

Decree № 131/04
of the Governor of the National Bank of Georgia on
The Rule on Developing and Assessment of Recovery Plan of a Commercial Bank
2020 June
Tbilisi

Based on sub-paragraph „z" of paragraph 1 of article 15th and sub-paragraph „g¹" of the paragraph 1 of the article 49th of the Organic Law of Georgia on "the National Bank of Georgia" and article 19¹ of the Law of Georgia "on Commercial Bank Activities", I **order**:

Article 1. To adopt the attached Rule on the developing and assessment of recovery plan of a commercial bank

Article 2.

1. The rule except paragraph 3 of Article 1 shall enter into the force upon publication.
2. Paragraph 3 of Article 1 shall enter into the force from January 1, 2022.

K. Gvenetadze

The Rule on the developing and assessment of recovery plan of a commercial bank

Article 1. General Provisions

1. The „rule on the recovery developing and assessment of a commercial bank recovery plan" (hereinafter referred as rule) aims to determine key elements of a recovery plan, regulate its development process, set out requirements based on which recovery options, preparatory measures shall be determined and lay down the assessment criteria that shall be followed by the National Bank of Georgia (hereinafter referred as NBG).
2. Every domestic commercial bank or a branch of a foreign bank (hereinafter referred to as a bank) shall develop and submit a recovery plan to the NBG the way it complies with the provisions of the given rule.
3. After 1st submission of recovery plan, no later than 31th May of each reporting year bank shall submit a renewed recovery plan that incorporates important changes that might affect timely and effective implementation of the plan and took place in a bank, in its subsidiary, in the financial sector or macroeconomy.
4. If this rule does not regulate any issue related to the development or/and assessment of a plan the NBG or a bank with the approval of the NBG shall interpret the issue or act in accordance to the best practices which includes, but is not limited to technical standards and regulatory acts of FSB and EBA.
5. If a bank and NBG cannot agree upon the interpretation of any clause or terminology or on any other issue stemming from the rule, this issue will be decided as the NBG deems appropriate.

Article 2. Definitions

1. For this Regulation, the following definitions apply:
 - a) Recovery plan – the plan developed by a commercial bank which besides other key elements stipulated in the given rule includes the arrangements a bank will be implementing for the improvement of its financial situation during severe financial stress or for the recovering or maintaining of its critical functions.
 - b) Recovery option – an arrangement defined in a recovery plan that is implemented by a bank to improve its financial conditions or restore/maintain critical functions or/and core business lines.

- c) Indicator – a quantitative or qualitative index that informs a bank on its financial situation and enables a decision whether a recovery option shall be implemented.
 - d) Indicator threshold – Benchmark point at which a bank implements one or multiple recovery options.
 - e) Early warning threshold – benchmark point at which indicator warns on the high likelihood that the indicator threshold defined in (d) will be breached.
 - f) Stress-scenario – Hypothetical, financial and macroeconomic stress events that enable banks to assess the effectiveness of recovery options and the adequacy of indicators.
 - g) Systematically important bank – A systematically important commercial bank as defined by the decree of the president of the NBG „on the defining systematically important commercial banks and establishing systemic buffers”. (2017 December 18 N-174/04)
 - h) Systemic event – risks or events that has significant negative impact on the financial system or real economy
 - i) Idiosyncratic event – risks or events that deteriorate the financial situation of an individual bank
 - j) Combined event – Simultaneous occurrence of systemic and idiosyncratic events.
2. Other terminologies used in this rule bear the meaning as defined in the relevant legal acts.

Article 3. Key elements of a recovery plan

1. The aim of the recovery plan is to determine a set of effective recovery options that will ensure a bank's readiness against financial stress.
2. Recovery plan shall at least includes the following key elements:
 - a) The summary of the information included in each key element of a recovery plan.
 - b) Information describing processes related to the recovery plan and responsible structural units of a bank according to article 4 of rule
 - c) Description and analysis of recovery plan indicators according to article 5.
 - d) Strategic analysis according to articles 6 – 11.
 - e) Communication strategy according to article 12.

- f) Description and analysis of preparatory measures according to article 13;
- g) Information on changes regarding bank, its subsidiary, financial sector macroeconomy that might affect timely and effective implementation of the plan and took place after the submission of the previous recovery plan.

3. Besides the key elements of paragraph 2 of this Article, NBG has authority to require commercial bank to consider additional information or element in its recovery plan.

Article 4. Information related to the processes of a recovery plan, responsible persons and structural units

1. A bank shall determine the processes to be followed during the development, confirmation, implementation and renewal of the recovery plan, besides responsible persons/structural units.

2. The processes determined in accordance to the previous sub-article, besides responsible persons/structural units and their functions, shall be compatible with governance and organizational structure of the bank, while information prescribed according to this element shall include at least following:

- a) Information on the persons and structural units responsible for development, confirmation, renewal and implementation of recovery plan and their functions.
- b) Process describing how a recovery plan will be integrated into the organizational and governance structure of a bank and its risk management framework.
- c) If the recovery plan relates to a member of a banking group, description of mechanisms and processes that will be used to ensure coordination between the group entities for the development and implementation of the plan.
- d) Evidence that a recovery plan has been analyzed and assessed by an internal audit and risk management unit of a bank
- e) Evidence that the executive board of a bank has assessed and confirmed the recovery plan.
- f) Description of the process to be followed for the implementation of the recovery plan in case indicators are breached, which shall include at least following:
 - f.a) Information on the functions and responsibilities of the persons and structural units that are responsible for deciding over the implementation of a recovery plan.
 - f.b) Information on the procedures to be followed while deciding over the implementation of the recovery plan.

f.c) Timeline during which the NBG will be informed upon the breach of indicator threshold and decision over the implementation of recovery options.

f.d) Description of information management systems and evidencing that reliable information necessary for the implementation of recovery options will be time available during financial stress.

Article 5. Description and analysis of recovery plan indicators

1. Bank shall determine indicators in conjunction with its threshold and early warning thresholds.

2. Bank shall ensure that each indicator determined in the recovery plan meets the following requirements:

a) It is compatible with the size, complexity, operation scope, risk profile organizational structure and characteristics of a bank.

b) Enables identification of the risks which affect the financial situation of a bank in a way that might raise the need for the implementation of the recovery plan.

c) Enable a bank to adequately timely and adequately decide whether to implement the plan or refrain from its implementation.

d) Be compatible with the risk management, risk appetite, liquidity, capital and business continuation plans of the bank.

e) Be adequately integrated into the governance and organizational structure of the bank.

f) Be reliable and trackable.

3. A bank shall determine an adequate number of indicators to ensure timely and effective identification of possible financial deterioration as a consequence of the realization of different types of risks, while the given number shall not make monitoring and governance processes of the indicators unfeasible.

4. Bank shall determine indicators according to mandatory and supplementary categories of indicators listed in the annex N1.

5. Bank shall determine at least one indicator from the mandatory category of Annex 1, while it can refrain from determining supplementary indicators if substantiated that those indicators, considering bank's size, complexity, risk profile, organizational structure, or any other characteristics, are not relevant for the bank.

6. Bank shall prove through the analysis that indicators enable a timely decision on the implementation of recovery options in response to a possibly occurring financial stress.
7. A bank shall take all appropriate and necessary measures to ensure continuous monitoring of indicators.
8. Upon the request bank shall provide NBG information on the existing positions of indicators.

Article 6. Strategic Analysis

1. Through strategic analysis a bank shall determine its main characteristics, critical functions and elements that ensure timely and effective implementation of the plan. For the given goal strategic analysis includes, at least following elements (defined in Article 7-11):

- a) Description of bank's characteristics
- b) Description of recovery measures
- c) Feasibility and impact assessment of recovery options
- d) Issues related to operational continuity
- e) Stress-scenarios

Article 7. Description of bank's characteristics

1. In the framework of the element defined in the sub-article of article 6, recovery plan shall incorporate information related to the entities of a bank or a bank group that might affect the implementation of the recovery plan that shall include at least information on the following:

- a) Business model, business plan and risk appetite of a bank;
- b) List of the countries where a bank or the entities of a banking group operate;
- c) Critical functions as determined according to the rules and guidelines of NBG;
- d) A detailed description of the organizational structure of entities of a bank or a banking group and financial information of intergroup connections that includes:
 - d.a) Information on shared risk positions between bank and entities of the banking group, including information on financing, capital movement and intra-group guarantees;
 - d.b) Information on the financial support and other agreements between entities of a bank group;
 - d.c) Information on operational interconnectedness that includes information on functions, centralized in a single entity and which are important for entities of the banking group

including information technology, treasury, risk management, administrative and other functions that facilitate banking operations.

e) Contractual arrangements with third parties which includes:

e.a) Significant risk positions or/and obligations with main counterparties;

e.b) Important financial products and services that bank or entity of a banking group supplies to other financial institutions or other institutions under the supervision of NBG;

e.c) Important services that third parties are providing to a bank of an entity in a banking group

2. For the goals enshrined in this article recovery plan shall incorporate the information related to entities which satisfy either one of the following criteria:

a) Has considerable influence on the profit and financing of a bank or an entity of the banking group which affects bank or/and owns/possesses assets of a bank, its liabilities or considerable share bank's capital.

b) Performs activities that affect the ability of a bank to perform its critical functions

c) Performs bank's operational, risk management and/or administrative functions in centralized manner

d) Shares considerable risk positions that might threaten banks solvency, in the case of financial stress

e) In case of its liquidation bank will face considerable risks

Article 8. Recovery Options

1. In the framework of the elements of the strategic analysis, bank shall determines recovery options which include:

a) Arrangements related to regulatory capital or/and liquidity and aim to restore or maintain bank's critical functions, financial situation and core business lines;

b) Arrangements that aim to maintain a bank's regulatory capital or restore it either through recapitalization or using other internal measures;

c) Arrangements that aim to ensure access to contingency funding sources and ensure that a bank continues to carry out its operations and meet its obligations as they fall due;

d) Arrangements that reduce risk and leverage or/and arrangements that ensure restructuring of banks activities including through sales of assets or/and business lines;

e) Arrangements that ensure voluntary restructuring of liabilities and prevent bankruptcy, rating downgrade, contract termination or any other similar result that occurs after bank's inability to meet contractual obligations;

f) Arrangements ensuring access to the NBG credit facility as stipulated in article 31 on the organic law on the national bank of Georgia including the respective collateral used to ensure access to the facility;

2. No option shall be excluded from the plan solely based on the fact that it requires changes in the business of a bank;

3. Bank shall implement a recovery option when an indicator meets the benchmark point defined or in other cases defined by bank itself.

4. In case a bank's governing body refrains from implementing a recovery option when an indicator is at the benchmark point, the NBG shall be immediately notified on the decision in conjunction with the analysis and the proof of the adequacy of the decision.

Article 9. Impact and feasibility analysis of recovery options

1. In the framework of sub-section c of the article 6 bank shall assess the impact and feasibility of each option, which includes the following:

a) The financial and operational impact is an expected recovery option to have on a bank's capital adequacy, liquidity, financing position, profitability and operations. If necessary the given impact assessment shall be done in regards to all entities of the banking group that might be significantly affected by the implementation of the option;

b) External impact and systemic result analysis which implies assessment recovery options on banks ability to perform critical functions and their effects on bank's shareholders and consumers, including depositors and creditors;

c) Assumptions underlying assessments made based on sub-sections „a" and „b" which, might include possibility of asset selling or/and any other assumption related to the behavior of other financial institutions;

2. Bank shall assess the feasibility of each recovery option which shall incorporate the following:

a) Assessment of risks related to a recovery option, including risks that were present during the implementation of the given option or any other similar recovery option;

b) Detailed analysis of any factor that impedes timely and effective implementation of recovery option, besides measures that ensure their removal/elimination

c) Factors potentially impeding to the implementation of recovery options, that stem from group structure, internal arrangements including legal and other circumstances that impede the prompt transfer of assets or regulatory capital or dully fulfillment of obligations within the group.

3. For the sub-section b of the given article impeding factors imply any circumstance that might impede timely and effective implementation of recovery options including risks related to banks legal, operational, business models, financial and reputational (including rating downgrades) other aspects;

4. Feasibility assessment shall be made in both in regards to each option individually and collectively;

Article 10. Assessment of Operational Continuity

1. In the framework of the element defined in the sub- paragraph „d” of paragraph 1 of article 6, bank shall assess whether operational continuity will be maintained when single recovery option is being implemented or some options are implemented simultaneously. The given assessment shell incorporate following:

a) Measures and arrangements that enable bank's continuous access to financial market infrastructure including clearing, settlement and payment systems or other services;

b) Information on a bank's internal resources and information management systems which includes analysis of how the information necessary for the effective and timely implementation of recovery plans will be available.

c) The time necessary for the implementation of each recovery option.

d) Assessment of the efficiency of recovery plan indicators according to article 11, in the framework of stress-scenarios and analysis of the impact of stress-scenarios on bank's regulatory capital, liquidity, profitability, risk profile and operations.

Article 11. Recovery Plan Stress-scenarios

1. For sub section „e” of article 6 and „d” of article 10 bank shall determine recovery plan stress scenarios that are based on systemic idiosyncratic and combined events

2. Systemic events are following

- a) Failure of a counterparty affecting financial stability
- b) Considerable decrease of liquidity in interbank lending;
- c) Increased country risk;
- d) Significant adverse movements in the price of assets in one or several markets;
- e) Worsened macroeconomic conditions.

3. Idiosyncratic events can be the following:

- a) Failure of significant counterparties affecting banks financial situation
- b) Damage of banks reputation or the reputation of an entity in a banking group
- c) Considerable outflow of liquidity
- d) Significant adverse movements in the prices of assets to which the institution or group is predominantly exposed;
- e) Considerable credit loss
- f) Considerable operational loss

4. Each stress-scenario shall met the following criteria:

- a) Shall be based on the events that are relevant to a bank's business and financing model, activities, size while taking into account interconnectedness with other banks institutions and the financial sector;
- b) Unless recovery options are being activated, events determined under stress-scenario shall cause failure of the bank or shall be trigger preconditions of resolution or liquidation;
- c) Shall be based on events that are exceptional but plausible.
- d) Shall incorporate events that cause both financial stress and both immediately and in an extended period;

5. Each stress-scenario shall include analysis of its effects on the following aspects of a bank:

- a) Available regulatory Capital
- b) Available liquidity
- c) Risk profile
- d) Profitability

e) Operational continuity, including continuity of payment and settlement systems

f) Reputation

6. A bank shall determine at least three stress-scenarios while a bank of systemic importance shall have at least four scenarios incorporated.

7. Bank shall provide analysis that stress-scenarios including its assumptions are compatible with a bank's size complexity, operational scope, risk profile and other characteristics of a bank and ensures evaluation of the efficiency of indicators and recovery options.

Article 12. Communication strategy

1. A Bank shall include a communication strategy that ensures the exchange/availability of information necessary for the timely and effective implementation of a recovery plan. Communication strategy shall covers the following:

a) Internal communication – communication strategy with employees of a bank, structural and organizational units responsible for the implementation of a recovery plan.

b) External Communication – communication strategy with shareholders investors, NBG, counterparties, financial market participants, depositors and third parties that might be affected by the processes.

c) Arrangements that will be set up to prevent or manage a possible negative market reaction

2. A recovery plan shall incorporate a strategy that will be exploited both in case of implementing an individual recovery option and multiple options simultaneously, while the given strategy shall be compatible with the specifics and characteristics of each option.

Article 13. Preparatory measures

1. Bank shall determine preparatory measures that are necessary for facilitating timely and effective implementation of recovery options

2. Preparatory measures include arrangements that are necessary for the removal or elimination of the impeding factors that might affect effective implementation of recovery options, including those factors specified in the sub section „b" sub-article 2 of article 9.

3. A bank shall determine the maximum timeline for the implementation of each preparatory measure.

Article 14. Assessment of recovery plan by NBG

1. NBG assesses whether a submitted recovery plan is compatible and satisfies all requirements laid down in the rule and evaluates its completeness, quality and efficiency.

2. A recovery plan is deemed complete if it includes all mandatory elements required under article 3 is based on the most recent information, is renewed according to the requirements set in the rule and is adequate to size complexity, operational scope, risk profile and other characteristics of a bank.

3. Bank assesses the quality of a recovery plan, taking into account the following:

- a) Whether a plan is well-structured and written using clear and precise formulations
- b) Whether assumptions and calculations made in the recovery plan are reliable and adequately documented
- c) Whether Information and data used in the process of development of a plan is reliable and accurate
- d) Whether a plan is adequately integrated into corporate governance and risk management framework and group structure of a bank.

4. NBG assesses the efficiency of the recovery plan by evaluating whether the plan will be implemented timely and efficiently. For this goal NBG assesses:

- a) Adequacy of indicators and efficiency of recovery options;
- b) The efficiency of stress scenarios through evaluating whether they ensure assessment of the efficiency of indicators and recovery options;
- c) Whether a bank can timely and efficiently implement single or multiple recovery options without the need for the engagement/support of third parties;
- d) Adequacy of recovery options and preparatory measures;
- e) Adequacy of the timeline determined for the implementation of recovery options;
- f) Other issues that NBG deems relevant for the evaluation of the efficiency of a recovery plan.

5. NBG shall evaluate the compatibility of the plan, during 6 months with the requirements and criteria of this rule and sends its conclusions upon the matter to the bank

6. If the implementation of the recovery is necessitated while its assessment by NBG is pending, a bank shall apply for the confirmation to the NBG to implement recovery measures determined in the renewed plan. NBG is entitled to confirm the request or demand implementation of the recovery options determined in the previous plan.

7. In 2 months period after receiving NBG's assessment bank shall renew the plan according to the remarks and recommendations of the NBG. The given timeframe can be extended based on the decision of NBG no longer than 1 month if a bank presents the substantiated request.

8. If the recovery plan is not presented to the NBG or if a renewed plan as determined by sub-article 7 is still not deemed by NBG to be compatible with the requirements and criteria of this rule NBG is authorized to use appropriate supervisory measures or/and sanctions – fine as defined in the relevant legislation.

Article 15. Transitional Provisions.

1. Systematically important banks shall develop and submit recovery plans which include one stress-scenario and other key elements depending on the context of the scenario to the NBG no longer than January 1st of 2021. Systemic banks are obliged to submit additional stress-scenario after 1st January 2021 within 6 months period.
2. Non systemic important banks shall develop and submit recovery plan which include one stress-scenario and other key elements depending on the context of the scenario to the NBG no longer than 30th June of 2021. Non-systemic banks are obliged to submit additional stress-scenario after 30st June 2021 within 6 months period.
3. Commercial banks should submit their comprehensive recovery plans according to the requirements of this rule by 31 May, 2022.

Annex N1

Mandatory and additional recovery plan indicators

1. Mandatory Indicators

a. Capital Indicators

- a.a) Common Equity Tier 1 ratio
- a.b) Tier 1 capital ratio
- a.c) Total Regulatory Capital ratio
- a.d) Leverage ratio
- a.e) (Retained earnings and Reserves) / Total Equity

b. Liquidity indicators

- b.a) Liquidity Coverage Ratio (domestic currency, foreign currency, total)
- b.b) Net Stable Funding Ratio
- b.c) Cost of wholesale funding
- b.d) The concentration of liquidity and funding sources
- b.e) Cost of total funding (retail and wholesale funding)
- b.f) The average tenure of wholesale funding
- b.g) Contractual maturity mismatch
- b.h) Available unencumbered assets
- b.i) A rapid outflow of deposits

c. Profitability Indicators

- c.a) Return on Assets
- c.b) Return on Equity
- c.c) Significant operational risk losses
- c.d) Cost-income ratio (Operating costs / Operating income)

c.e) Net interest margin

d. Asset quality indicators

d.a) The growth rate of non-performing loans

d.b) Coverage ratio (reserves on loans/ total non-performing loans)

d.c) (Gross non-performing loans) / equity

d.d) (Gross non-performing loans)/ loans

d.e) Growth rate of impairments on financial assets

d.f) Non-performing loans by significant geographic or sector concentration

d.g) Reserves costs

2. Additional indicators

a) Market-Based Indicators

a.a) A rating under negative review or rating downgrade

a.b.) CDS spread

a.c) Stock price variation

a.d) Price to book ratio

a.e) A reputational threat to the institution or significant reputational damage

b) Macroeconomic Indicators

b.a) GDP variations

b.b) CDS of sovereigns

b.c) A rating under negative review or rating downgrade of sovereigns

b.d) Unemployment rate

b.e) Foreign currency exchange rate