Website: www.bb.org.bd

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka

BRPD Circular No - 03

11 Falgun 1428
Date: ---------------------
24 February 2022

Managing Directors/CEOs
All Scheduled Banks in Bangladesh

Dear Sir,

Recovery Plan for Banks

Severe stress events often threaten the financial and operational strength and viability of a bank company. In order to cope with such stress events, this circular is issued to provide guidance for the bank companies to develop Recovery Plan for preparing their responses to the potential shocks in advance so that they can act promptly and effectively in the event of a stress situation. Stress could be an isolated event or market wide or systemic event or all of three.

02. Banks shall submit the Recovery Plan according to the Guidance on drafting Recovery Plan (attached) using the Layout (attached as Annexure-'A') to the Division-1, Department of Offsite Supervision (DOS) of BB. The first Recovery Plan must be submitted by 30 June 2022 with the prior approval from the Board of Directors of respective banks. An update of the recovery plan shall have to be submitted by the banks to DOS, Division-1 on regular basis within 31st January each year. BB reserves the right to adjust these requirements to the circumstances of each bank, and will review the Recovery Plan of banks as part of regular ongoing supervisory process.

03. To comply with the above mentioned instructions, Managing Directors are requested to place this circular in the next board meeting for information of the board members.

04. This circular is issued under the power conferred by the section 45 of the Bank Company Act, 1991.

05. This circular shall come into effect immediately.

Sincerely,

Attachment: as stated

(Md. Ali Akbar Faraji)
General Manager
Phone-9530095

Guidance on drafting Recovery Plan

The aim of the Recovery Plan is to protect banks' on-going functions for the financial intermediation process and to uphold public confidence in the banking system. The plan shall be prepared, maintained and executed by a bank in accordance with the guidance provided hereunder. The plan should ensure maximizing the bank's survival prospects without supervisory or government intervention/support/forbearanc. The plan should also help to equip a bank in practice for taking necessary actions to bring back its financial and operational strength. However, in real cases, crisis specific decisions need to be taken.

01. Definitions:

1.1. Recovery: means taking necessary and appropriate corrective action in timely manner by a bank in the deteriorated financial and operational situation i.e., to maintain its viability, as long as the concerned bank has not yet reached the stage of non-viability as determined by Bangladesh Bank.

1.2. Recovery indicators/triggers: mean quantitative or qualitative indicators regarding the business strategies of a bank, the unfavorable change or deterioration of which indicate risk or existence of severe stress or key vulnerabilities that require recovery actions to be initiated. The breach of any trigger should immediately be communicated to Risk Management Committee (RMC) of board of directors and management with sufficient information to enable them to take corrective measures in response to the vulnerabilities.

1.3. Core business lines: mean business lines and associated services that are significant for a bank which are material sources of its revenues and profits. Hence, banks shall follow the eight business lines as described under Standardized Approach in the annex 9 of BRPD circular no. 18 dated 21 December 2014 regarding implementation of Basel III in Bangladesh.

1.4. Critical functions/operations/services: mean the activities, services or operations of a bank provided to third parties and sudden failure of which leads to financial instability due to contagion impact because of the size, market share, external and internal interconnectedness, and complexity or cross-border activities of a bank. Critical functions/operations/services are those which are difficult to substitute within reasonable time.

02. Recovery Plan Components

Each bank should develop and maintain a recovery plan that is specific to that bank and suitable or reasonable for its size, risk profile, activities, and its organizational and legal aspect. The recovery plan should include the following components:

2.1. Overview of bank: A recovery plan should be a stand-alone document that describes the plan with sufficient background information relating to the bank's overall organizational and legal entity structure, including its subsidiaries, critical functions/operations/services, core business lines, and core management information systems.

The plan should also describe interconnectedness and interdependencies - (i) covering business lines within the bank, (ii) covering a bank and its subsidiaries, and (iii) covering critical third parties.

2.2. A brief summary of the plan: The recovery plan should include a summary describing the development process, the approval and validation procedures of the plan. The summary should include conclusions of the bank's own analysis of the vulnerabilities and recovery options, as well as the bank's assessment of its recovery capacity. The plan should detail the bank's preparatory step that has been taken or measures to be taken to facilitate the implementation of the recovery plan or to improve its potential effectiveness by reducing existing hurdles that hinder the implementation of certain recovery options.

2.3. Identification of triggers and key vulnerabilities: A bank should identify triggers that appropriately reflect its particular vulnerabilities. The nature of business activities, identification of core business lines, major risk drivers, and key vulnerabilities should be detailed in the recovery plan. The vulnerabilities may be linked to the bank's core business lines and/or major sources of funding. The bank shall provide details of relevant scenarios given the identified vulnerabilities.

Triggers should be set by the management and approved by the board of directors. Triggers may include deterioration of profitability, decrease in revenue sources, sudden withdrawal of deposits or funding sources or business activities, decrease in liquidity ratios, capital ratios, credit rating downgrades, deterioration of asset quality, operational losses, default of significant counterparties, cyber-attack, economic trends - such as foreign exchange rate changes, etc. There may be qualitative triggers that, if breached, bank will have a financial risk, for example, reputational risk, change of senior management officials etc. Triggers should be updated and reviewed as necessary, at the annual review process of the recovery plan and when reviewing in response to a material event.

2.4 The stress scenarios: The stress scenarios should be comprehensive and contemplate the events that may threaten business continuity and the viability of the bank. Five stress events are provided in the Recovery Plan Layout (annexture). Banks should frame more severe stress events in line with the given scenarios and may also add idiosyncratic specific stress event, if necessary. The stress scenarios shall include, at least, hypotheses of devaluation of assets, reduction in borrowing capacity, reduced profitability, and deterioration in liquidity due to systemic or idiosyncratic instabilities of domestic or external origin.

2.5. Credible options for recovery: A bank shall identify a list of credible options that a bank could adopt to restore financial strength and viability for the bank to remain as a going concern. A bank shall detail how it would carry out each option and the time required for carrying out each option, including the options that require regulatory or legal approval. These options could include actions such as increase of capital or the sale of certain portfolios or business lines; more radical actions such as disposing of certain activities or business lines, selling subsidiaries, or restructuring debt or any other actions or strategies aimed at restoring the financial soundness of the bank. These should also be implementable at very short notice with tangible impact in the short run. Recovery options shall include extraordinary actions which are not taken in the course of the bank's normal business.

Banks shall describe the preparatory actions that are needed to be ensured so that the measures can be implemented effectively and in a timely manner (for example, IT system maintenance, identification of assets for sale etc.)

For each option, banks shall provide: (1) a brief description of the option; (2) the decision-making process for activating the option; (3) a qualitative risk assessment; and (4) a quantitative impact assessment.

These are described below -

a. Description of the recovery option.

b. Decision-making process - The internal decision-making process for activating the option shall be described, including the steps to be followed, the required timing, and the parties involved in the decision.

c. Material Impediments - The objective of this part is to assess the feasibility of the option and to identify the potential obstacles for implementing it. The main assumptions relating to the option and its feasibility shall be outlined. In particular, the conditions need to be satisfied in order for the option to be feasible. The main risks associated with the option, including financial, operational, and reputational risks, shall be reported, as well as any other significant risk that may not fall into these three categories. Where possible, the assessment of the risk associated with the recovery option shall draw on any prior experience relating to implementation of the recovery option or of a similar measure. Information on the profiles of possible buyers for sale or disposals of any activities or entities should also be provided, where possible. Finally, any potential legal or regulatory obstacles shall also be cited, covering - where relevant - the issues of shareholder rights, competition law, tax issues, and other laws.

d. Impact analysis: For each recovery option, a bank shall analyze and describe how the option would affect its capital, liquidity, funding and profitability, and any legal or regulatory requirements. This impact analysis should also include the bank's critical operations, core business lines and reputational risk. .

2.6. Escalation procedures: The Risk Management Department (RMD) of a bank shall be responsible to identify and measure the stress situation, and to take timely action to escalate the detailed information of the situation for proper decision making by the RMC of the board of directors and the management of the bank.

Banks shall have a monitoring program of the triggers and indicators contained in the plan. The monitoring program shall:

- allow an adequate monitoring of the risks incurred by the bank;
- reflect the magnitude and speed of change in the economic and financial status and of the liquidity of the bank;
- allow timely adoption of the recovery strategies*;*
- consider the necessary timeframe required for the recovery strategies to produce effects; and
- consider the business model, nature, complexity and risk profile of the bank.

2.7. Management reporting system: Each bank shall have management reporting systems in place and shall assess adequacy of its existing policies and procedures, management information systems, and reporting system for proper implementation of recovery plan. The RMC of the board of a bank shall keep monitoring the overall recovery situation and inform the board of directors with sufficient data and information to give a clear picture of the situation and enable them to take decision.

2.8. Notify BB and others: Every bank should notify Department of Off-site Supervision, Division-1 of Bangladesh Bank half-yearly regarding any significant breach of a trigger and any action taken or to be taken in response to such breach. The recovery plan should also address when and how the bank will notify other external parties of its action under the recovery plan. The recovery plan should clarify when and how the bank would obtain required regulatory or legal approvals.

2.9. Other information: A bank shall include any other information that Bangladesh Bank requires related to the bank's recovery plan.

03. Integration with Other Plans

A bank shall integrate its recovery plan into its risk governance functions. The bank shall also align its recovery plan with its other plans such as its strategic, operational (including business continuity), contingency, capital (including stress testing) and liquidity plans or forecasts.

04. Management and Board of Directors' Responsibilities

A bank shall address the following management and board responsibilities:

4.1. Management: Management shall reassess or verify the recovery plan at least annually and in response to any material event. It shall take necessary steps to reassess the plan as necessary to reflect significant changes in the bank's size, risk profile, activities, and complexity, as well as changes in external threats. Such review shall evaluate the organizational structure and its effectiveness in facilitating a recovery in the present situation and be put forward for review and approval of the board of directors.

4.2. Board of directors: The board of directors is responsible for overseeing the bank's recovery planning process. The board of directors of a bank (or an appropriate committee in case of foreign banks) shall review and approve the recovery plan at least annually, and as needed to address significant changes made by management.

A layout is provided herewith as annexure to be followed for developing and reporting the Recovery Plan to Bangladesh Bank.

Annexure-'A'

Recovery Plan Layout

1. Overview of the bank

1.1 Board

a. Name, address, current shareholding (both in number and percentage) of the sponsors.
b. Name, address, current shareholding (both in number and percentage) of the significant shareholders.
c. i. Board of Directors: Name, address, current shareholding (both in number and percentage), position, number of years in the position, family relation (if any) with other directors of the board.
ii. Description of the various committee of the board: Name, position, qualification, years of holding the position.

1.2 Management

a. Managing Director/CEO/Country Head: Name, years of holding the position.

b. Senior management positions

i. Additional Managing Director ii. Deputy Managing Director iii.SEVP/GM or equivalent post	Name, years of holding the position, years of service with the bank, years of direct banking experience, present responsibilities.

c. Key management positions

i. Head of ICC ii. Chief Risk Officer iii. Head of Treasury iv. Head of Credit v. Chief Operating Officer vi. Head of HR	Name, years of holding the position, years of service with the bank, years of direct banking experience, present responsibilities.

1.3 Capital Structure

a.	Under Basel III		
		Last quarter	Latest Audited
	RWA, CRAR, Tier 1 details, Tier 2 details		
b.	Shareholding percentage (Sponsor/director, Government, Institution, Foreign, Public).		

2. Business Model Analysis

2.1 a. Business lines analysis
b. Exposure and Income generation from each of the eight business lines

<table>
<tr><td rowspan="3">2.2</td><td colspan="2">Major asset class</td></tr>
<tr><td>a. Corporate
b. Retail
c. Commercial</td><td>Contractual maturity profile (0-1month, >1month to ≤ 3months, >3months to ≤ 6months, >6months to ≤12 months and >12 months) of all performing loans, showing percentage of exposure to total in each time bucket.</td></tr>
<tr><td>d. Investment
i. Listed equity
ii. Non-listed equity
iii. Listed fixed income
1.Treasury Bill/BGIIB
2. Treasury Bond
3. Zero coupon bond
4. Treasury Sukuk
5. Corporate Sukuk
iv. Non-listed fixed income
v. Mutual Fund
1. Open end
2. Closed end
vi. Floating rate bond
vii. Perpetual instrument
1. Listed
2. Non-listed
viii. SPV/AIF or similar</td><td>Contractual maturity profile (0-1month, >1month to ≤ 3months, >3months to ≤ 6months, >6months to ≤12 months and >12 months) of all performing loans, showing percentage of exposure to total in each time bucket. Investment having no maturity period or having a remaining lock-in-period more than 12 months shall have to be reported under '>12 months' bucket.</td></tr>
</table>

<table>
<tr><td>2.3</td><td colspan="2">Major Liability class</td></tr>
<tr><td rowspan="3"></td><td>1. Corporate:
a. Term deposit
b. Current deposit
c. SND</td><td rowspan="2">Segregation of liabilities as Stable (core, non-core) and Non-stable into various time bucket used for asset class in 2.2 considering the contractual maturity. Non-core stable and Non-stable deposit shall be put into 0 to 1 month bucket.</td></tr>
<tr><td>2. Retail:
a. Savings deposit
b. Term deposit
c. Current deposit
d. SND</td></tr>
<tr><td>3. Wholesale:
a. 0-1day
b. 2 days-7days
c. >7days to ≤30 days
d. > 1month to ≤ 3 months
e. > 3 months to ≤ 6 months
f. > 6 months to ≤ 9 months
g. > 9 months to ≤ 12 months</td><td>According to contractual maturity.</td></tr>
</table>

2.4 Details of Subsidiary (50% or more shareholding) and Significant shareholding (5% or more) in companies and foundations created. Details of board of directors and CEO of the subsidiary shall be included here.

3. Business Strategies

3.1 Funding Strategy

1. Corporate: a. Stable i) Core ii) Non-core b. Non-stable 2. Retail a. Stable i) Core ii) Non-core b. Non-stable 3.Wholesale a. Secured credit lines b. Un-secured credit lines	Minimum and Maximum amount of acceptable funding in percentage.

3.2 Liquidity Strategies

a. Liquidity Coverage Ratio (LCR) b. Net Stable Funding Ratio (NSFR) c. High Quality Liquid Assets (HQLA) d. Advance-Deposit Ratio (ADR)	Minimum or Maximum (whichever applicable) acceptable ratio.

3.3 Capital Strategies

a. CET1 ratio b. CRAR c. Capital plan for the next five years d. Leverage ratio	Minimum and Maximum (whichever applicable) acceptable ratio.

3.4 Asset Growth Strategies

a. Asset growth in different asset class. b. Off-balance sheet to On-balance sheet asset ratio c. Classification ratio of different asset class.	Minimum and/or Maximum (whichever applicable) acceptable ratio.

3.5 Profitability Strategies

a. Return on Assets (ROA) b. Return on Equity (ROE) c. Net Interest Margin (NIM) d. Dividend Payout Ratio	Minimum and/or Maximum (whichever applicable) acceptable ratio.

4. Stress Scenarios

4.1 Withdrawal of deposit: 25% non-core and non-stable deposit plus 5% core deposit above the baseline withdrawal ratio.

4.2 Asset Quality downgrade: 5% increase in NPL and 2% increase in NPA for Investment other than Govt. Securities.

4.3 Earning Shock: 25% reduction in NIM from the base line scenario.

4.4 Interest rate shock: 3% parallel up/parallel down.

4.5 Equity and Investment shock: 30% reduction in market value of all listed share and securities including Mutual fund unit plus 10% loans provided to subsidiary and other capital market intermediaries become non-performing (100% provision required).

5. Recovery plan

The impact on the business strategies induced by each of the stress scenario shall be assessed and a recovery plan, with options and proper justification, depicting the process and responsibilities of persons involved must be prepared to uphold the business strategies.