higher than the minimum value prescribed and must be at a sufficiently high level to enable consideration of recovery plan measures before the bank breaches the regulations determining the said indicators.

Indicators must be qualitative and quantitative, their nature and number must be of the kind that enables easy monitoring and they must be appropriate to the bank's size, complexity of operations and risk profile as well as to the system of indicators the bank uses in its regular risk management.

The review of indicators must be included in the bank's corporate governance and decision-making process in a manner ensuring that members of managing bodies and other persons from the bank's management are timely and fully informed of the possibility of the implementation of an appropriate recovery option, that the process of making such decisions is documented and that the NBS is timely and fully informed thereof.

13. Indicators shall refer to the following categories in particular:

- bank capital,
- liquidity,
- profitability, and
- bank's risk profile including the quality of its assets.

In addition to categories from paragraph 1 of this Section, a bank shall use macroeconomic and market-based indicators, except in cases when the NBS, based on the bank's explanation, assesses that these indicator categories are not

significant for the recovery plan given the bank's risk profile, size and organisational structure, or that they are not applicable to the bank.

Indicators used for the categories from paragraph 1 of this Section, include among others:

- capital adequacy ratio of a bank and the minimum amount of bank capital if the said amount is more appropriate considering the bank's size,
- liquidity ratio and narrow liquidity ratio,
- profitability indicators (return on assets – ROA, and return on equity – ROE),
- asset quality indicators (NPLs to total loans ratio, coverage of NPLs by loan loss provisions).

Macroeconomic and market-based indicators include at least the following:

- changes in gross domestic product of the country where a significant part of the bank's exposure is located and, if applicable, the prices of CDS derivatives (credit default swap derivatives) relating to the country,
- changes in the bank's rating, prices of shares or debt securities and, if applicable, changes in CDS derivatives prices relating to the bank.

A bank shall explain in its recovery plan the choice of indicators and the indicator thresholds.

In the course of regular updating of the recovery plan in accordance with Article 36a, paragraph 3 of the Law, a bank shall re-examine if the use of the chosen indicators and their determined thresholds is justifiable.

Along with the recovery plan, a bank shall submit to the NBS an overview of indicators determined in accordance with this Section on the form provided in Annex 3.

### **Communication plan**

14. The part of the recovery plan relating to communication shall establish a detailed plan of internal and external communication in the event of recovery plan implementation. The plan shall contain at least the following:

1) internal communication plan, i.e. plan for communicating the implementation of the recovery plan within the bank which shall particularly include notification of and communication with members of a bank's managing board, managers of organisational units, employees' representatives, bank branches etc;

2) external communication plan, i.e. plan for communicating the implementation of the recovery plan to third parties, particularly to shareholders, depositors, investors and other counterparties, the NBS and the public;

3) proposals for efficient prevention and/or mitigation of possible negative market reactions.

A recovery plan shall also contain an analysis of the manner in which the communication plan from paragraph 1 of this Section would be carried out in the event of implementation of one or several recovery plan measures, taking into account possible specific circumstances associated with the implementation of individual recovery options.

### **Analysis of preparatory measures**

15. A recovery plan shall contain an analysis of preparatory measures a bank has taken or should take in order to facilitate the implementation of the recovery plan or to improve its efficiency.

A recovery plan shall also define the deadline for the implementation of measures from paragraph 1 of this Section.

Measures from paragraph 1 of this Section comprise also all activities necessary to remove obstacles to efficient implementation of recovery options.

### **Information on recovery plan testing**

16. In its recovery plan, a bank shall establish a range of severe financial distress scenarios assuming various hypothetical events, based on which it will test the feasibility and the effects of the recovery plan.

A bank shall determine the type and number of scenarios from paragraph 1 of this Section in view of the type, scope and complexity of its operations, using however at least three scenarios of severe financial distress:

1) scenario which includes systemic events that may have serious negative consequences on the financial system and/or economy including counterparty's

termination of operations which could affect the country's financial stability, a decrease in liquidity in the interbank market, increased risk or outflow of capital from the country where a significant portion of the bank's exposure is located, unfavourable movements in prices of assets in the market, and a macroeconomic crisis;

2) scenario which includes events relating to a bank that may have serious negative consequences on the bank, including termination of operations of a counterparty significant for the bank, significant outflow of the bank's liquid assets, significant loan losses and/or losses arising from operational risk, damage to the reputation of the bank or the banking group to which the bank belongs, and unfavourable movements in prices of assets in one or several markets to which the bank is considerably exposed;

3) combination of the scenarios from subparagraphs 1) and 2) herein that occur simultaneously and affect one another.

A bank may exclude an event from paragraph 2, subparagraphs 1) and 2) herein if upon a performed analysis it determines that such an event is not applicable to the bank, but is required to give a detailed explanation for such exclusion in the recovery plan.

A bank shall test its recovery plan regularly and no less than once a year.

Along with the recovery plan, a bank shall submit to the NBS an overview of the recovery options testing scenarios on the form provided in Annex 4.

17. Each individual recovery plan testing scenario must meet the following requirements:

- it must be based on the events that are most significant for a bank especially considering its business model and funding, its business activities, size, and interconnectedness with other participants in the financial system, as well as identified weaknesses in its operations;

- events envisaged by the scenario must be of the kind that would cause a bank's failure if the measures from the bank's recovery plan were not applied on time;

- scenario is based on extraordinary but possible events.

To the extent applicable, each scenario shall include an assessment of the effects of events envisaged by the scenario at least on the bank's capital, liquidity and risk

profile, smooth performance of activities relating to participation in payment systems and securities settlement systems, as well as on the bank's reputation.

A bank shall consider if the scenario from paragraph 1 of this Section may be developed based on reverse stress testing, which starts from the near-default status of a bank and then identifies the circumstances leading to such an outcome.

### **Drawing up and contents of a banking group recovery plan**

18. The ultimate parent company of a banking group subject to NBS consolidated supervision in accordance with the Law shall draw up and submit to the NBS a recovery plan of the banking group in order to achieve stability and restore the financial position at the level of the banking group as a whole, and in particular of banks as members of the group, taking into account the financial position of other members of the group.

Sections 2–17 of this Decision shall apply accordingly to the contents of the banking group's recovery plan, and/or individual recovery plans of the banking group members whose drawing up may be ordered by the NBS in accordance with Article 127a, paragraph 4 of the Law.

### **Recovery plan assessment**

19. The NBS shall assess whether a bank's recovery plan meets the conditions prescribed by the Law and this Decision, in the manner and within deadlines prescribed in Article 36c of the Law.

20. When assessing a banking group's recovery plan, the NBS shall assess the following:

1) the extent to which the banking group's recovery plan would contribute to achieving stability at the level of the banking group as a whole and its individual members, considering in particular:

– likelihood that the implementation of recovery options at the group level will restore the adequate financial position of a group member without jeopardising the financial position of the group as a whole;

– whether the implementation of specific recovery options would enable regular business operations of the group and its members;

– the extent to which the banking group’s recovery plan considers different governance structures of individual group members and potential legal obstacles to its implementation;

2) the extent to which the banking group’s recovery plan provides for arrangements to remove obstacles identified based on recovery plan testing, and if those obstacles cannot be removed, whether alternative recovery options are envisaged that may achieve the same objective;

3) the extent to which the banking group’s recovery plan removes factual or legal obstacles to the transfer of capital or settlement of liabilities within the group, if such obstacles exist, and if they cannot be removed, whether alternative measures are envisaged that may achieve the same objective.

When making the assessment from paragraph 1 of this Section, the NBS shall consider the type and scope of activities carried out by group members, as well as their interconnectedness with other companies and/or groups.

### **Deadlines and manner of recovery plan submission**

21. A recovery plan, updated regularly – once a year, in accordance with Article 36a of the Law, as well as the recovery plan updated in accordance with the said Article due to changes in the legal or organisational structure of a bank, its business operations or financial position, when such changes are materially significant, as well as in the event of other changes that affect the contents of the recovery plan and its feasibility – shall be submitted by the bank to the NBS within five days from the date of adoption of the recovery plan by the bank’s managing board.

A recovery plan updated at the NBS request shall be submitted by a bank to the NBS within the deadline determined in the request.

A bank shall submit the recovery plan in electronic form.

Paragraphs 1–3 of this Section shall apply accordingly to the deadlines for the submission of banking group’s recovery plans.

### **Transitional and final provisions**

22. Annexes to this Decision are printed with it and comprise its integral part.

23. A bank shall submit its recovery plan to the NBS by no later than 30 September 2015.

The ultimate parent company of the banking group subject to NBS consolidated supervision shall submit to the NBS the banking group's recovery plan by no later than 31 March 2016.

24. This Decision shall enter into force on the eighth day following its publication in the RS Official Gazette.

NBS Executive Board No 71  
13 August 2015  
Belgrade

Chairperson of the NBS Executive Board  
Governor  
National Bank of Serbia  
dr Jorgovanka Tabaković