Capital Planning and Recovery Planning

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Risk Forum-Muscat 2025

6-7 October 2025

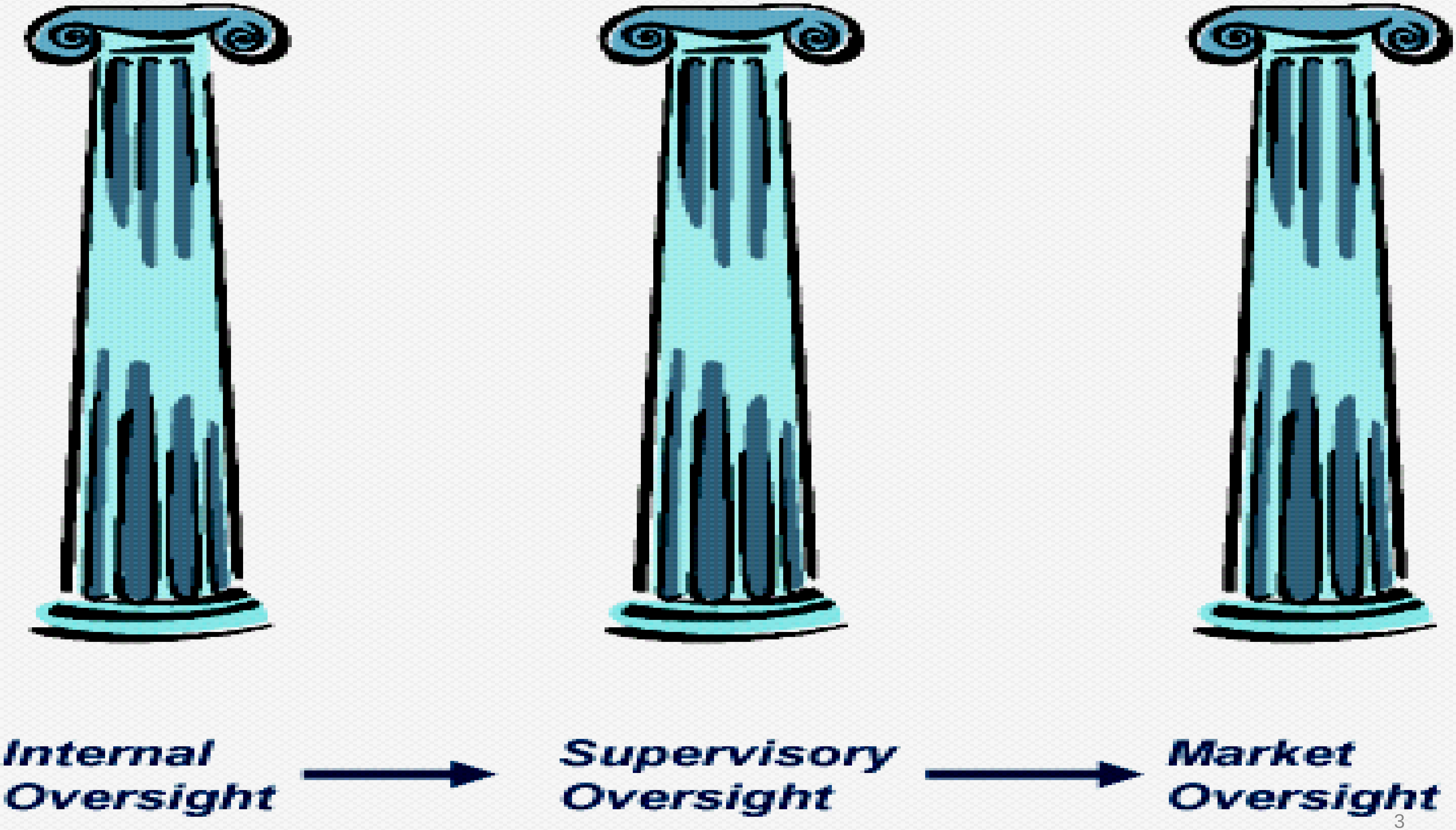
Agenda

1. Capital Planning under Basel II

2. Capital Planning under Basel III

3. Recovery Planning and Resolution Planning

4. Components of a Recovery Plan:
    - Indicators/Recovery Triggers
    - Scenarios
    - Recovery Options


Internal Oversight
Supervisory Oversight
Market Oversight

Pillar II – Supervisory Review Process

ICAAP
Banks should

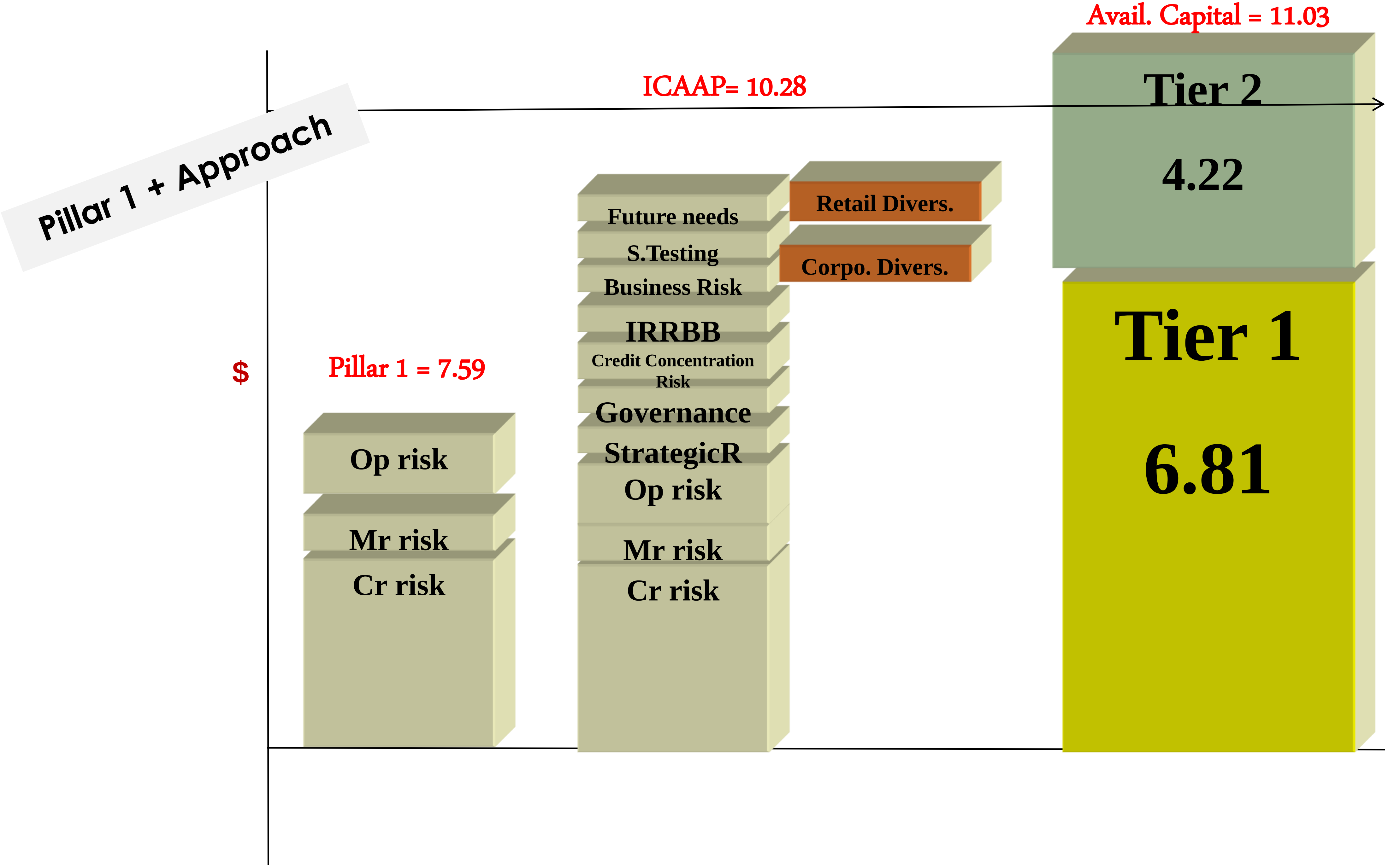
Principle 1: Assess capital based on their risk profile

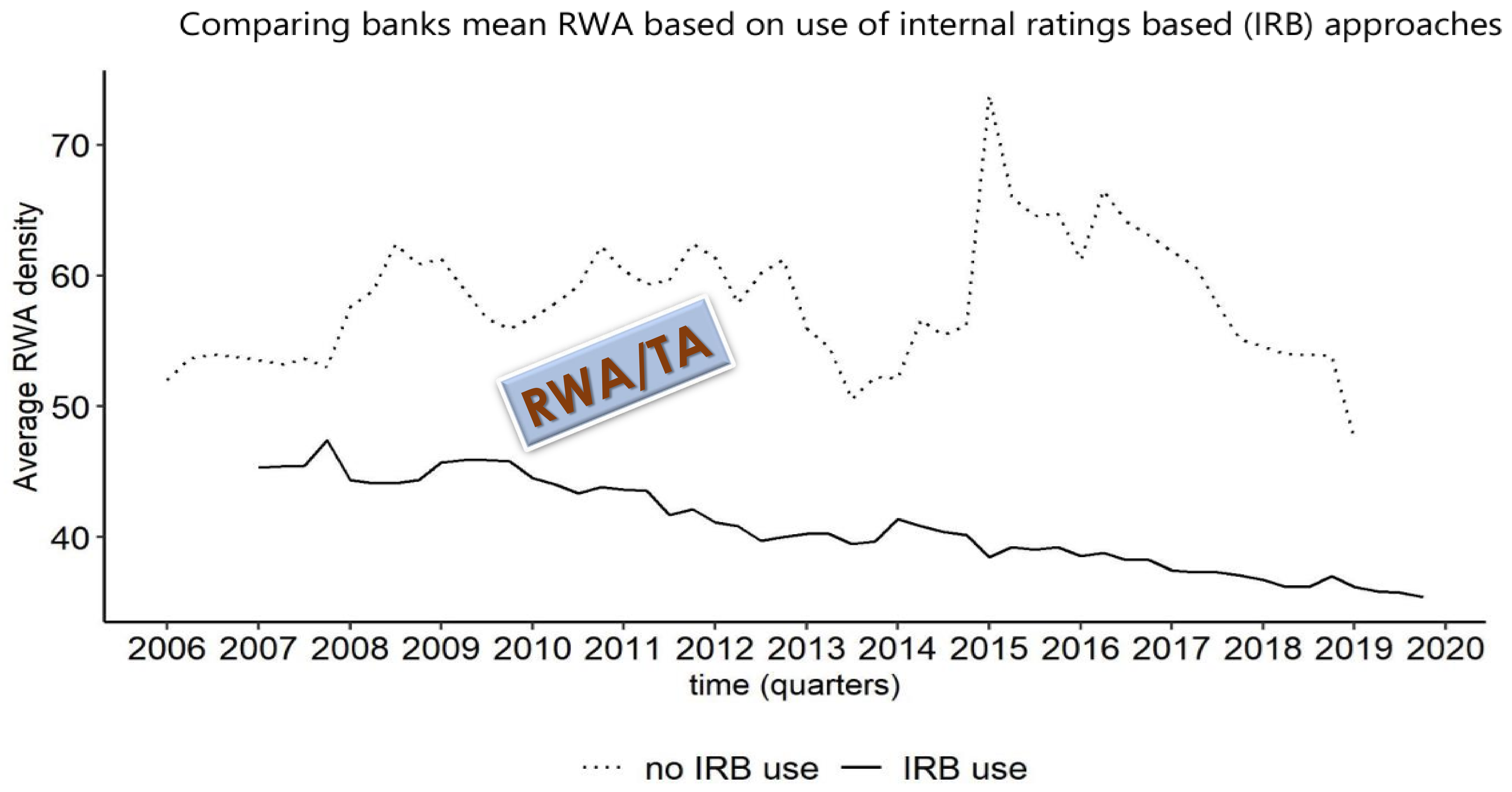
SREP:
Supervisors should

Principle 2: Assess a bank's (CAAP)

Principle 3: Ensure operating above the MCRs

Principle 4: Intervene at an early stage


Pillar 1 + Approach
Avail. Capital = 11.03
ICAAP= 10.28
$
Pillar 1 = 7.59
Op risk
Mr risk
Cr risk
Future needs
S.Testing
Business Risk
IRRBB
Credit Concentration Risk
Governance
StrategicR
Op risk
Mr risk
Cr risk
Retail Divers.
Corpo. Divers.
Tier 2
4.22
Tier 1
6.81



ource: Böhnke et al, (2024).

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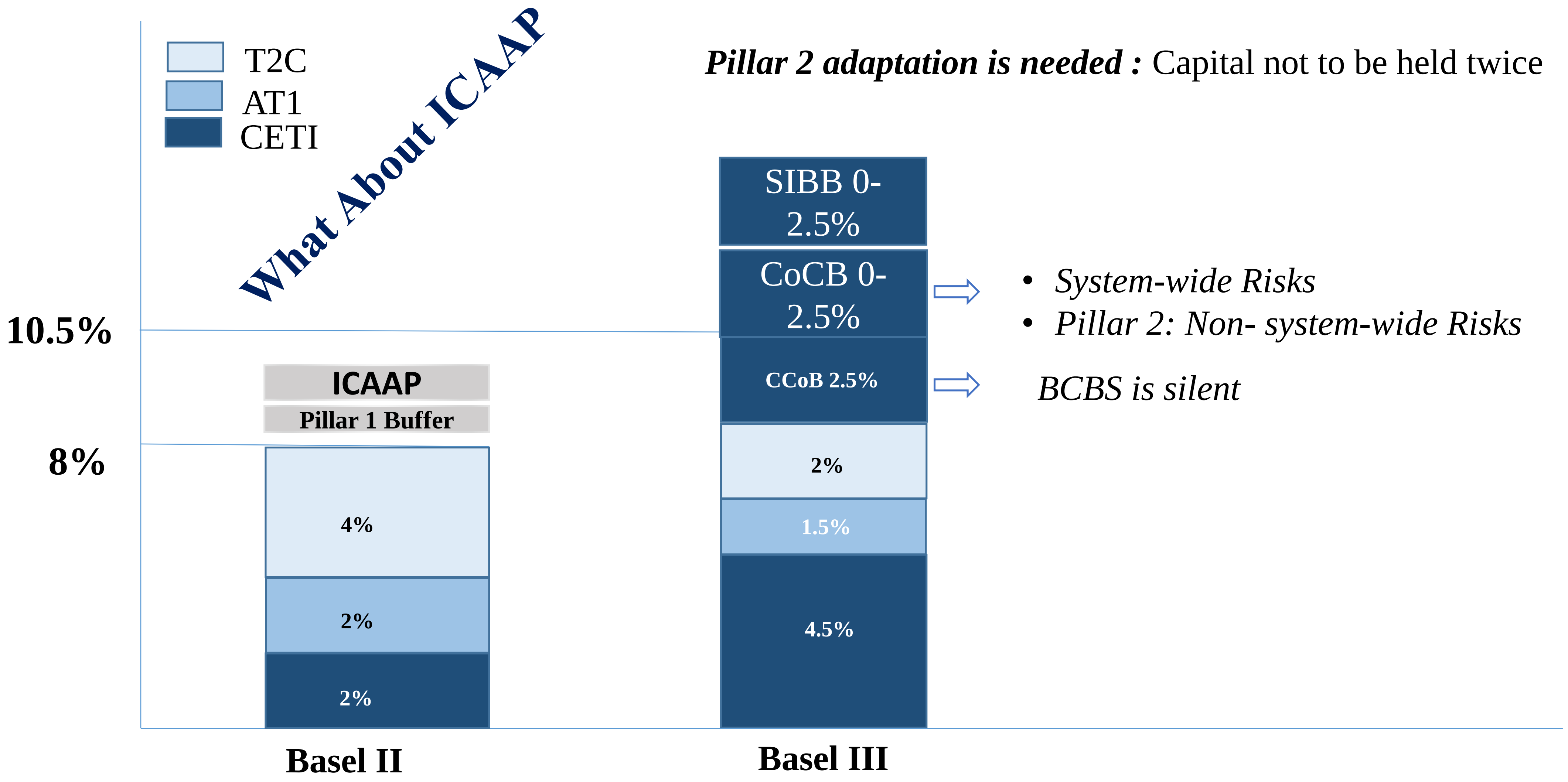
Basel III & Procyclicality

- Range of measures to:
  - address Procyclicality &
  - increase resilience of the banking sector in good times

- Four key objectives:
  - Dampen cyclicality of the minimum capital requirement
  - Promote more forward-looking provisions
  - Conserve capital to build buffers at individual banks
  - Achieve the broader macro-prudential goal of protecting the banking sector from periods of excess credit growth



T2C
AT1
CETI
What About ICAAP
Pillar 2 adaptation is needed : Capital not to be held twice
SIBB 0-2.5%
CoCB 0-2.5%
• System-wide Risks
• Pillar 2: Non- system-wide Risks
10.5%
ICAAP
Pillar 1 Buffer
CCoB 2.5%
BCBS is silent
8%
2%
4%
1.5%
2%
4.5%
2%
Basel II
Basel III

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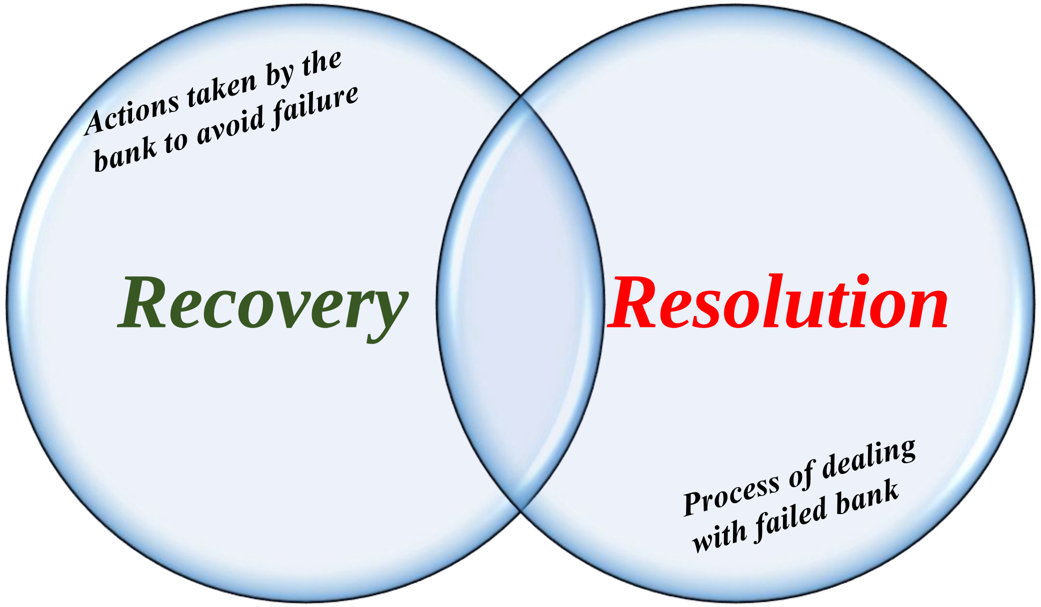
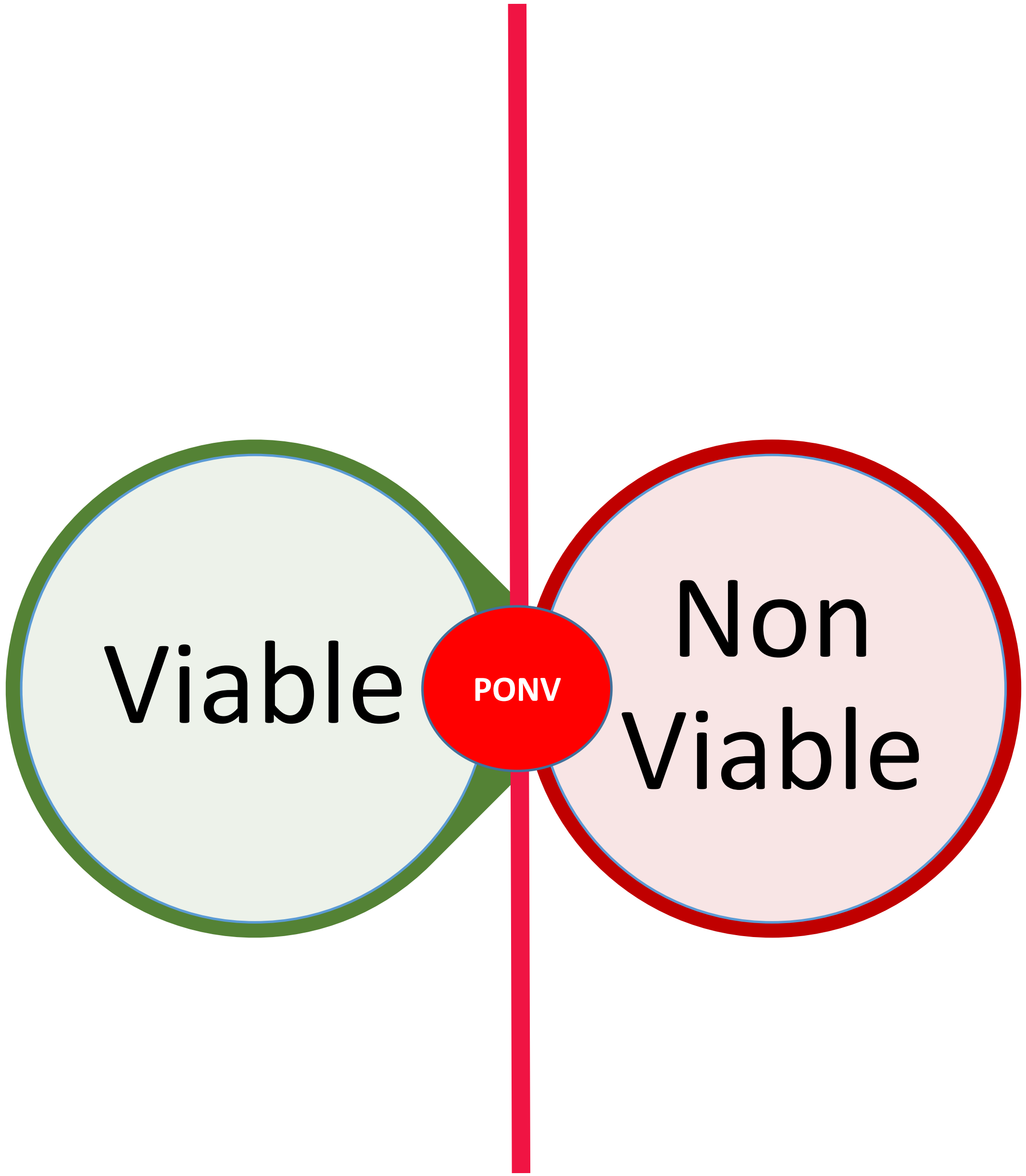
Recovery Planning vis-à-vis Resolution Planning

- Different objectives
- Different parties in charge
- Different Key elements required
- The boundary is judgmental



Financial or operational stress
Recovery plan
Going Concern


Viable
PONV
Non Viable

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Components of a Recovery Plans?

- Effective Early Warning Indicators (EWI)
- Range of scenarios: Capital shortfall and Liquidity pressures
- Recovery Options (RO): to address a range of severe Scenarios
- Processes & governance arrangements to implement (RO)

Scenarios & considerations

- Stress scenarios should
  - be ***severe*** enough to:
    - Threaten financial strength and viability, or
    - Cause failure if actions are not taken to address the event

Scenarios & considerations

- Stress scenarios should:
  - Include Bank-specific and market-wide scenarios
  - Be individually and in the aggregate
  - Be immediate and prolonged, which may affect prioritization of actions
  - Not be just a point-in-time or static events
  - Be a combination or sequence of events with associated impacts.

Recovery Indicators/triggers

Capital Indicators

Risk-based measures:

- Common Equity Tier 1 (CET1)/Risk weighted Assets (RWA)
- Tier 1 Capital (T1C)/Risk weighted Assets (RWA)
- Total Capital (TC)/Risk weighted Assets (RWA)

Leverage Ratios:

- CET1/Total Assets (including Off-Balance sheet)
- T1C/Total Assets (including Off-Balance sheet)
- TC/Total Assets (including Off-Balance sheet)

Liquidity Indicators

- Liquidity Coverage Ratio (LCR) per currency
- Net Stable Funding Ratio (NSFR) per currency
- Cost of Wholesale Funding
- Growth in deposits
- Concentration in Deposits & Loans
- Loans to Deposits Ratio

Profitability Indicators

- Return on Assets
- Return on Equity
- Significant Operational Losses
- Cost-income ratio (Operating costs /Operating income)
- Average Interest Rate margin
- Non interest Income /total income

Asset Quality Indicators

- Growth rate of gross non-performing loans (NPL)
- Coverage Ratio (Provisions/Total Non-Performing Loans)
- Gross Non-Performing Loans/Total loans

Market-based Indicators

- Rating under negative review or rating downgrade
- CDS spread
- Stock price variation

Macroeconomic Indicators

- GDP variations
- Current Account variations
- B.O.P variations
- CDS of Sovereigns
- Average interest rates
- Currency devaluation
- Unemployment rate

Recovery options

- To avoid liquidation or resolution
- Should not be business-as-usual measures
- May include steps that would ***not*** normally be considered

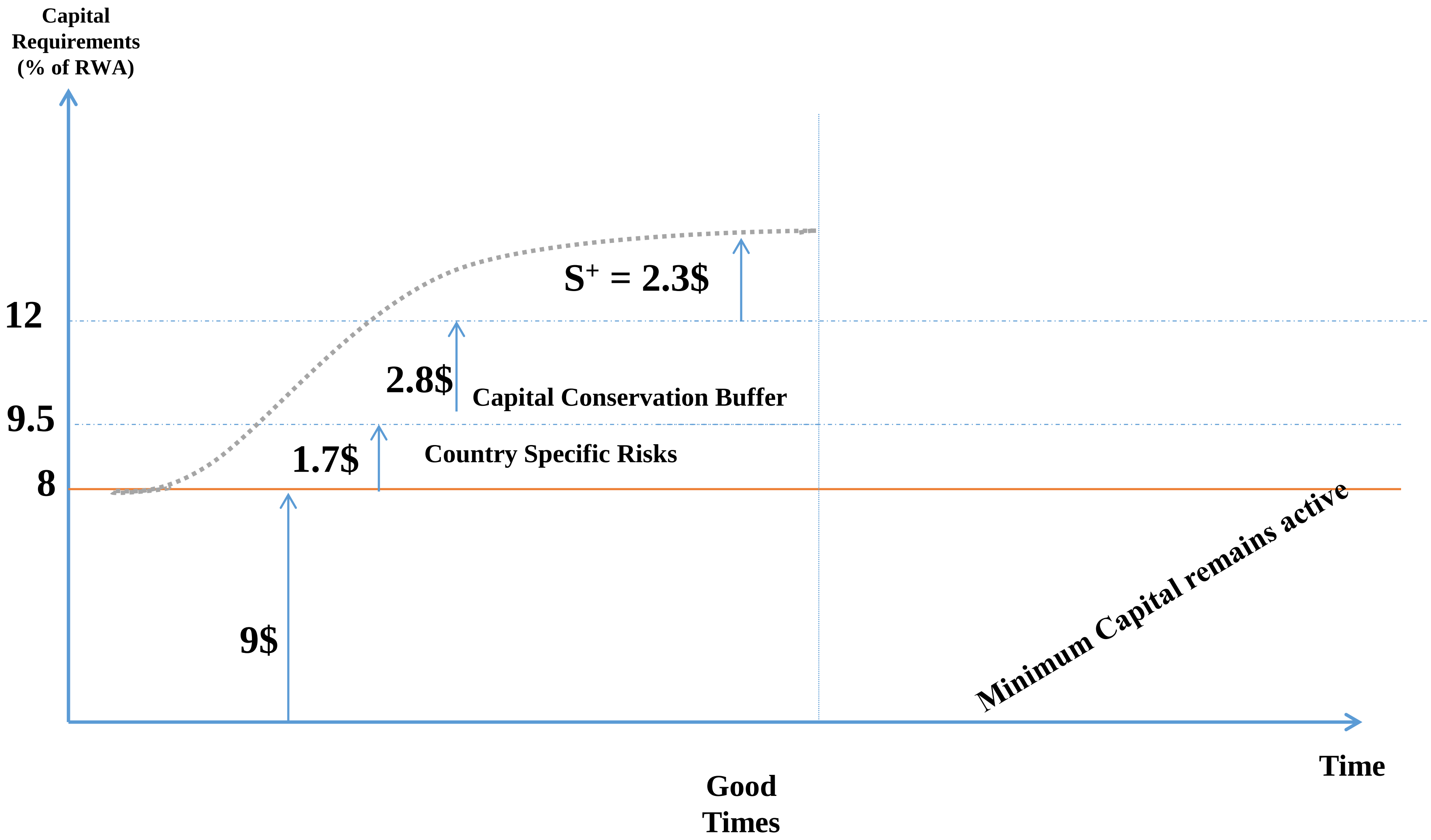
Recovery Options

- Cost reduction
- Risk reduction (restrict or spin - off some types of business conducted by the bank)
- Changing business model (sales of non core assets, branch closures)
- To activate contingency funding plans
- To ask for parental support
- External sources: issuing of new capital funding

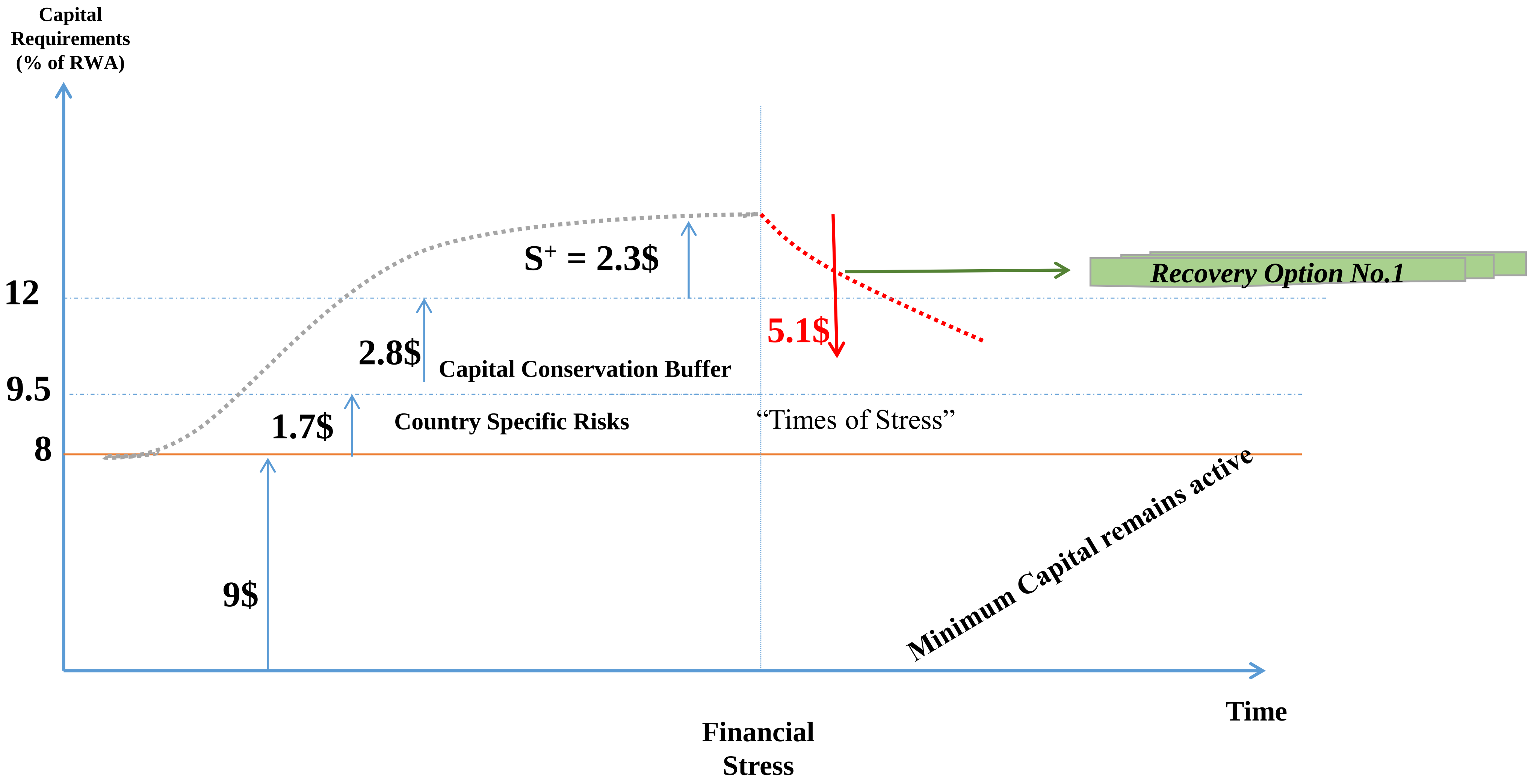
How Stress Scenarios, Triggers, and Options Relate to One Another

Severe stress scenario	*Possible triggers*	*Recovery options*
Idiosyncratic stress: *Trading losses caused by a rogue trader*	• T1C falls below 6% • LCR < 100%	• Issue new capital • Sell nonstrategic assets or businesses • Reduce loan originations or commitments
Systemic stress: Significant decline in GDP, <u>coupled with</u> • increase in unemployment rate <u>and</u> • deterioration in housing market	• Short-term credit rating falls below A- • NPLs rise above a specified % • Market cap. falls below a specific limit	• Sell certain strategic assets or businesses • Reduce certain expenses (e.g., business contractions) • Access the Central Bank discount window

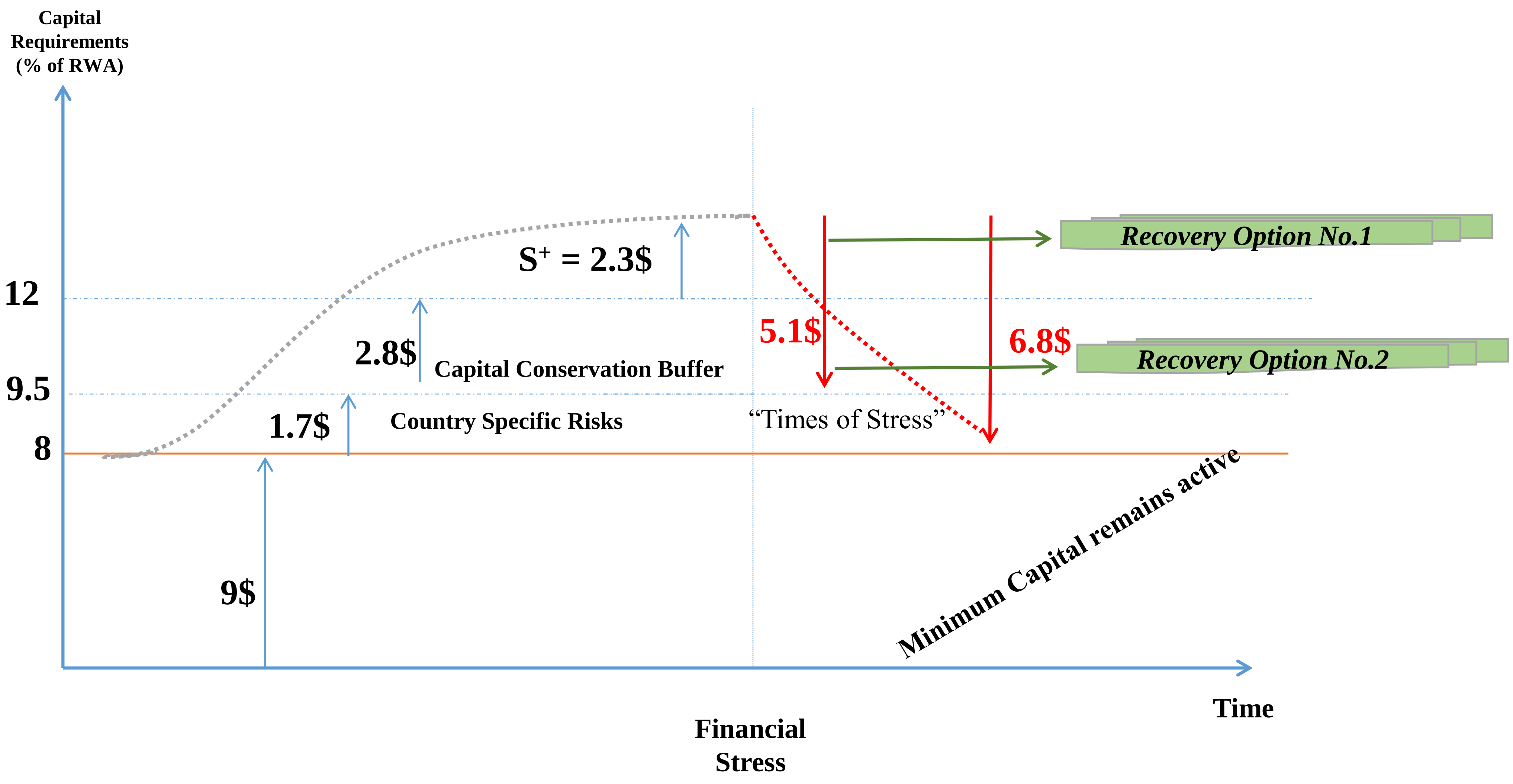
Turn-On Recovery Options



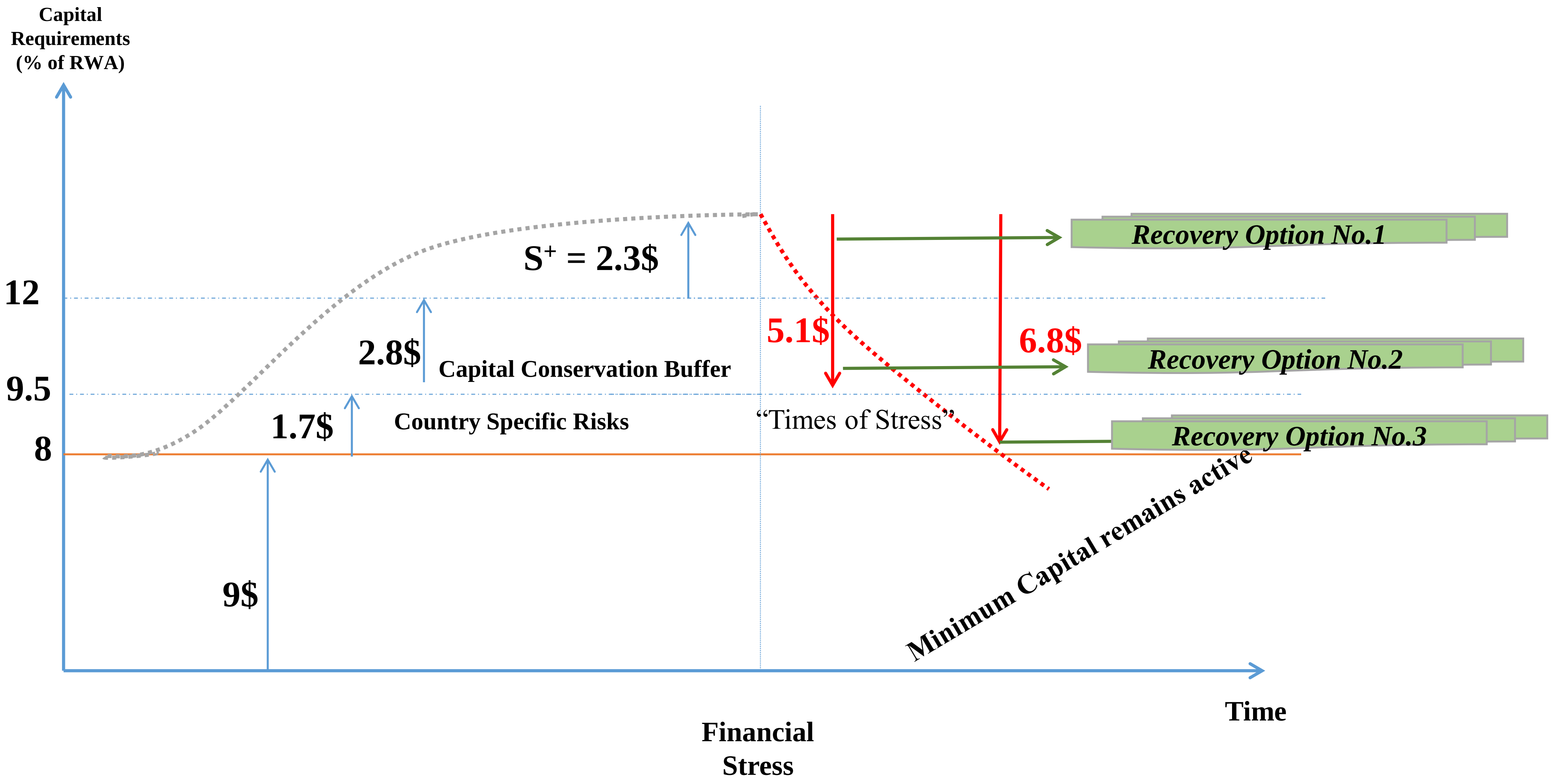
Turn-On Recovery Options



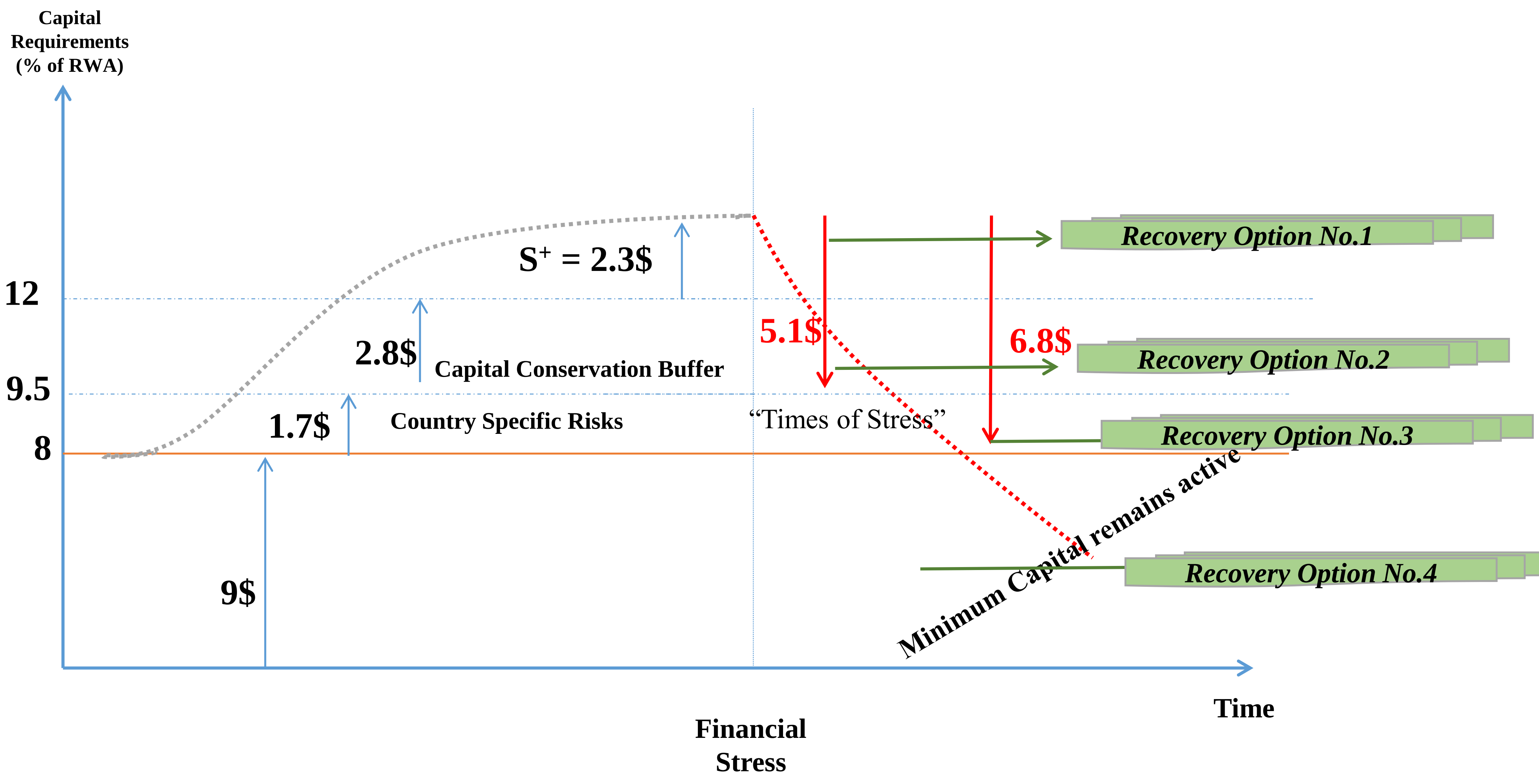
Turn-On Recovery Options

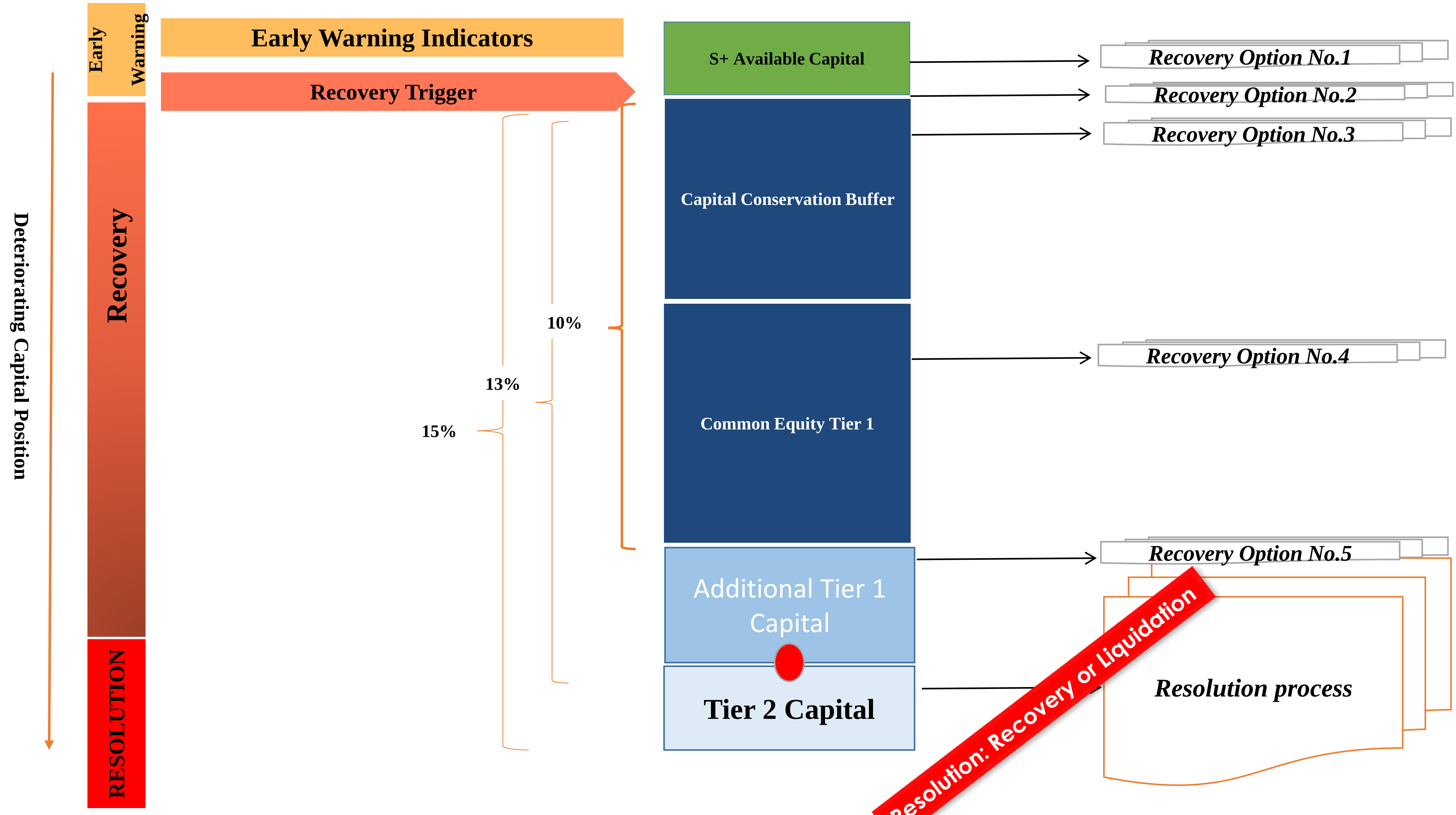


Turn-On Recovery Options



Relationship between the Minimum & the Buffers





Early Warning
Early Warning Indicators
Recovery Trigger
Recovery
RESOLUTION
Deteriorating Capital Position
10%
13%
15%
S+ Available Capital
Capital Conservation Buffer
Common Equity Tier 1
Additional Tier 1 Capital
Tier 2 Capital
Recovery Option No.1
Recovery Option No.2
Recovery Option No.3
Recovery Option No.4
Recovery Option No.5
Resolution process
Resolution: Recovery or Liquidation

Questions

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