LICENSING AND SUPERVISION OF BANKING BUSINESS
RECOVERY PLAN OF BANKS DIRECTIVE NO. SBB/93/2025

Whereas, it is important for banks to plan and get prepared at all times to respond to and address situations of severe stress well before supervisory intervention and restore financial and economic viability by themselves;

Whereas, recovery plans are essential to ensure crisis preparedness and help banks to consider in advance credible and capable corrective/recovery actions that could be timely and effectively taken to deal with situations of stress;

Whereas, the National Bank is empowered to determine the content and other related requirements of a recovery plan, it has found it necessary to incorporate the recommendations of Financial Stability Board, as well as international best practices and standards relevant to a bank's recovery plan;

Now, therefore, in accordance with Articles 36(5), 85 and 91(2) of Banking Business Proclamation No. 1360/2025, the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as "**Recovery Plan of Banks Directive No. SBB/93/2025**".

2. Definitions

For the purpose of this Directive, unless the context requires otherwise, the term:

2.1 **"Bank"** means a private or state-owned bank, a foreign bank subsidiary, or a branch of a foreign bank licensed by the National Bank to undertake banking business;

2.2 **"Bank Group"** means both domestic and foreign bank and all its subsidiaries, branches, affiliates, and holding company, wherever located, that the National Bank determines to be taken into account for the purpose of implementing this Directive;

2.3 **"Core Business Lines"** means business lines and associated services that represent material sources of revenue, profit or franchise value of a bank;

2.4 **"Critical Functions"** refer to activities performed for third parties, including but not limited to deposit taking, lending, foreign exchange operations, clearing and settlements, custody of assets where failure would lead to disruption of services vital for financial stability and the functioning of real economy;

2.5 **"Critical Shared Services"** refers to activities performed within the bank or outsourced to third parties, where failure would lead to inability to perform critical functions and, therefore, lead to disruption of services vital for the functioning of the real economy or for financial stability;

2.6 **"Credible Recovery Plan"** means a state of a recovery plan being trust worthy, actionable and capable of restoring and stabilizing the financial situation of a bank back to normalcy;

2.7 **"Director"** means any member of the board of directors of a bank, by whatever title he may be referred to;

2.8 **"Foreign Bank"** means a bank or bank group incorporated under the laws of a country other than Ethiopia with a banking license issued from its home country regulator and conducts its banking business in its country of incorporation or other jurisdictions as the case may be;

2.9 **"Foreign Bank Branch"** means deposit or non-deposit taking branch of a foreign bank, having no separate legal existence other than the foreign bank;

2.10 "**Foreign Bank Subsidiary**" means a subsidiary as defined under the Commercial Code, and controlled by a foreign bank strategic investor, and incorporated under the laws of, and having its head office in Ethiopia;

2.11 **"Government"** refers to the Government of the Federal Democratic Republic of Ethiopia;

2.12 **"Interest Free Bank"** means a bank licensed by the National Bank to engage in interest free banking services;

2.13 **"Recovery Plan"** means a detailed and comprehensive document prepared by a bank as per the requirement of this Directive, the relevant banking business proclamation and includes identification and assessment of possible severe situations of stress and corresponding recovery measures and arrangements to be taken by a bank so as to effectively address the stress and ensure financial and business viability;

2.14 **"Recovery Indicators"** refer to a range of quantitative and qualitative indicators used to denote the degree of financial deterioration of a bank based on appropriate early warning and recovery thresholds as set out in this Directive including in the Annex part;

2.15 **"Recovery Options"** refer to a range of actions and measures to be taken so as to maintain or restore viability and the financial position of a bank;

2.16 **"Recovery Planning Process"** refers to the entire lifecycle of a recovery plan, which comprises the development, approval, maintenance, monitoring, escalation activation and implementation of the recovery plan;

2.17 **"Recovery Threshold"** refers to the threshold set for a recovery indicator to indicate the point at which a bank's financial position has deteriorated to such an extent that appropriate recovery options may be necessary to restore the financial soundness and viability of the bank. A breach of this threshold may form the basis for the activation of the bank's recovery plan;

2.18 **"Recovery Triggers"** shall refer to, but not limited to, a range of customized qualitative and quantitative factors, such as, capital and liquidity ratios, reductions in revenue and profitability, withdrawal of deposits and other funding, rise in public debt, adverse GDP forecasts, changes in market interest rates, requests from counterparties for early redemption of liabilities, difficulties in raising funds at current market rates, major policy changes, adverse court decisions etc.;

2.19 **"National Bank"** means the National Bank of Ethiopia.

3. Scope of Application

This Directive shall be applicable to all banks operating in Ethiopia.

4. General Requirement

4.1 A bank shall prepare a comprehensive and credible Recovery Plan consisting of the following components and as per the template and guidance provided under Annex I of this Directive:

1. **Executive Summary**
    - 1.1. Background
    - 1.2. Recovery Plan
    - 1.3. Scope
    - 1.4. Material Changes
2. **Strategic and Governance Analysis**
    - 1.1. Strategic Analysis
    - 1.2. Governance Structure; Oversight; and Risk Management
3. **Core of Recovery Plan**
    - 2.1. Recovery Triggers and Indicators
    - 2.2. Scenario Analysis
    - 2.3. Recovery Options
    - 2.4. Operational Contingency Plan
    - 2.5. Communication and Disclosure Plan
4. **Implementation Strategies**

4.2 The Recovery Plan of a bank shall ensure that the bank has in place the necessary processes and arrangements needed to facilitate effective recovery as much as possible without requiring extraordinary intervention or financial support from the National Bank and/or the Government.

4.3 Notwithstanding the provisions stated in this Directive, a bank in preparing the Recovery Plan, shall ensure that the level of detail and depth of the plan is proportionate to the size, business model, degree of interconnectedness with other entities and overall complexity if its activities. Where applicable, the Recovery Plan shall cover entities found in a bank group.

4.4 The Recovery Plan of a bank shall include a robust menu of actions or options that are sufficiently varied to address a wide range of bank specific financial stress/shock and/or market-wide stress that could erode confidence in the bank; that the bank can use to recover from and restore its financial strength and viability.

4.5 Recovery Plan of a bank shall anticipate reasonable prospect of recovery if appropriate measures are taken and shall include measures to mitigate a bank's risk profile, respond to liquidity shocks, conserve capital, identify sources of contingency funding, and take strategic measures or remedies such as selling assets or restructuring liabilities.

4.6 An interest free bank shall ensure that its recovery plan adheres to Shariah requirements, including matters which may have an impact on the development and implementation of the recovery plan and shall refer its recovery plan to its Shariah Committee so as to seek advice and guidance on Shariah requirements consistent with the bank's Shariah Governance policy.

5. Strategic and Governance Analysis

5.1 Strategic Analysis

5.1.1 A Recovery Plan of a bank shall provide for a strategic analysis detailing at a minimum clear description of the bank or bank group, business model, its core business lines, critical functions, and critical shared services.

5.1.2 A Recovery Plan of a bank shall provide for a strategic analysis detailing description of the legal and financial structures of the bank covered by the plan, including an explanation of intra-group interconnectedness (intra-group exposures and funding relationships, capital flows, guarantees, legal/operational interconnectedness, support arrangements) and external interconnectedness (significant exposures/liabilities to main counterparties, financial products and services, services from third parties).

5.1.3 A bank's critical functions and critical shared services shall be organized in a manner that ensures continuous availability of shared services to the entire bank under a situation of financial stress and during the state of a bank being in a recovery phase.

5.2 Governance Structure, Oversight, and Risk Management

5.2.1 A bank shall put in place a robust governance structure and process including clear assignment of roles and responsibilities for operational staff, senior management, and the board of directors (or committee) to oversee its Recovery Planning process including plan's development, maintenance, approval and annual review.

5.2.2 The Recovery Plan shall provide for conditions and procedures to be followed for ensuring the timely implementation of recovery options, including, at least:

a) A description of the internal escalation and decision-making process that applies when the indicators have been met, to consider and determine which recovery option may need to be applied in reaction to the situation of financial stress that has materialized including at least:
   i. the role and function of persons involved in this process including a description of their responsibilities;
   ii. the procedures that need to be followed; and
   iii. the time limit for the decision on taking recovery options and when and how the National Bank will be informed.

b) A detailed description of the indicators.

5.2.3 A bank shall integrate and align the recovery planning process into its overall risk appetite, strategic planning and risk management frameworks and a description in its Recovery Plan how such integration has occurred.

5.2.4 A foreign bank branch shall inter alia include the following in its Recovery Plan:

a) the manner in which the local operations are integrated to the recovery framework of the foreign bank;
b) brief description of the submissions made to the home regulator on Recovery Plan, if any; and
c) copies of a written undertaking or guarantee issued by the foreign bank as stated in Banking Business Proclamation No. 1360/2025, ensuring prompt payment of all liabilities and obligations of the foreign bank branch incurred in or in connection with its business in Ethiopia.

5.2.5 If a bank is part of a bank group, description of measures and arrangements taken within the group to ensure the coordination and consistency of recovery options at the level of the group and of individual subsidiaries shall be described.

5.2.6 The Recovery Plan, after being reviewed by the Internal Audit, Risk and Compliance Units of the bank with regards to accuracy of data and information provided in the plan, consistency with bank wide strategies, robustness of process and methodology used in developing the plan, shall be approved or endorsed by the Board of Directors of a bank. In case of foreign bank branch, the Recovery Plan shall be approved and endorsed by the regional/ global head office of the foreign bank branch.

5.2.7 The management information system of a bank shall, in a manner that is reliable and timely, ensure information that is necessary for the implementation of the recovery options are available for decision making.

6. Core of Recovery Plan

6.1 Recovery Triggers and Indicators

6.1.1 A bank shall establish a recovery trigger and indicator framework that include recovery indicators, recovery triggers, recovery thresholds, recovery actions and conditions for activation of recovery measures in a manner that ensure timely monitoring, escalation, activation and implementation of the Recovery Plan.

6.1.2 The identified indicators and triggers shall have the capability to identify a stress or crisis situation at an early stage and shall comprise of a range of quantitative triggers set, where applicable, at levels above the associated prudential requirements and qualitative triggers as well.

6.1.3 A bank, in addition to such triggers, shall use less severe monitoring thresholds or early warning indicators that would help it heighten awareness and identify potential negative trends.

6.1.4 As a starting point, a bank shall consider and assess indicators listed in Annex II that, among others, include capital and liquidity-related recovery indicators and may wish to consider additional categories as appropriate.

6.1.5 A bank shall conduct calibration of its Recovery Plan triggers and indicators with the view of understanding what worked or not, enabling the indicators perform their alert function early enough before potential supervisory intervention and improve the overall effectiveness of the Recovery Plan.

6.1.6 A bank shall notify to the National Bank within a maximum of five (5) working days after breach of a recovery indicator and internal escalation along with the analysis and the decision pursued, that is, to take an action as provided in the Recovery Plan or to refrain from taking such an action.

6.2 Scenario Analysis

6.2.1 A bank, in order to test the effectiveness of the Recovery Plan indicators (in terms of detecting impeding stress and enabling timely activation of the plan) and credibility of the recovery options (in terms of capability to restore viability), shall undertake a scenario analysis with a range of stress scenarios.

6.2.2 A bank, to conduct the analysis, shall develop a set of scenarios, incorporating adverse events (including both idiosyncratic and market-wide stress) that are:

a) relevant to the bank's size, risk profile, complexity of activities, intra-group and external dependencies, and systemic interconnectedness;
b) severe enough to threaten the viability of the bank unless recovery options are successfully capable of being implemented in a timely manner, that is, near non-viability; and
c) exceptional yet plausible in order to ascertain whether available recovery options are realistic, impactful and implementable to address potential viability threats.

6.3 Recovery Options

6.3.1 A bank shall develop and maintain a set of credible, actionable and flexible recovery options available to the bank to deal with shocks to capital, liquidity and all other aspects that may arise from bank-specific stresses, market-wide stresses, or a combination of both.

6.3.2 In developing the set of recovery options, a bank shall:

a) consider measures that:
   i. restore or improve capital and liquidity positions;
   ii. de-risk and reduce leverage;

iii. secure adequate and diverse funding sources (with due consideration to availability of eligible collateral in terms of volume, quality and location and its potential drawing capacity), including possible intra-group financial support (where applicable); and

iv. allow for voluntary restructuring of liabilities e.g. via debt-to-equity conversion where relevant.

b) ensure options are sufficiently diverse to deal with an extensive set of severe stress events that may threaten viability of the bank;

c) disregard the possibility of extraordinary policy intervention by National Bank, or access to any exceptional financial support from public funds;

d) seek to minimize potential contagion effects associated with recovery options; and

e) provide for measures necessary to preserve the bank's business continuity capabilities to support the bank's operations and implementation of recovery options (e.g. staff and resources).

6.3.3 A foreign bank subsidiary shall include recovery options involving assistance from parent and/or foreign related entities but only if such assistance is:

a) contractually committed by the relevant entity; or

b) explicitly provided for in the group's recovery plan that has been submitted to the home supervisory authority.

6.3.4 The recovery option shall indicate the actions, arrangements and measures needed to restore viability and financial position.

6.3.5 Notwithstanding the provisions stipulated above, the recovery options included in a Recovery Plan shall at a minimum take into account the following:

a) The anticipated impact or result of the option including financial (capital, liquidity and/or any other area); operational -benefits and side-effects; an assessment of external impact and systemic consequences.

b) Time and resources required to implement the option.

c) Potential impediments to implementation of the option.

d) Actions being taken to remedy the impediments.

e) Details on costs of implementation.

f) Details on option specific communication planning.

6.3.6 Recovery options of a bank shall be capable of being executed within a reasonable timeframe and sustainability and viability of the options must be evaluated intensely.

6.3.7 A bank shall appropriately include Business Continuity Planning arrangements when formulating recovery options.

6.4 Communication and Disclosure Plan

6.4.1 A Recovery Plan shall include a communication and disclosure plan for managing internal and external communications.

6.4.2 The communication and disclosure plan shall specifically cover the following issues:

a) internal communication in particular to the bank's staff, or to the bank group;

b) any external communication, to be made as deemed necessary, to shareholders and other investors, supervisors, counterparties, financial markets, and the public in a manner that doesn't undermine customer confidence and financial stability. However, any external communications to the public shall be made after securing consent from the National Bank; and

c) effective proposals for managing any potential negative market reactions.

6.4.3 A Recovery Plan should include, at least, an analysis of how the communication and disclosure plan would be implemented when one or more of the arrangements or measures set out in the Recovery Plan are implemented.

7. Preparatory Measures

7.1 A bank, in its Recovery Plan, shall specify analysis of preparatory measures that shall be taken or to be taken for the purpose of facilitating smooth implementation of the recovery options and to remove any impediments in this regard along with the timeline for completing same.

7.2 The preparatory measures shall include any measures necessary to overcome impediments (including any legal, reputational, and operational) to the effective implementation of recovery options identified in the Recovery Plan.

8. Reporting Requirement

8.1 A bank shall submit its first Recovery Plan to the National Bank within eight (8) months from the effective date of this Directive in line with the provision of this Directive.

8.2 A bank shall keep its Recovery Plan updated and submit the updated Recovery Plan (including details of the update) to the National Bank every year within three (3) months from the end of each fiscal year.

8.3 Notwithstanding the requirement of Sub-Article 8.2 hereinabove, a bank shall update its Recovery Plan when:

8.3.1 material changes to its shareholding and governance structure, financial position, risk profile, business strategy and operation exist; or

8.3.2 any other circumstance that would significantly affect its Recovery Plan exist and submit same to the National Bank within fifteen (15) working days from the date of effectiveness such changes.

8.4 The National Bank may require a bank to submit a Recovery Plan at any time when it deems necessary.

9. Review and Assessment by the National Bank

9.1 A Recovery Plan submitted by a bank shall be duly reviewed, challenged and assessed by the National Bank (supervisors and resolution unit) within six months of its submission.

9.2The resolution unit of the National Bank shall examine the Recovery Plan with a view of identifying any actions that may adversely impact the resolvability of the bank and shall draw recommendations for rectification.

9.3In a situation where the National Bank assessment of a bank's Recovery Plan results in identification of material deficiencies or impediments to its implementation, a bank shall be notified of the assessment and be required to submit a revised plan within two months.

9.4If the National Bank finds that the bank, through the revised Recovery Plan, has not adequately addressed the deficiencies and impediments, the bank shall be directed to make specific changes.

9.5A bank shall implement its Recovery Plan after incorporating and addressing of deficiencies or impediments identified by the National Bank.

10. Penalty

10.1 A bank that failed to timely submit its first submission and submission of updated plan to the National Bank in line with the requirement of this Directive shall be penalized Birr 100,000 and Birr 50, 000, respectively.

10.2 Notwithstanding the provisions stated under Sub-Article 10.1 hereinabove, the National Bank shall take further administrative measures on a bank that fails to comply with the requirements of this Directive in line with the relevant provisions of Banking Business Proclamation.

10.3 Notwithstanding the provisions stipulated under Sub-Article 10.1 and Sub-Article 10.2 of this article, any non-compliance to this Directive shall be addressed and sanctioned in accordance with the relevant comprehensive penalty and sanctioning Directive to be issued by the National Bank.

11. Transitory Provision

Notwithstanding to Article 12 of this Directive, a bank shall submit its first Recovery Plan to the National Bank within eight (8) months from the effective date of this Directive.

12. Effective Date

This Directive shall enter into force as of the 13th day of May 2025.

Mamo Esmelealem Mihretu
Governor

ANNEX I: Recovery Plan Structure and Instructions

The Recovery Plan, notwithstanding the issues covered in the main body and Annex II and III of this Directive, consists of the following four main parts:

- The first section (executive summary) provides general background information on the Recovery Plan (the Plan) overall objective, its scope, and any material changes considered (for update of the Plan).
- The second section provides for comprehensive strategic analysis (including description of the business model of the bank, core business line and mapping of this core business lines to various operational services supporting the lines) and governance structure analysis (including how the Recovery Plan is integrated with the existing governance structure and risk management framework of the bank during the development and activation of the Recovery Plan) and summaries of main conclusions.
- The third section comprises the core of the plan, specifically the recovery triggers and indicators, assumptions, list of actionable and credible recovery options available in a crisis and an evaluation of their implementation and impact.
- The fourth section outlines measures that a bank will implement to facilitate the drafting, updating, or implementation of the Plan during times of crisis.

1. Executive summary

Provides summary of key elements presented in the Recovery Plan.

1.1. Background

1.2. Recovery Plan

- Objectives of the Recovery Plan and description of a broad outline of the Recovery Plan.
- Linkages between the different sections of the Recovery Plan.

1.3. Scope

- Defining the scope of the Recovery Plan considering the banking business model, risk profile, scale, complexity, and interconnectedness of the bank.

- Description of the bank and other entities covered by Recovery Plan including an organizational structure.

1.4.Material Change

- List of all material changes since the last Recovery Plan submission/ major update to be summarized and presented under this section (this is applicable at the time of update and resubmission).

2. Strategic and Governance Analysis

2.1 Strategic Analysis

- General overview of the bank's legal structure, activities, and the interdependence between the different entities within the bank group (where applicable). This section should outline the bank's primary activities and core businesses and map them into the legal structure, providing an overview of the interdependencies within the group (where applicable).
- It should comprise at least one section providing (as is relevant to the bank producing the Plan) the following:
    - A general description of main activities, including a discussion of the overall strategy of the bank, its business model, the identification of the main core business lines and the reasons supporting this identification, and the leading jurisdictions in which the bank is active (applicable for cross-border banks);
    - A mapping of the legal and operational structures (which should also include an organizational chart showing business units, the legal entities in which these business units are located, and activities conducted, as well as a breakdown of employees by business unit); and
    - A mapping of the legal and financial structures (with a breakdown of turnover, cash flows, liquid assets, funding needs, significant exposures, P&L, and Tier-1 capital by legal entity).
- The mapping should include all entities, focusing on significant branches and legal entities.
- Where applicable, description of intra-group financial links between the different legal entities (and legally remote entities that could affect the

reputation of the bank). This includes a discussion of all existing intra-group exposures and funding relationships, a description of capital mobility within the group, and intra-group guarantees that exist in both normal and crisis times.

- Identification and description of core business lines and critical functions of the bank (where applicable including the group).
- Identification and description of critical shared services of the bank including external functions, such as payment systems and services provided to other banks but also includes centralized functions that are critical to the bank/bank group, including treasury, collateral management, IT, access to market infrastructures (both as recipient and as provider), and administrative, operational, and outsourcing services.

2.2: Governance Structure, Oversight and Risk Management

- Description on how the Plan was developed, including the identification of people responsible for developing the different sections of the Plan and a discussion of how the Plan is integrated into the corporate governance of the bank/bank group (and of potential links with the stress testing framework of the bank/bank group).
- Description on how and who approved the current version of the plan, including the involvement of senior management and whether the Plan was presented to the internal and/or external auditor, Risk or the risk committee and Compliance function.
- Description on how Governance of recovery measures is handled in a crisis. The Plan needs to explain how the escalation process (if any) is designed. It should also clearly describe the decision-making process involved in activating the Plan. This should include a discussion of who is involved in the process and the conditions under which the Plan will be activated, the procedures that need to be followed, the criteria that will determine which option will be implemented, and a description and assessment of how management information systems are managed and whether they will be able to provide the necessary information for determining whether the Plan should be triggered and whether the Plan will be effective in addressing the issues

triggering the possible activation of the Plan on short notice. There should also be an assignment of personnel responsible for any necessary communications about the Plan in the event of its implementation.

- How the bank intends to update the plan. This includes a description of who, including the relevant department, is responsible for keeping the plan updated at least annually. Plans affecting a bank's liquidity need to be updated more frequently than those affecting its solvency.

3. Core of Recovery Plan

3.1 Recovery Triggers and Indicators

- Early warnings and recovery triggers that specify the moment in time when a bank begins to consider and determine which specific recovery option or measure, if any, it will apply in response to the actual situation that has materialized needs to be provided. Since each crisis is unique, early warnings and triggers do not automatically activate a specific recovery option; instead, they indicate the best course of action outlined in the Plan.
- A bank is expected to specify specific triggers, including examples and metrics. The bank should determine quantitative and qualitative triggers relating to:
    - its solvency position;
    - its liquidity situation; and
    - stress scenarios and unanticipated asset losses.

- Qualitative:
    - Sudden run down of customer deposits;
    - Difficulties in obtaining funds to meet urgent commitments;
    - FX shortages and inability to meet commitments;
    - Imposition of a premium in obtaining funds from usual sources;
    - Share Price Volatility;
    - Credit Rating Downgrade; and
    - Negative reactions from the market or customers to adverse publicity or performance of the bank or closely related entities that could adversely affect the bank.

The above indicators warn that stress or worsening of these conditions may be imminent. They may trigger management actions, such as tightening limits, conducting appropriate stress tests, and reviewing contingency plans.

- Quantitative:
    - Capital Adequacy Ratio (CAR)
    - Liquidity Ratio (LR)
    - Liquidity Coverage Ratio (LCR)
    - Net Stable Funding Ratio (NSFR)
    - Loan to Deposit Ratio (LDR)
    - Actual Loss
    - Any existing prudential ratios required by the National Bank shall be included.

3.2 Scenario Analysis

- Management will need to define crisis scenarios and assess their potential impact. While the above indicators and triggers will alert the bank that something is wrong, they do not resolve the crisis. The bank will need to determine potential recovery options for each scenario and evaluate the success of each option.
- The bank is expected to specify scenarios that should cover at least the following types of financial stress (in each case, the bank is required to differentiate slow- and fast-moving financial stress):
    - General deterioration in the asset quality or funding position of the bank;
    - Idiosyncratic shock, systemic shock, and a combination of both;
    - Contagion risks, including an analysis of large exposures and of the strategy to respond to the default of one systemically important counterparty or any other material / relevant counterparty for the bank; and
    - An analysis of the strategy to respond to the default of a material entity within the group, including the parent entity.

- Each scenario should be severe enough to have a serious, negative impact on the bank. The bank should select scenarios deemed to have a high probability of occurrence or are sufficiently likely to occur. The bank is expected to tentatively assess the impact of each of these scenarios on the bank's solvency, liquidity, funding, profitability, and operations.
- Interaction with the stress testing framework is also crucial. ICAAP and ILAA are not currently required, they are mentioned here for consideration when are relevant and applicable including:
    - Capital Stress Testing as detailed within the Internal Capital Adequacy Assessment Process (ICAAP) for key risk areas including credit and concentration risk, market and interest rate risks, and business and operational risk;
    - Liquidity Stress Testing as detailed within the Individual Liquidity Adequacy Assessment (ILAA); and
    - Reverse Stress Testing (initiated by simulating the bank's failure and analyzing various scenarios that could lead to such a failure) was conducted to identify vulnerabilities within the bank's business model and potential causes of failure.

3.3 Recovery Options

- Recovery options are not business-as-usual measures but should be extraordinary in nature. Options that can be considered include external recapitalization, the divestment of assets, subsidiaries, or business units, the sale of the bank, a voluntary restructuring of liabilities, a reduction in the bank's balance sheet size, or a strengthening of its liquidity position. For each recovery measure identified, the bank is expected to describe it in general terms and identify any potential obstacles to its implementation.
- As a result of these reviews, the bank is expected to provide the following analyses for each option:
    - Impact Assessment of the recovery measure comprising at least an assessment of the:

- Financial and operational impact, that is, the impact foreseen on the solvency, liquidity, and funding positions, as well as on profitability and operations. This impact should be tentatively assessed in normal and stress scenarios. Additionally, it should identify the different entities within the group that may be affected by the option or involved in its implementation; and
- external impact: the impact foreseen on critical or systemically relevant functions performed by the bank as well as on other market participants, customers, creditors, and shareholders.
- The impact assessment should clearly state valuation and other assumptions made, including the marketability of assets, the behavior of other banks, and so on.

▪ Risk Assessment: The bank is expected to conduct a risk analysis of the associated risks for each option. This includes both the risks that the option cannot be implemented (feasibility) and the risk resulting from its implementation (systemic consequences):
  - Feasibility: the bank should provide answers to the following questions: (i) what the estimated success rate on a scale is, and why; (ii) which factors could reduce their effectiveness and how they could be mitigated, and (iii) which factors could make it impossible to implement the measure. These factors should at least consider legal, operational, business, financial, and reputational risks, including the risk of a rating downgrade; and
  - Systemic consequences: The bank should identify any potential system-wide implications associated with implementing the option and its impact on any future resolution if recovery options are ineffective.
  - When substantial obstacles or hurdles have been identified, the bank should outline solutions for overcoming these potential problems.

▪ Decision-making process: The bank must describe its internal decision-making process for implementing the option, including the steps to be followed, the timing, and the parties involved up to the implementation point. If the timing is uncertain, estimated ranges and the factors affecting these ranges may be provided.

3.4 Operational Contingency Plan

- The bank is expected to provide a contingency plan that explains how continuity of its operations can be maintained during a recovery phase. This includes, at a minimum, an analysis of its internal operations (e.g., IT systems, suppliers, and HR operations) and its access to market infrastructure (e.g., clearing and settlement facilities, payment systems, and any additional collateral requirements).
- When the option involves an entity's separation (sale or closure), the bank is expected to demonstrate how the separated entity can continue to operate independently without any bank support and how the bank can operate without the entity.

3.5 Communication and Disclosure Plan

- This communication plan should address at a minimum:
    - the identification of key stakeholders, which may vary depending on the specific choice of options under the Plan;
    - the assignment of personnel responsible for communication;
    - internal communication with staff, trade unions, etc.; and
- external communication towards shareholders, counterparties, financial markets/investors, market infrastructures, public/depositors, National Bank, and other public interest authorities.
- Description of the designated office for communication that works closely with the Board of Directors and the National Bank to ensure that only authorized people speak to the press or the public. Vetting messages before delivery is very important. Questions that could affect the financial sector's stability should be referred to the National Bank.

4. Implementation Strategies

- Description on details of any preparatory measures the bank has taken or plans to take, to implement the Recovery Plan. The Recovery Plan is expected to be carried out promptly and effectively in situations of financial stress to avoid to the maximum extent possible, any significant adverse effects.

- How Business Continuity Planning (BCP) arrangements are linked to the implementation of Recovery Plan.
- Overview of preparatory measures that could be taken for the successful implementation of the option, including specific follow-up actions.

ANNEX II: List of Potential Recovery Indicators

Category	Recovery Indicator
Capital	Ascertain actual and potential material deterioration in the quantity and quality of capital of the bank on a going concern basis, including via increasing leverage and/or risk exposures - Capital to risk weighted asset ratio - Common equity tier 1 capital ratio - Tier 1 capital ratio - Total capital ratio - Leverage ratio
Liquidity	Identify actual or potential funding and liquidity risks, including those stemming from intra-group funding needs and off-balance sheet exposures, that may hamper the ability to meet short- and long-term obligations - Liquidity ratio - Reserve ratio - Liquidity coverage ratio - Net stable funding ratio - Loan to deposit ratio - Cost of funds - Cost of wholesale funding - Concentration of funding (e.g. from top 20 counterparties)
Profitability	Capture actual and potential deterioration in revenue generating capacity and rapid increase in costs, including operating expenses and losses incurred from legal and operational risk events - Return on assets - Return on equity - Net interest margin - Cost-to-income ratio - Operational risk loss
Asset quality	Indicate profile of, and potential changes in, credit risk exposures, including movements in the staging of loan and financing exposures under accounting standards and impairments, and adequacy of provisions made, including for off-balance sheet exposures. - Non-performing loans ratio - Gross impaired loans ratio - Net impaired loans ratio - Loan loss coverage ratio - Provision coverage ratio

Category	Recovery Indicator
	- Write-off ratio - Concentration of loans in specific sectors
Operational risk	Capture disruptions to operational services that may materially impair the long-term viability of the bank, and threaten public confidence in the bank or operations of the financial market. This includes indicators that may not immediately affect the financial performance of the bank. - Unscheduled downtime for mission critical systems - Cyber-attack incidences on mission critical systems - Critical staff turnover rate - Number of compliance breaches
Market	Capture adverse market developments and potential rating downgrades (short- and/or long-term) that may impair access to funding and financial markets, e.g. - equity-based indicators that measure variations in share prices of listed covered entities - debt-based indicators that reflect expectations from wholesale funding providers - portfolio-related indicators that capture market expectations for specific asset classes - Price-to-book ratio - Share price volatility - Credit rating
Macro-Economic	Signal deterioration in economic conditions and operating environment, and adverse external developments that may influence performance of the bank, e.g. — - country-specific macroeconomic indicators - sectoral macroeconomic indicators, relating to major sectors of economic activity (e.g. real estate, mining, construction, agriculture), that are relevant to the bank's operations or to which risk exposures/funding liabilities are concentrated - Gross Domestic Product (GDP) growth - Sectoral Gross Domestic Product (GDP) growth (e.g. construction, manufacturing, exports, etc.) - Employment - Sovereign's credit rating

***Note:* Further to the indicators provided here, a bank shall use all National Bank prudential financial indicators/requirements and may also wish to use other financial ratios that are described in the different Directives of the National Bank as appropriate.**

ANNEX III: List of potential Recovery Options

Category	Recovery Option
Capital raising	External share capital increase Share capital increase by parent institution Additional Tier 1 capital increase Tier 2 capital increase
Disposal	Sale of banking branch/subsidiary Initial public offering of banking subsidiary Sale of banking minority stake Sale of non-banking entity Sale and lease-back transactions
Asset sales	Stocks Bonds Real estate Transfer of assets Other illiquid assets
Liability management	Rollover issuance of Additional Tier 1 instruments Rollover issuance of Tier 2 instruments Internal liquidity support from parent institution Internal liquidity support from affiliated (non-parent) institution Repurchase of liabilities under book value Liquidation of collateral in case of customer default Adjustment of existing credit lines within the credit business Utilization of existing lines Cease trading activities Intensify deposit retention efforts, that is, customers incentives
Cost Saving	Containment / reduction of staff costs (e.g. cancel bonus payments, reduction of working time, cut in voluntary benefits) Stop/delay investments in facilities and equipment Stop/delay investments in IT Major expenditure cutbacks / rationalization Renegotiation of existing contracts
Earning Retention	Non-payment of coupon on Tier 1/Tier 2 issues No distribution of dividends

Category	Recovery Option
Access to Whole Sale Funding	Repurchase agreement Issuance of covered bonds Issuance of unsecured bonds
Reduction of riskiness/ improvement of risk profile	Reduction of new business origination Syndication of existing loans Sale of existing loans Securitization
Merger	Merger and Acquisition