

Circular No. 03/EFI/2022

Maputo, July 29, 2022

SUBJECT: Recovery Plan Information

Notice No. 02/GBM/2022, of May 31, lays down the information items for recovery plans, as well as procedures regarding presentation, safekeeping and review, so as to enable banks to identify, as extensively as possible, measures likely to be implemented to correct, in a timely manner, any situation that compromises or may compromise their financial balance.

In light of the need to issue guidelines to be observed by institutions when drawing up their recovery plans, in accordance with Article 17 of Notice No. 02/GBM/2022, of May 31, the Banco de Moçambique lays down as follows:

1. Without prejudice to the provisions of the aforementioned Notice, recovery plans shall be drawn up regarding the structures set forth in Annexes **I, I and III** herein.
2. Any doubts arising from the interpretation and implementation of this Circular may be submitted to the Macprudential Analysis Department of the Banco de Moçambique.
3. This Circular shall enter into force immediately.

Benedita Maria Guimino

Board Member

Annex Y - Recovery Plan Items

Recovery plan items	Description
1. Strategic Analysis	<ul style="list-style-type: none"> i. Description of correlated entities; ii. Description of main business lines (Annex II); iii. Mapping of business lines affecting correlated entities; iv. Identification and description of critical functions (Annex III); v. Description of in-group dependencies; vi. Description of internal interconnectivities; vii. Description of external interconnectivities.
2. Non-exhaustive and Exemplary List of Indicators of Recovery	<p>2.1. Capital</p> <p>Indicators that demonstrate the actual or potential deterioration of the institution's ability to meet minimum capital requirements. The indicators in question shall be consistent with the risk and capital management framework and the Internal Capital Adequacy Assessment Process (ICAAP):</p> <ul style="list-style-type: none"> i. Overall Solvency Ratio; ii. Tier 1 Capital; iii. Leverage Ratio. <p>2.2. Liquidity</p> <p>Indicators for the actual or potential deterioration of the institution's ability to meet its liquidity and financing needs:</p> <ul style="list-style-type: none"> i. Net Assets Ratio; ii. Transformation Ratio; iii. Short-term Liquidity Coverage Ratio; iv. Liquidity Coverage Ratio (LCR); v. Deposit concentration (100 largest depositors). <p>2.3. Profitability</p> <p>Indicators that show the actual or potential change in the result or modifications in the pattern of income sources or expenses:</p> <ul style="list-style-type: none"> i. Net Income; ii. Return on Assets; iii. Return on Equity; iv. Net Interest Income Ratio; v. Structure Cost; vi. Operating Cost; vii. Efficiency Ratio. <p>2.4. Asset Quality</p> <p>Indicators reflecting the quality of active operations and their concentration in sector, geographic and counterparty terms:</p> <ul style="list-style-type: none"> i. Non-Performing Loans (NPL)/Total Credit (Gross Loans);

	<ul style="list-style-type: none"> ii. Non-Performing Loans (net provisions)/ Total Equity iii. Overdue Loans Ratio up to 90 days; iv. NPL Coverage Ratio; v. Foreign Currency Credit (FC)/Total Credit; vi. NPL by Sector Concentration; vii. Concentration of Counterparties (Individual and/or group) <p>2.5. Market Indicators</p> <ul style="list-style-type: none"> i. Exchange rate; ii. Prime Rate. <p>2.6. Macroeconomic indicators</p> <ul style="list-style-type: none"> i. Gross Domestic Product Growth; ii. Inflation. <p>2.7. Specific Recovery Indicators</p> <p>Indicators and other information that signal activities or events that may significantly affect the corporate image and operational or financial continuity of the institution, indicating legal risks, contagion risks and the effectiveness of internal controls:</p> <ul style="list-style-type: none"> i. Retained Earnings and Reserves/ Total Equity ii. Liquidity Concentration and Financing Sources; iii. Adverse information on the financial position of significant counterparties; iv. Threat or significant damage to the reputation of the entity or group.
<p>3. Stress scenario analysis</p>	<p>Description of each stress scenario, namely:</p> <p>3.1. Scenario design</p> <ul style="list-style-type: none"> i. The type, severity and time frame; ii. Logical sequence and time frame of the event, including a detailed description and quantitative parameters; iii. Processes and assumptions underpinning the scenario. <p>3.2. Scenario analysis</p> <p>3.2.1. Financial and operational impact of the scenario, such as:</p> <ul style="list-style-type: none"> i. Recovery indicators that are affected over time; ii. Transmission channels of the risk scenario in the institution. <p>3.2.2. Analysis of the adequacy of recovery indicators and the governance structure, whilst indicating:</p> <ul style="list-style-type: none"> i. The number and types of recovery indicators and non-compliant indicators after the stress test; ii. The magnitude and duration of non-performance, in order to evaluation the time available to implement the recovery strategy; iii. The process of escalation and monitoring. <p>3.3. Description of the preferred recovery strategy and the recovery ability, including:</p> <ul style="list-style-type: none"> i. Assumptions underpinning the strategy choice; ii. Financial, strategic, operational and systemic impacts on stakeholders; iii. Impact on the feasibility and time required to implement the recovery strategy.

<p>4. Non-exhaustive List of recovery strategies</p>	<p>4.1. Recovery Strategies</p> <ul style="list-style-type: none"> i. Strengthening the capital and liquidity standing; ii. Asset disposal; iii. Debt refinancing; iii. Liability restructuring; iv. Access to financial support from entities in the same economic group, if any; v. Access to liquidity financial support, if any, regardless of the nature of origin; vi. Changes in the corporate or organizational structure, operating strategy or business model of the institution; vii. Ongoing provision of third-party services, necessary for the operational continuity of the institution.
<p>5. Contents of recovery strategies</p>	<p>5.1 Strategy description</p> <ul style="list-style-type: none"> i. Description and quantification of strategies; ii. Assumptions made for strategies; iii. Committees/bodies/staff responsible for the undertaking, maintenance, implementation and approval of the recovery, including the description of the current governance structure (for example, in-group arrangements); iv. Estimated time to implement strategies; v. Estimate of implementation costs, including the possible costs arising from the hiring of consulting services and business restructuring. <p>5.2 Impact analysis</p> <ul style="list-style-type: none"> i. Analysis of the financial, strategic, operational, stakeholder and systemic impact and strategy assumptions. <p>5.3 Feasibility analysis</p> <ul style="list-style-type: none"> i. Analysis of strategy feasibility and assumptions. <p>5.4 Stress test applicability</p> <ul style="list-style-type: none"> i. Analysis of the applicability of recovery strategies in different contexts and remarks supporting the analysis. <p>5.5 Process execution</p> <ul style="list-style-type: none"> i. Procedures or steps required for the implementation of the strategy; ii. Stakeholder communication plan

Annex II — Information on strategic business models and lines

Business model/line	Description and/or content
1. Business model	1.1. Business model and strategy overview; 1.2. Operational view of the business.
2. Main business lines	2.1. For each business line, where applicable, indicate: i. Key information on financial performance (including the breakdown of the financial statements, provisions and impairment); ii. Network of agencies and customers by region; iii. Interaction and division of responsibilities between business lines and the parent entity; iv. Composition of risk drivers.
3. Business line mapping	3.1. Correlated entities; 3.2. Services backing business lines

Annex III – Critical function information

A— Critical function information

Description	Critical Function
1. Critical function description	Activities, services or operations whose disruption may give rise to the disruption of services essential to the economy or financial stability.
2. Risk management practices and governance structure	Overview of the risk management policies, procedures, and governance structure of the function, highlighting the interaction and division of responsibilities between the parent entity and the service provider/function.
3. Critical analysis of function	Processes and metrics supporting the critical analysis of the customer portfolio distribution by segment.
4. Critical services shared with third parties	Processes and metrics that support critical analysis.
5. Function mapping	Regarding: <ul style="list-style-type: none"> i. Correlated entities; ii. Main business lines; iii. Critical services shared with third parties.

B — List of potential critical functions

Description	Critical Function
1. List of potential critical functions	<ul style="list-style-type: none"> a. Deposits; b. Credit; c. Capital market investments; d. Payment systems; e. Treasury; f. Trading, g. Accounting and reporting; h. Security of premises (human security, access control, cash handling); i. Human Resources (minimum services); j. Legal and/or compliance support; k. Information Technologies: <ul style="list-style-type: none"> i. Repository and data protection; ii. IT Infrastructure iii. Software; iv. Licenses and applications and their maintenance; v. Access to third-party providers; vi. Customer support; vii. Disaster recovery.