Approved by the decision of the
Management Board of the Central Bank
of the Republic of Azerbaijan dated 27
June 2024
Protocol № 26

Methodology Guide
on the development and application of a recovery plan in banks

1. General provisions

1.1. This Methodology Guide establishes recommendations for a recovery plan and its application for banks to mitigate their operational risk, protect interests of depositors and creditors and safeguard financial stability in the country.

1.2. This Methodology Guide has been developed in accordance with internationally accepted banking supervision standards, including the Key Attributes of Effective Resolution Regimes for Financial Institutions developed by the Financial Stability Board, to strengthen banks' preparedness for various stress scenarios when faced with crisis situations.

2. Definitions

2.1. The definitions used for the purposes of this Methodology Guide bear the following meanings:

2.1.1. recovery plan (hereinafter - Plan) – a document developed by banks that outlines their recovery measures against various stress scenarios caused by internal and external factors.

2.1.2. recovery measure (hereinafter – Measure) – a comprehensive measure implemented by the bank to safeguard the bank's financial standing and sustainability.

2.1.3. critical function – a set of services determined by the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) based on obtained information (market share, coverage, cross-border importance, internal and external interconnectedness, complexity, substitutability options), provided by the bank to third parties essential for business continuity, which, in case of interruptions, threaten financial stability and disrupt the economy.

2.1.4. critical entity – a structural unit defined by the bank engaged in the performance of an activity likely to have a critical function, any person included in the group of companies the bank belongs to or a third party.

2.1.5. dependence – bank's dependence on internal structural units or external third parties leading to interruptions in the implementation of critical functions due to discontinuation of services provided by critical entities.

2.1.6. early warning level – an indicator that allows for the Supervisory and Management Boards to be alerted according to the criteria specified in Part 6 of this Methodology Guide.

2.1.7. recovery level – an indicator that allows for the initiation of the application of Measures by the bank.

2.1.8. indicator – an event that pre-alerts Supervisory and Management Boards on the stressed situation and stipulates the introduction of pre-defined Measures on the Plan.

2.2. Other definitions used in this Methodology Guide bear the meanings specified in the Law of the Republic of Azerbaijan 'on Banks' and regulations of the Central Bank.

3. Internal rules regarding the development of the Plan

3.1. Banks adopt internal rules regarding the development of the Plan. The rules are approved by the Supervisory Board and communicated to all employees responsible for the implementation of the processes.

3.2. The internal rules include at least the following:

3.2.1. the development of the Plan by the chief risk officer, its approval by the Supervisory Board and periods for update, control by the Management Board over the implementation of the Plan (monitoring of indicators), reporting (frequency) according to the risk management framework, periods for the implementation of processes with the involvement of related structural units.

3.2.2. duties of officials regarding the implementation of the Plan.

4. Requirements for the Plan

4.1. The plan is prepared in accordance with the activities of the bank, taking into account the size and complexity of its risk exposures, is approved by the Supervisory Board of the bank, and submitted to the Central Bank without delay.

4.2. The content of the Plan should meet the criteria of relevance, consistency, and coverage:

4.2.1. Relevance – the Plan is updated at least once a year (but not limited to) to accurately reflect current and anticipated significant changes in the bank's organizational-legal structure, business model, or financial condition.

4.2.2. Consistency – The Plan should be consistent with the bank's business model, and its strategic and risk management models, to maintain and recover the bank's financial standing and include the implementation of Measures in accordance with the legislation.

4.2.3. Coverage – the Plan covers a sufficiently broad scope, includes comprehensive indicators from an implementation perspective, and contains Measures.

4.3. The content of the Plan covers the following interconnected elements whose content is defined in Annex 1 to this Methodology Guide:

4.3.1. bank's strategic analysis.

4.3.2. indicators.

4.3.3. stress scenarios.

4.3.4. Measures and the impact assessment.

4.3.5. data disclosure.

4.4. The Plan is revised at least annually and submitted to the Central Bank without fail incorporating relevant changes if necessary. The Central Bank assesses the adequacy of the Measures for addressing stressed situations and capability of the bank to overcome financial difficulties.

4.5. According to the results of the assessment, the Central Bank issues recommendations, or binding instructions in accordance with the legislation.

4.6. To achieve the following objectives, only the Central Bank can disclose the results of assessment to the public, except for sensitive and confidential instances:

4.6.1. enhancing transparency and market discipline.

4.6.2. achieving Plan-related expectations and targets.

5. Bank’s strategic analysis

5.1. The bank’s strategic analysis shall outline core business activity areas, related parties, branches, and other units within the structure, third party dependance and the nature of relations. The Plan includes information about the bank itself and on its business model to define the size of financial losses the bank may face and implement preventive Measures in the event of discontinuation of such dependencies.

5.2. The bank’s strategic analysis includes the following components:

5.2.1. the organizational-legal structure, information on branches and subsidiaries, and changes and anticipated changes therein.

5.2.2. all services.

5.2.3. external and internal dependency, relations likely to cause interruptions in activities of the institution.

6. Indicators

6.1. Indicators shall:

6.1.1. meet quantity and quality requirements.

6.1.2. relate to future-oriented events and financial indicators, and meet conditions required for the period necessary to restore the bank's financial condition and stability.

6.1.3. cover market-based and macroeconomic indicators, capital, liquidity, profitability, asset quality, size of sales, impact of discontinuation in activities of critical entities, and other significant indicators inherent to the bank’s business model.

6.1.4. be consistent with the bank’s business model, risk profile, activity directions and complexity, and conditions determined with the risk management framework.

6.1.5. have an early warning potential capability to recover bank’s financial standing and sustainability prior to imposing legislative enforcement and corrective measures and sanctions for the violation of established requirements.

6.1.6. Both the early warning level and the recovery level indicators, expressed by financial indicators, should be stricter than the levels established by prudential requirements. The criteria for the early warning level set stricter targets than those established for the recovery level.

6.2. Bank’s indicators in other risk management plans are revised in general as part of the Plan, and relevant adjustments are made if it is necessary to apply other additional indicators.

7. Stress scenarios

7.1. Scenarios are a tool that supports bank's Supervisory and Management Boards to identify, improve and verify the warning functionality of indicators by simulating various stress events.

7.2. Scenarios encompass market-wide stresses compatible with the bank’s activity and are developed at least considering unfavorable conditions that target the following loss and adverse impacts:

7.2.1. financial losses that threaten bank’s core business directions, the critical entity, other group members and bank’s financial stability.

7.2.2. capital shortfall, liquidity pressures or other significant financial losses.

7.2.3. financial losses that are unexpected, long-term, can occur separately and together, are directly related to bank's activities, and associated with market conditions.

7.2.4. a portfolio shock considering the bank’s business model and nature, cyberattack, events that are likely to cause reputational crisis, failure of any person or branch incorporated to a group of companies the bank relates to, a significant adverse impact stemming from the compliance risk, considerable risks that affect the capacity to deliver products or services to customers.

7.2.5. interruptions in the operation of systemically important financial institutions or critical entities, economic tension, significant changes in capital markets, instability of domestic or global financial markets, significant changes in debt or equity valuations, exchange or interest rates, and other market-wide scenarios that may trigger losses.

8. Measures and impact assessment

8.1. Measures are applied by the Management Board to recover bank's financial condition and safeguard its sustainability. When the planned indicators reach the early warning level, the Management Board notifies the Supervisory Board, and when the indicators reach the recovery level indicators, Measures are applied in the sequence defined in the Plan.

8.2. The period required for the application of Measures should meet business continuity requirements.

8.3. The volume of Measures required resources should suffice to recover the financial condition within the specified timeframe.

8.4. To maintain business continuity and the capacity to fulfill obligations, the bank should stand ready to attract financial sources, appraise collateral, sell assets, use liquid resources of related parties, and apply other Measures under a stressed condition.

8.5. The bank takes necessary Measures to provide ongoing access to the financial market infrastructure, and considers other alternatives (including processes, infrastructure, ongoing IT services) along with the Measures specified to ensure business continuity.

8.6. The bank takes into account external impacts caused by other business processes applied in current management, and the potential time loss in achieving targeted outcomes through the implementation of measures.

8.7. The Measures should allow for the mitigation of risks and cost reduction, the cancellation of projects, refusal certain types of activities, the sale of assets, restructuring of liabilities, liquidation of subsidiaries and/or result-oriented other different steps.

8.8. The Supervisory Board approves consistency and adequacy of analyses regarding the impact of each Measure on the bank, assesses the impact, and determines how each Measure will be implemented to recover the financial condition.

8.9. Every event likely to impede to timely and effectively implement the planned Measure is described. Potential adverse effects on other assets of the bank's related organizational group, on customers and counterparties, are assessed if the measure is either not implemented or delayed due to anticipated impediments.

9. Data disclosure

The Plan should address the management of potential adverse financial impact and the disclosure of relevant processes to the public. The Plan also covers a clear strategic communication measure to timely inform external and internal stakeholders, financial market participants, depositors, employees, and the broad public.

Governor of the Central Bank **Taleh Kazimov**