

GUIDELINE ON RECOVERY PLANNING - CBK/PG/25

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PART I: Preliminary

1.1 Title - Guideline on Recovery and Resolution Planning.

1.2 Authorization - This Guideline is issued under Section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system.

1.3 Application - This Guideline shall apply to all institutions licensed under the Banking Act (Cap 488) to conduct business in Kenya.

1.4 Definitions

1.4.1 “Banking group” means a licensed institution and its subsidiaries, non-operating holding companies and subsidiaries of its non-operating holding companies.

1.4.2 “Core business lines” Business lines material to the bank’s franchise value or which may cause serious impact if discontinued without contingency arrangements.

1.4.3 “Critical function” is a service or a collection of services normally performed by a unit that must continue at a sufficient level without interruption or restart within given timeframes (within the first 30 days) after a disruption to the service.

1.4.4 “Material risks” are risks with grave consequences regardless of the frequency at which they occur.

1.4.5 “Recovery plan” is a document prepared and maintained by the institution that identifies options to restore its financial strength and viability when it comes under severe stress.

1.4.6 “Resolution plan” is a detailed, operational strategy constructed by the resolution authority outlining how special resolution tools such as a bail-in, bridge institution, or transfer of ownership will be applied if the institution fails.

1.4.7 “Recovery planning” is a structured, proactive strategy used to restore stability and normal operations of an institution after a severe disruption, shock, or crisis.

1.4.8 “Traffic light approach” It is an early warning system that uses predefined indicators and thresholds to signal the severity of financial or operational stress. The approach operates in a cascading sequence of severity, i.e. Green (Business as Usual), Amber (early warning/worsening indicators) and Red (Recovery trigger/activation stage).

PART II: STATEMENT OF POLICY

2.1 Purpose

This Guideline outlines the minimum requirements that institutions should meet in developing, maintaining and testing Recovery Plans and undertaking Resolvability Assessments.

Recovery plans are designed to enable the institution to identify options to restore its financial strength and viability during severe idiosyncratic or market-wide stress. Thus a recovery plan plays an important role in crisis management and should not be confused with a business continuity plan (“BCP”), which focuses on keeping the business operational in the face of a threat or a disaster.

It is envisaged that by implementing this Guideline, institutions will mitigate risks that threaten their financial viability thus safeguarding the stability of Kenyan financial sector.

2.2 Scope

This Guideline sets the minimum requirements for developing and testing recovery plans and undertaking resolvability assessments by institutions and Non-Operating Holding Companies (NOHCs).

2.3 Responsibility

The responsibility for developing and testing Recovery Plans ultimately rests with the Board of Directors. The Board is expected to formulate effective Recovery Plans, periodically test their effectiveness, and ensure that they are properly documented. The Central Bank of Kenya shall undertake the Resolvability Assessment of the institution based on information and documentation provided by the institution. Recovery Plans and all supporting

documentation must be available for review by the internal auditor, external auditor, and the Central Bank of Kenya.

PART III: BACKGROUND

Following the Global Financial Crisis of 2007–2009, recovery planning became an important component of the international regulatory framework for promoting the resilience of financial institutions. The Financial Stability Board (FSB), through its Key Attributes of Effective Resolution Regimes for Financial Institutions, established recovery planning as an international supervisory expectation to ensure that banks are adequately prepared to respond to periods of severe financial stress. Recovery planning enables institutions to restore their financial strength and viability through timely management actions before they become non-viable.¹

This Guideline establishes the minimum requirements for the development, maintenance, testing and periodic review of Recovery Plans by institutions licensed under the Banking Act. It is intended to strengthen institutions' preparedness for severe financial stress by ensuring they identify credible recovery options, establish effective governance arrangements, and implement robust monitoring and escalation processes that support timely decision-making.

Recovery planning complements an institution's existing risk management framework, capital and liquidity planning, stress testing, contingency funding planning and business continuity arrangements. However, it is distinct from business continuity planning, which focuses on maintaining the continuity of critical business operations during operational disruptions such as cyber incidents, natural disasters or technology failures. Recovery planning, by contrast, focuses on restoring an institution's financial resilience and viability during periods of severe financial stress.

PART IV: SPECIFIC REQUIREMENTS

4.1 Board and Senior Management

Recovery plans can assist the board and senior management in assessing the adequacy of existing risk management frameworks, legal entity structures, connectivity, and possible contagion if recovery options are to be implemented.

¹ Key Attributes of Effective Resolution Regimes for Financial Institutions (revised version 2024) - Financial Stability Board

4.1.1 Board Responsibilities

- 4.1.1.1 The Board of an institution should exercise effective oversight on all aspects of the development, updating and implementation of the recovery plan. At minimum, the Board should:
- a. Approve the Recovery Plan and ensure that senior management implements the plan effectively. Any reviews and material changes to the recovery plan made by senior management should be approved by the board;
 - b. Ensure availability of sufficient resources to support the development and updating the recovery plan; and
 - c. Ensure that the recovery plan is integrated with existing risk management framework and is complementary and closely linked to the institution's strategic and contingency plans.
- 4.1.1.2 The Board shall ensure that the institution's Recovery Plan is aligned and coordinated with the Recovery Plan of the banking group, where applicable, while remaining appropriate to the institution's specific legal structure, operations, and risk profile. The Board shall also ensure that the Recovery Plan contains credible recovery options that are capable of restoring the institution's financial strength and viability under severe stress.

The Board shall ensure that:

- a. An institution that is a subsidiary of a banking group prepares and maintains its own entity-specific Recovery Plan, irrespective of the existence of a group Recovery Plan. The entity-specific Recovery Plan shall be consistent with, and complementary to, the group Recovery Plan while addressing the subsidiary's unique operations, critical functions, and local regulatory requirements.
- b. A banking group with cross-border operations prepares a group Recovery Plan covering the parent institution and the group as a whole. The group Recovery Plan shall be supported by distinct Recovery Plans for material subsidiaries and, where appropriate, significant foreign branches, taking into account the legal, operational, and regulatory requirements of the jurisdictions in which they operate.

- 4.1.1.3 The board shall ensure appropriate involvement of the risk management and internal audit functions in the development and execution of the recovery plan as part of its oversight of the institution's safe and sound operations.

4.1.2 Senior Management Responsibilities

- 4.1.2.1 The senior management shall be responsible for the development, updating, activation and implementation of recovery plan. In this capacity, the senior management shall:

- a. Develop a Recovery Plan and policies necessary for managing and controlling stress events and ensuring continuity of critical business functions;
- b. Ensure that the recovery plan is reviewed at least annually or after significant changes to its legal or realization structure, business activities or its financial situation or after the results of Recovery Plan simulation exercise; During this review, senior management should:
 - i. Consider the ongoing relevance and applicability of the stress scenarios;
 - ii. Confirm the plan's stress indicators, options to respond to breaches of those indicators, as well as triggers and options to respond to trigger events, and revise them when necessary;
 - iii. Evaluate the institution's organizational structure and its effectiveness in facilitating recovery;
 - iv. Consider the institution's legal structure, current number of entities, geographical footprint, booking practices (e.g., guarantees and exposures), and servicing arrangements; and
 - v. Inform and educate the board on updates or amendments to the recovery plan and seek approval of the updated plan.
- c. Develop detailed recovery options for specific stress events identified in the Recovery plan;
- d. Implement monitoring processes for trigger events and timely activation of recovery options when appropriate.
- e. Assess the strategic and structural implications of potential recovery options;
- f. Ensure that well-defined processes and management information systems are developed to provide good quality and granular data for timely risk communication within the institution and risk reporting to the Board, on an ongoing and ad- hoc basis;
- g. Regularly update the Board on material developments relating to recovery planning including the status of recovery indicators, breaches of recovery

thresholds, preparatory measures to be undertaken, activation of the Recovery plan, and implementation of recovery options and its progress;

- h. Designate a senior officer responsible for driving the overall recovery planning process and for liaising with the Central Bank on matters relating to recovery planning;
- i. Ensure that the recovery planning process is undertaken with the appropriate level of involvement of key personnel across core organizational functions; and
- j. Ensure the robust and credible application of expert judgement and critical scrutiny in the development of the risk modelling and quantitative risk methodologies used in determining recovery indicators and conducting scenario analysis;

4.1.2.2 Senior management should integrate the recovery planning framework into the institution's risk governance framework established by the risk management function.

4.2 Recovery Planning

Recovery planning is critical in responding to unforeseen catastrophic incidents effectively, and mitigating the effects on their business. The recovery planning process involves coordination across multiple businesses, frontline units and risk governance functions for effective execution.

An institution should undertake recovery planning on a consolidated basis, taking into consideration its non-operating holding company, local and regional subsidiaries and branches where applicable. An institution which is subsidiary of a foreign bank should ensure that the recovery plan is prepared in consultation with its parent company or head office and ensure that its Kenyan operations are adequately taken into consideration.

4.2.1 A Recovery Plan shall, at minimum:

- a. Enumerate the responsibilities for the board and senior management;
- b. Cover all material risks that are linked to critical functions and shared services;
- c. Be adapted to the institution's business model, strategy, legal structure, size, complexity, risk profile and cross-border activities.
- d. Identify core business lines, critical functions and critical services; and the key legal entities and jurisdictions from which these are provided.

- e. Detail the institution's interconnectedness and interdependencies across business lines, critical third parties and subsidiaries in a group structure. Further, the plan should show any material impact upon a disruption of these interconnections or interdependencies.
- f. Provide an assessment of recovery options including the manner in which each option will address adverse scenarios such as uncovered losses, liquidity shortfalls and capital inadequacies. The institution should ensure that the recovery options can be implemented in a timely and effective manner and are proportional to the size and complexity of the institution;
- g. Be aligned with recovery plans of group, foreign subsidiaries and branches.
- h. Institutions shall prepare an action plan to ensure implementation of the recovery plan including testing once every two years and review, updating triggers and indicators for plan improvement;
- i. Consider legal, reputational and operational impediments to recovery; and
- j. Identify the key vulnerabilities most likely to impact the institution's financial condition.

4.2.2 The Institution should establish robust governance structures and sufficient resources to support the recovery planning process.

4.2.3 The Institution should not assume extraordinary support from Central Bank or government, except access to existing central bank facilities under prevailing conditions.

4.3 Documentation and Data

4.3.1 An institution's Recovery plan should document all activities and processes, and provide material information during the recovery planning process.

4.4 Critical Functions and Services

4.4.1 The institution should identify the critical functions and services. The institution should focus on the critical shared services (whether provided by a third-party service provider or provided from within a banking group) on which these critical functions depend, and on how the institution can maintain its access to financial market infrastructure.

4.4.2 In identifying critical functions and services, the institution shall consider the following:

- a. whether a failure or discontinuity of such functions or services would likely lead to the disruption of operations that are essential for proper functioning of the institution;
- b. Contribution of the business line to its profit, assets, capital, liabilities, or risk profile;
- c. Strategic significance of the business line in relation to:
 - i. Customer base, geographic reach and branch network;
 - ii. Market potential and growth outlook;
 - iii. Indicative value under the current operating environment, taking into account the provision of market access or international linkages to the institution;
 - iv. Operational synergies with other business lines;
 - v. Attractiveness to competitors as a potential acquisition target; and
 - vi. Other factors that contribute to the business line's significance to the institution.

Following the identification of critical functions, the institution shall assess the impact of disruptions on its operations, the continuity of critical services to customers, and its participation in local and foreign financial market infrastructures.

4.5 Recovery Triggers

- 4.5.1 A recovery trigger is a predefined quantitative and/or qualitative threshold that signals an institution to activate its recovery plan. Recovery triggers signal deterioration in an institution's financial or operational condition and prompt management to implement recovery actions before the institution reaches a point of non-viability. Recovery triggers serve as early warning indicators allowing the board and, to a larger extent, the management of an institution to take appropriate action in response to the emerging stress before it reaches a crisis point.
- 4.5.2 The institution should consider developing trigger events that are not only quantitative in nature but also qualitative. Qualitative triggers could include elements such as; requests from counterparties for early redemption of liabilities; difficulties in issuing liabilities at current market rates; an unexpected loss of senior management; adverse court rulings; negative market press and significant reputational damage.

- 4.5.3 Institutions should consider using traffic light approach in developing the indicators to provide sufficient early warnings before any regulatory requirements are breached.
- 4.5.4 Trigger events should be well-defined, pre-determined, plausible, and tailored to the risks faced by the institution and should be aligned to other early warning indicators within the institution's existing risk governance framework.
- 4.5.5 The design of recovery triggers should provide the institution with a varying degree of increasingly severe stress, ranging from warnings of the likelihood of severe stress occurring to the actual occurrence of severe stress.
- 4.5.6 The institution should assess if the trigger events are appropriate or if they can be reviewed when conducting reviews of the recovery plan.
- 4.5.7 Recovery triggers should be reviewed at least annually and recalibrated to ensure they continue to give sufficient warning of emerging stress.
- 4.5.8 Recovery indicators in the Recovery Plan should set out clearly defined criteria and thresholds in order, to:
 - a. Enable timely risk monitoring and management across business as usual, early warning, and recovery phases in a cohesive manner;
 - b. Facilitate prompt identification and escalation of key vulnerabilities and stress events which could adversely affect the institution;
 - c. Ensure prompt consultations with the Board and timely activation of the Recovery Plan; and minimize delays in implementation of recovery options.

4.6 Types of recovery triggers

Recovery plan indicators are a key component of recovery plans. Recovery plan indicators assist institutions to monitor and respond to emergence and evolution of a stress situation.

Institutions should set and determine recovery triggers based on various indicators as listed below. The main categories of indicators used as recovery triggers are:

4.6.1 Capital indicators

- 4.6.1.1 Capital indicators should identify any significant actual and likely future deterioration in the quantity and quality of capital in a going concern, including increasing levels of leverage.
- 4.6.1.2 When selecting capital indicators, institutions should consider ways to address the issues stemming from the fact that the capacity of such indicators to allow for a timely reaction, can be lower than for other types of indicators. Certain measures to restore an institution's capital position, can also be

subject to longer execution periods or greater sensitivity to market and other conditions. This can be achieved by establishing forward-looking projections, which should consider material contractual maturities relating to capital instruments.

4.6.1.3 The capital indicators should also be integrated into the institution's Internal Capital Adequacy Assessment Process (ICAAP) for banking institutions as well as the existing risk management framework.

4.6.1.4 The thresholds should be calibrated based on the institution's risk profile and on the time needed to activate the recovery measures; should consider the recovery capacity resulting from those measures; and take into account how quickly the capital situation may change, given the institution's individual circumstances.

4.6.1.5 The thresholds for indicators based on regulatory capital requirements should be calibrated by the institution at adequate levels in order to ensure a sufficient distance from a breach of the capital requirements applicable to the institution.

4.6.2 Liquidity indicators

4.6.2.1 Liquidity indicators should be able to inform an institution of the potential for, or an actual deterioration of the capacity of the institution to meet its current and foreseen liquidity and funding needs.

4.6.2.2 The institution's liquidity indicators should refer to both the short-term and long-term liquidity and funding needs of the institution and capture its dependence on wholesale markets and retail deposits, distinguishing among key currencies where relevant.

4.6.2.3 The liquidity indicators should be integrated with the strategies, policies, processes and systems developed by each institution and its existing risk management framework.

4.6.2.4 The liquidity indicators should cover other potential liquidity and funding needs, such as the intra-group funding exposures and those stemming from off-balance structures.

- 4.6.2.5 The thresholds should be calibrated on the basis of the institution's risk profile and on the time needed to activate the recovery measures and consider the recovery capacity resulting from those measures.
- 4.6.2.6 When referring to minimum regulatory requirements applicable to the institution, the indicators should be calibrated by the institution at adequate levels in order to be able to inform the institution of potential and/or actual risks of not complying with those minimum requirements.

4.6.3 Profitability indicators

- 4.6.3.1 Profitability indicators should capture an institution's income-related aspects that could lead to a rapid deterioration in its financial position through lowered retained earnings (or losses).
- 4.6.3.2 This category should include recovery plan indicators referring to operational risk-related losses, which may have a significant impact on the profit and loss statement, including but not limited to, conduct-related issues, external and internal fraud and/or other events such as regulatory fines, or cyber-attacks.

4.6.4 Asset Quality indicators

- 4.6.4.1 Asset quality indicators should measure and monitor the asset quality evolution of the institution. More specifically, they should indicate when asset quality deterioration could lead to the point at which the institution should consider taking an action described in the recovery plan.
- 4.6.4.2 The asset quality indicators may include both a stock and a flow ratio of non-performing exposures in order to capture their level and dynamics.
- 4.6.4.3 The asset quality indicators should cover aspects such as off-balance sheet exposures and the impact of non-performing loans on asset quality.
- 4.6.4.4 The asset quality indicators should identify deterioration in the quality of the institution's asset mix.

4.6.5 Market based indicators

4.6.5.1 Market-based indicators aim to capture the expectations from market participants of a rapidly deteriorating financial condition of the institution that could potentially lead to disruptions in access to funding and capital markets. The framework of qualitative and quantitative indicators should include the following types of indicators:

- i. Equity-based indicators which capture variations in the share price (for listed institutions), or ratios that measure the relationship between the book and market value of equity;
- ii. Debt-based indicators, capturing expectations from wholesale funding providers such as credit default swaps or debt spreads;
- iii. Portfolio-related indicators, capturing expectations in relation to specific asset classes relevant to each institution (e.g. real estate); and
- iv. Rating downgrades (long term and/or short term) as they reflect expectations of the rating agencies that can lead to rapid changes in the expectations from market participants of the institution's financial position.

4.6.6 Macroeconomic indicators

4.6.6.1 Macroeconomic indicators aim to capture signals of deterioration in the economic conditions where the institution operates, or of concentrations of exposures or funding.

4.6.6.2 The macroeconomic indicators should be based on metrics that influence the performance of the institution in specific geographical areas or business sectors that are relevant to the institution, and may include unemployment rates, interest rates, and inflation.

4.6.6.3 The macroeconomic indicators should include the following:

- i. Geographical macroeconomic indicators, relating to various jurisdictions to which the institution is exposed, giving also consideration to risks stemming from potential legal barriers; and
- ii. Sectoral macroeconomic indicators relating to major-specific sectors of economic activity to which the institution is exposed (e.g. distribution, real estate).

4.6.6.4 For market based and macroeconomic indicators, institutions should assess if they are relevant to their risk profile, size and complexity and provide sufficient justification for their exclusion.

4.6.6.5 A minimum list of recovery plan indicators is as detailed in **Table I**.

4.6.7 Scenarios and Scenario Analysis

4.6.7.1 An institution's recovery plan should be based on a range of firm-specific, market-wide scenarios, and combinations of these. The scenarios should be based on severe but plausible events that would threaten to cause the institutions to fail.

4.6.7.2 The range of scenarios should cover risk events of different scale and nature, including systemic scenarios affecting financial stability, stresses affecting the institution's market segment and stresses relevant to the institution's specific structure and risk profile.

4.6.7.3 The scenarios should include, but not be limited to, the scenarios used by the institution for its stress testing. An institution should consider the potential impact of these scenarios on its:

- a. Capital, liquidity and profitability.
- b. The cost and availability of funding (including capital)
- c. Risk profile and operational capacity.
- d. Group-wide position, including material subsidiaries, and its intra-group funding
- e. Critical functions and the key subsidiaries, businesses and jurisdictions in which these functions are located.

4.6.7.4 An institution shall conduct analysis of a range of stress scenarios in order to assess:

- a. The adequacy of recovery indicators in detecting impending stress and enabling timely activation of the Recovery Plan; and
- b. The efficacy and feasibility of recovery options to restore viability.

4.7 Recovery Options

Institution should develop and maintain a set of actionable and credible recovery options to restore financial soundness and preserve its long-term viability. Such recovery options shall be:

- a. Substantially within its direct control;
- b. Supported by a clear implementation plan; and
- c. Capable of being executed within an appropriate timeframe to ensure reasonable prospect of recovery and enhance the survivability of the institution across different stress scenarios.

4.7.1 The recovery plan should be comprehensive and identify a wide range of credible options that the institution could undertake to restore its financial strength and viability, thereby allowing the institution to continue to operate as a going concern. The recovery options should include steps that would not normally be considered. Recovery options may include:

- a. Capital conservation;
- b. Reduction or suspension of dividend payments;
- c. Sale, transfer, or disposal of significant assets, business units, or subsidiaries;
- d. Cessation of certain products or services;
- e. Reductions in, or restructuring of, the balance sheet;
- f. Restrictions on balance sheet growth;
- g. Review of underwriting practices;
- h. Raising capital through rights issue, money markets, and/or debt issuance;
- i. Restructuring of liabilities, reducing new lending, or running-off part of a business or product;
- j. Organizational restructuring, including divesting legal entities, to simplify the financial institution's structure amongst others.
- k. Any other initiatives as approved by the Board and the Central Bank of Kenya.

4.7.2 The first option to be considered would be to look to the controlling shareholder or parent of the institution, where relevant, for a capital injection. The recovery plan should, however, have options that go beyond looking to the parent or controlling shareholder as a source of strength.

4.7.3 In developing its recovery options, the institution should customarily evaluate and document the credibility of each option with respect to such factors as feasibility, timing, implementing similar transactions, and impact to its strategic or reputational

risk. Recovery options should be designed to maintain the confidence of all stakeholders.

- 4.7.4 The institution should consider factors that contribute to invocation of the recovery options. Some of these factors include the size of the benefit from invoking an option or dependencies among options. The most appropriate recovery option depends on the stress leading to a trigger event. Complex institutions should understand the impact that their actions may have on their parent or subsidiaries (e.g. disposing of a business line that provides significant shared services to subsidiaries).
- 4.7.5 An institution should not view the options in its recovery plan as exclusive. A specific trigger event in the plan may necessitate the execution of a different option when presented with the actual situation. As such, institutions should use its judgment to determine the most appropriate options for the entity to take during a period of severe stress.
- 4.7.6 Credible options are those that can be executed within time frames that allow the options to be effective during periods of stress. Institutions should understand that not all identified options may be a feasible response to the actual stress event, depending on whether the stress event is an idiosyncratic or a market-wide event.
- 4.7.7 The recovery plan should identify obstacles that could impede the execution of an option and set out mitigation strategies for addressing these obstacles. The recovery plan should describe any cross-effects or impacts to the institution or any of its critical subsidiaries for executing a particular option.
- 4.7.8 The recovery plan should explain how the institution would carry out each option, describe the timing for each option, and identify the options that require regulatory approval. The plan should describe the decision-making process for implementing each option, including the steps to be followed, and any timing considerations. It should also identify the critical parties needed to carry out each option.
- 4.7.9 Institutions should detail the viability and obstacles of each option. These should show what senior management, and the board should consider when deciding on and executing a recovery strategy in a succinct and action-oriented manner.
- 4.7.10 The recovery options should not assume that public support, such as government funding, will be available or that a central bank will provide liquidity beyond pre-

announced arrangements. Extraordinary central bank lending facilities, such as Emergency Liquidity Assistance, should not be considered as a recovery option.

4.8 Impact Assessment of the Recovery Options

- 4.8.1 An institution should have processes in place to check that its recovery options are credible and could be activated successfully.
- 4.8.2 Each recovery option should be assessed to determine the level of impact each would have on the institution. The impact assessment carried out should specify how the institution would implement each recovery option to maintain or restore the financial strength and viability of its material entities, critical operations, and core business lines.
- 4.8.3 The assessment of the recovery options should also include the feasibility and impact of undertaking multiple recovery options at once, check for interdependence among recovery options and the effectiveness and limitations of recovery options during a market wide crisis.
- 4.8.4 The impact assessment should assist the institution in determining the most appropriate recovery options to utilize in a stress event and assess the viability of a recovery option to restore financial strength and viability.
- 4.8.5 The impact assessment of each recovery option should consider market conditions and reflect if a stress event is idiosyncratic, systemic, or a combination of both.
- 4.8.6 The impact assessment should take into consideration the effect each recovery option would have on its:
 - a. Capital position, liquidity including sources of funding, and earnings.
 - b. Material entities, critical operations, and core business lines.
 - c. Strategic direction.
 - d. Legal or market impediments or regulatory requirements that must be addressed or satisfied to implement the option.
 - e. Internal operations including management systems, material outsourced activities and staff.
 - f. Access to market infrastructure e.g., clearing and settlement and payment channels.
 - g. Brand value i.e. reputational risk.

- 4.8.7 The impact assessment is an essential tool providing the institution with a robust broad range of recovery options. The impact assessment should quantify the benefits of each recovery option and confirm that the recovery option allows for the restoration to financial strength and viability.
- 4.8.8 Each recovery option impact assessment should address potential benefits and any obstacles to implementation. A long-term view of the implementation of the recovery option should be taken into account to provide comfort that the stability of the institution is not compromised by short-term decisions.
- 4.8.9 The recovery plan should detail how the institution will obtain the requisite regulatory approvals in a timely manner for purposes of testing. The type of approvals and the expected timelines to prepare and receive those approvals should be captured in the impact assessment. The assessment should also include estimated time to realize a recovery option.

4.9 Testing the Recovery Plan

- 4.9.1 An institution shall test the Recovery Plan at least once in two years in order to:
- a. Identify potential shortcomings in the plan;
 - b. Demonstrate how the arrangements set out in the plan would work in practice; and
 - c. Improve overall crisis preparedness.
- 4.9.2 In testing the Recovery Plan, the institution shall:
- a. Put in place processes that will facilitate for periodic testing the feasibility of its recovery options to see if can be implemented successfully.
 - b. Ensure testing scenario analysis and simulation. Type of exercises may include, desktop simulations, fire drills or ‘live’ simulations, and back testing.
 - c. Initially opt to test specific parts of the recovery plan, such as:
 - i. The efficiency and efficacy of governance arrangements to activate the Recovery Plan and implement recovery options;
 - ii. The operational capacity of the institution to execute specific recovery options; or

- iii. The capacity of management information systems to produce the information required to support decisions on activation of the Recovery Plan.
- d. Indicate clearly the feasibility of each recovery option which include:
 - i. The time it may take to implement;
 - ii. The time it may take before the benefits realization;
 - iii. Potential obstacles to implementation; and
 - iv. Any need for preparatory measures to facilitate the implementation of each recovery option.
- e. Analyze the impact of each recovery option, including not only its intended purpose but the risk of any unintended consequences. These analyses should also include the feasibility and impact of undertaking multiple recovery options at once, inter-dependencies among recovery options, and the effectiveness and limitations of recovery options during a market-wide crisis.
- f. Apply the outcome of the test to update the Recovery Plan

4.10 Activation of Recovery Plan

Senior management of an institution shall:

- a. Assess the nature and extent of the viability threat;
- b. Deliberate on the next course of action in consultation with the Board on whether to activate the Recovery Plan;
- c. Notify the Central Bank in advance of its intentions to activate its Recovery Plan. In notifying the Central Bank, the institution shall include:
 - i. An explanation of events and circumstances leading to the breach of the recovery threshold;
 - ii. Management actions that have been taken, if any; and
 - iii. Management actions that are intended to be taken, including the implementation of recovery options drawn from the preferred recovery strategy or any other option deemed appropriate under these circumstances.
- d. In consultation with the Board, decide on whether to transition back to the early warning or business as usual phase upon the successful implementation of recovery options.

4.11 Review of Recovery Plan

An institution must ensure that the recovery plan is reviewed by an independent party, which may either be the internal audit function or an external party with the objective to provide independent assurance on the:

- a. Accuracy of data and information provided in the plan; and
- b. Robustness of processes and methodologies used in developing the plan.

At minimum, such reviews shall be carried out after the initial development or following significant updates to the Recovery Plan with the results reported to the Board and senior management.

4.12 Communication

- 4.12.1 The institution should put in place a communication strategy defining clearly the roles and responsibilities of the officials involved and the appropriate communication channels used to relay information to the stakeholders.
- 4.12.2 The institution should report to Central bank in the event that a recovery option has been activated, or when any of the triggers/early warning indicators have been breached. The information to Central bank should detail the adopted action to remedy the breach.
- 4.12.3 The recovery plan should address when and how the institution will notify all relevant stakeholders of its actions under the recovery plan ensuring they are informed in a timely manner of how they have responded or is responding to a trigger breach.
- 4.12.4 The communication procedures should recognize that differing levels of communication may be appropriate depending on the specific stress and action being taken. The audience, detail, and timing of information provided to stakeholders, and the level and form of communication will vary. It may not be appropriate to notify all stakeholders of every action the institution will take under the recovery plan.
- 4.12.5 In some situations, the institution may determine communication should be limited to avoid causing the public to lose confidence in the institution.
- 4.12.6 The communication procedures for the various types of recovery actions should factor in:

- i. Identification of key stakeholders.
- ii. Protocol for determining key messages and communication objectives.
- iii. The procedures and preferred channel and form of communication.
- iv. Personnel or functions responsible for communication.
- v. How the covered institution will obtain required regulatory or legal approvals.

4.12.7 Institutions may choose to utilize existing crisis or incident communication protocols or management committees or teams for informing relevant stakeholders of how they have responded or are responding to a trigger breach.

PART V: RESOLUTION PLANNING

5.1 Resolution planning facilitates the effective use of resolution powers to resolve an institution without severe systemic disruption while protecting critical functions. Resolution planning is predicated on the understanding that the institution might not survive extreme stress and that its wind-down and liquidation should be as orderly as possible to avoid threat to financial stability or publicly funded support.

5.2 Resolution planning enables the Kenya Deposit Insurance Corporation (KDIC), in its capacity as the Resolution Authority, to prepare for the orderly resolution of a non-viable institution in coordination with the Central Bank of Kenya (CBK). The objective of resolution planning is to preserve financial stability, protect depositors, maintain the continuity of critical functions, and minimize disruption to the financial system.

5.3 Information Requirements

Institutions should maintain necessary information to support resolution planning and actions by the relevant authorities. Institutions should maintain at a minimum the following information:

5.3.1 Operational and Structural Information

5.3.1.1 Institutions should maintain up-to-date information on:

- i) Corporate structure (organizational charts, subsidiaries (local and foreign), branches, Non – Operating Holding companies and foreign operations).
- ii) Operational Structure (business functions, shared services, outsourced arrangements, information technology architecture, information on key systems and infrastructure and data centers).

- iii) Financial Structure (capital structure, funding sources in resolution, major liabilities, intra-group exposures, up-to-date financial statements).
- iv) Key personnel (directors, senior management, critical operational staff).

5.3.2 Critical Functions

- 5.3.2.1 Institutions shall identify and document all critical functions.
- 5.3.2.2 The institution shall maintain description of each critical functions, legal entity responsible for performing the functions, customer segments served, volume and value metrics, market share information, recovery time objectives alternative service providers, critical dependencies on staff, systems, facilities, third parties, payment and settlement services, treasury and funding arrangements, liquidity and collateral information, financial institutions counterparties and third parties dependencies if any. Institutions shall also map critical shared services and entities in a group structure.

5.3.3 Core Business Lines

- 5.3.3.1 Institutions shall identify and document all core business lines and assess their importance. For each core business line, the institution should maintain a description of activities, revenue contribution, profitability, assets and liabilities, customer base, intra group exposures, financial and non – financial contract information, associated legal entities, key operational dependencies and potential transferability in resolution.
- 5.3.3.2 The institution should demonstrate whether individual business lines can be separated, sold, transferred, or wound down during resolution.

5.3.4 Management Information Systems

- 5.3.4.1 Institutions should maintain information on management information systems capable of producing information necessary for resolution planning.

5.3.5 Foreign Jurisdictions Arrangements

- 5.3.5.1 The institution should maintain relevant information on legal, regulatory frameworks and arrangements in foreign jurisdictions where it operates.

5.3.6 Resolution Options and Preferred Resolution Strategy

5.3.6.1 Institutions should maintain and identify feasible resolution options and assess their suitability. This should include but not limited to:-

- i. Transfer to another institution of shares, assets and liabilities, deposits, business lines and critical functions;
- ii. Purchase and assumption transaction. Involves transfer of selected assets and liabilities to an acquiring institution.
- iii. Bridge Institution: Temporary transfer of critical functions to a bridge bank established by authorities.
- iv. Restructuring: Financial and operational restructuring to restore viability.
- v. Orderly liquidation: Orderly winding up of the institution while protecting insured depositors.

The institution shall identify and maintain information on its preferred resolution strategy and explain why it is credible, why it is feasible, conditions necessary for implementation, potential obstacles and time required for execution.

5.3.7 Barriers or Impediments to Resolution

5.3.7.1 Institutions should identify factors that could prevent or delay effective resolution. Institutions shall identify legal, operational, financial, and structural impediments.

- i. Legal Impediments (restrictive contracts, foreign legal constraints, litigation risks).
- ii. Operational Impediments (dependence on critical staff, manual processes, inadequate systems).
- iii. Financial Impediments (inability to separate assets and liabilities, lack of valuation capabilities).
- iv. Structural Impediments (complex group structures, cross-border interdependencies).

5.3.7.2 Each impediment shall be assessed according to severity, likelihood and resolution impact.

5.3.8 Remediation Action Plans

5.3.8.1 Institutions shall develop action plans to remove or mitigate identified barriers. Progress shall be monitored by senior management and reported to the Board.

5.3.9 Depositor Protection Arrangements

- 5.3.9.1 Institutions shall maintain accurate depositor records, have capabilities to identify insured and uninsured deposits. Institutions should also have capabilities for single customer view, deposit insurance reporting and deposit payout readiness. Institutions should also maintain information on number of depositors, insured deposit balances, uninsured deposit balances, dormant accounts, trust accounts and joint accounts. Institutions shall demonstrate their ability to provide depositor information promptly.

5.3.10 Operational Continuity Arrangements

- 5.3.10.1 Institutions should put modalities in place to ensure that critical services will remain operational in case of resolution. Institutions should identify and maintain arrangements supporting continuity of internal services such as Information technology systems, data centers, treasury operations, risk management, finance, accounting and human resources.
- 5.3.10.2 External Services such as cloud service providers, telecommunications providers, payment processors, third party service provider arrangements/outsourcing arrangements.
- 5.3.10.3 Modalities for contractual continuity, access rights, service-level agreements, backup arrangements and business continuity plans.
- 5.3.10.4 Contingency arrangements enabling critical functions and shared services during recovery or resolution.
- 5.3.10.5 Third Party Service Provider arrangements supporting critical functions.
- 5.3.10.6 Arrangements with financial market infrastructures and payment systems to maintain access during resolution.

5.3.11 Funding and Liquidity in Resolution

- 5.3.11.1 Institutions shall thus maintain estimates of liquidity needs under resolution scenarios, funding gaps, potential funding sources and collateral availability.

5.3.11.2 Institutions should also maintain records on liquidity projections, cash flow forecasts, eligible collateral, Central bank facilities, emergency funding arrangements and interbank exposures.

5.3.12 Communication Strategy

5.3.12.1 Institutions shall maintain information on communication plans covering internal stakeholders such as board, senior management and employees and external stakeholders such as customers, depositors, creditors, investors, regulators, media and financial market participants.

5.3.12.2 Institutions should maintain information on communication plan including communication triggers, approval protocols, key messages, spokespersons, media response procedures and stakeholder contact lists.

5.3.13 Exit Strategy from Resolution

5.3.13.1 Institutions should identify and maintain information on potential end-state outcomes such as sale to a private sector acquirer, transfer to another institution, recapitalized stand-alone institution, continuation as a viable independent institution. merger, acquisition, amalgamation, bridge institution exit, sale of transferred operations from a bridge institution, orderly wind-up or complete closure and liquidation.

5.3.13.2 Information on whether selected exit strategy supports long-term viability, protects depositors, and minimizes disruption to the Kenyan financial system.

PART VI: REPORTING OF RECOVERY PLANS TO THE CENTRAL BANK

6.1 Institutions are required to prepare recovery plans once in two years and submit to the Central Banks by 30th April. The Recovery plans should at a minimum cover the following:

- a. Executive summary
- b. Governance and risk management
- c. Documentation and data
- d. Scope
- e. Critical functions
- f. Scenarios analysis
- g. Early warning indicators and triggers
- h. Recovery options; Testing, feasibility and updating

- i. Communications
- j. Cross border cooperation and coordination

Institutions should test their recovery plans once in two years and submit to Central Bank by 30th April.

PART VII: RESOLVABILITY ASSESSMENT

- 7.1 Resolvability assessment seeks to determine whether resolution can be undertaken for an institution in a prompt and orderly way without causing severe disruption to the financial system.
- 7.2 To promote the involvement of institutions into the resolvability assessment process and increase their ownership of resolvability, they will be required to undertake and submit to Central Bank a resolvability self-assessment once every two years. The aim is to ensure that arrangements put in place to support the execution of the resolution are adequate in case they enter into resolution.
- 7.3 Institutions should thus undertake a resolvability self-assessment on key resolvability areas to identify legal, financial, operational, structural, contractual, and technological impediments to resolution. The self- assessment should cover the following areas:
 - a. Governance;
 - b. Operational continuity in resolution ie. Continuity of critical services;
 - c. Loss absorbing and recapitalization capacity;
 - d. Liquidity and funding in resolution;
 - e. Management Information Systems;
 - f. Governance and decision-making arrangements
 - g. Communication capabilities;
 - h. Transferability and restructuring.
 - i. Cross -border dependencies,

Institutions should submit their resolvability self-assessment once every two years and report to Central bank by 30th April.

PART VIII: KENYAN REGULATORY CONTEXT

This Guideline should be read together with:

- The Banking Act (Kenya);

- The Central Bank of Kenya Act;
- Prudential Guidelines issued by CBK;
- Kenya Deposit Insurance Act;
- National Payment System Act; and
- CBK Guidelines on Risk Management and Business Continuity.

PART IX: REMEDIAL MEASURES

Where any provision of this Guideline is breached or not observed, the Central Bank may pursue any or all of the remedial actions and administrative sanctions provided for under the Banking Act.

PART X: EFFECTIVE DATE

The effective date of this Guideline shall be 1st January 2027.

ENQUIRIES

Enquiries on any aspect of this Guideline should be referred to:

The Director,
Bank Supervision Department
Central Bank of Kenya
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NAIROBI
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- Bank Negara Malaysia. *Recovery Planning*. Central Bank of Malaysia.
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- Financial Stability Board. *Key Attributes of Effective Resolution Regimes for Financial Institutions*. Revised edition, 2024.

TABLE 1: LIST OF RECOVERY PLAN INDICATORS

1. Capital indicators
a) Core capital ratio
b) Total Capital ratio
c) Core capital to deposits ratio
d) Leverage ratio
2. Liquidity indicators
a) Liquidity Coverage Ratio
b) Net Stable Funding Ratio
c) Concentration of funding (Top 20 depositors)
d) Liquidity ratio
e) Contractual maturity mismatch
3. Profitability indicators
a) Return on assets
b) Return on Equity
c) Yield on earning assets
d) Net Interest Margin
e) Severe operational losses
4. Asset Quality indicators
a) Non-performing loans ratio
b) Growth rate of gross non-performing loans
c) Provisions / Non-performing loans
d) Advances/Deposits
5. Market-based indicators
a) Rating under negative review or rating downgrade
b) Stock price variation
6. Macroeconomic indicators
a) GDP variations
b) Inflation rate
c) Unemployment rate