

Capital Planning and Allocation

64th RBAP National Convention
30 May 2017

Outline

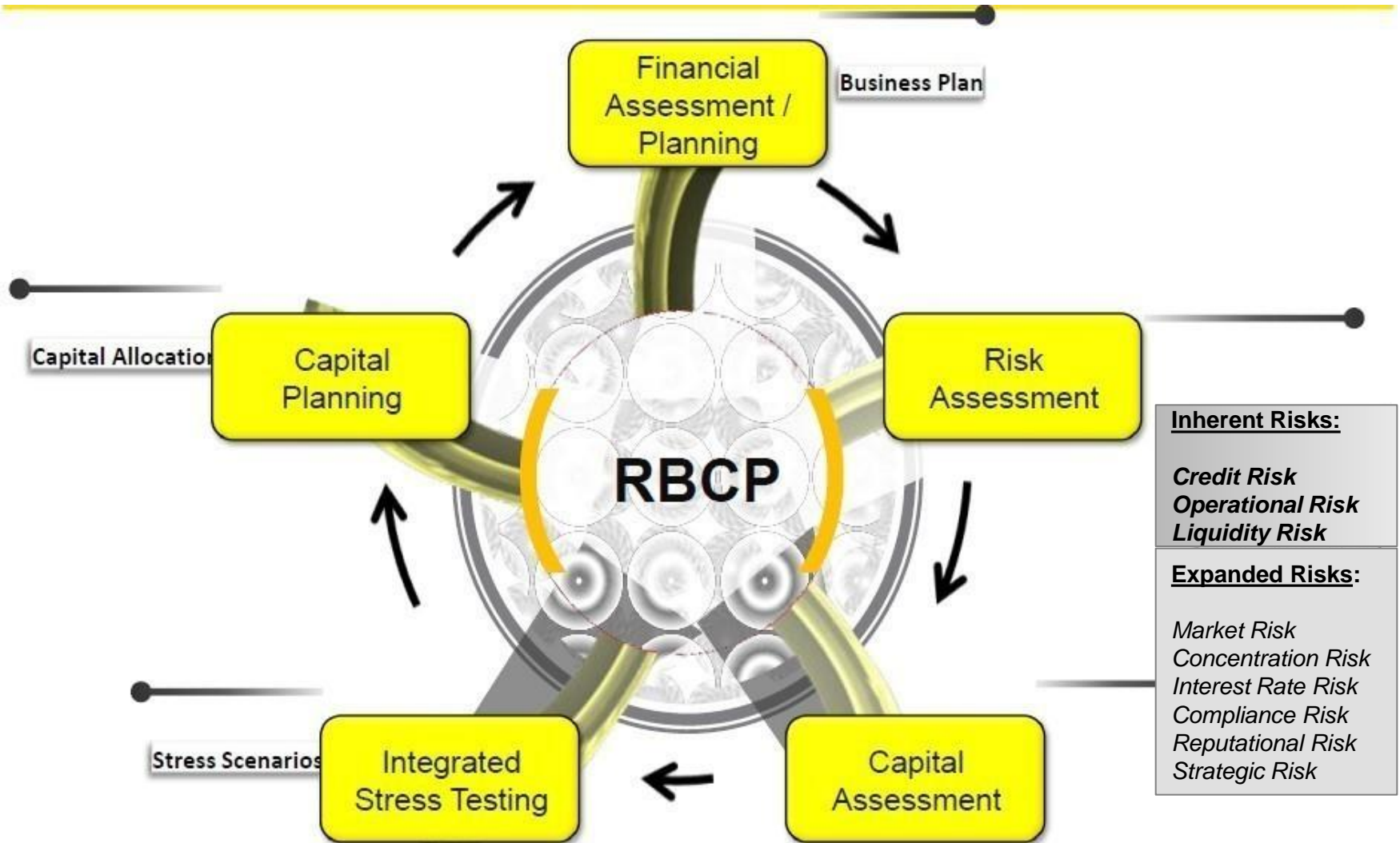
- ▶ Introduction to risk-based capital planning
- ▶ RBCP as an Input to Strategic Planning
- ▶ Aligning strategies and resources to the developmental trends and agenda

Risk-Based Capital Planning

Introduction

Risk-Based Capital Planning

General framework



Capital Planning Engine

Overview

The Risk Based Capital Planning (RBCP) integrates business strategy, risk and capital considerations.

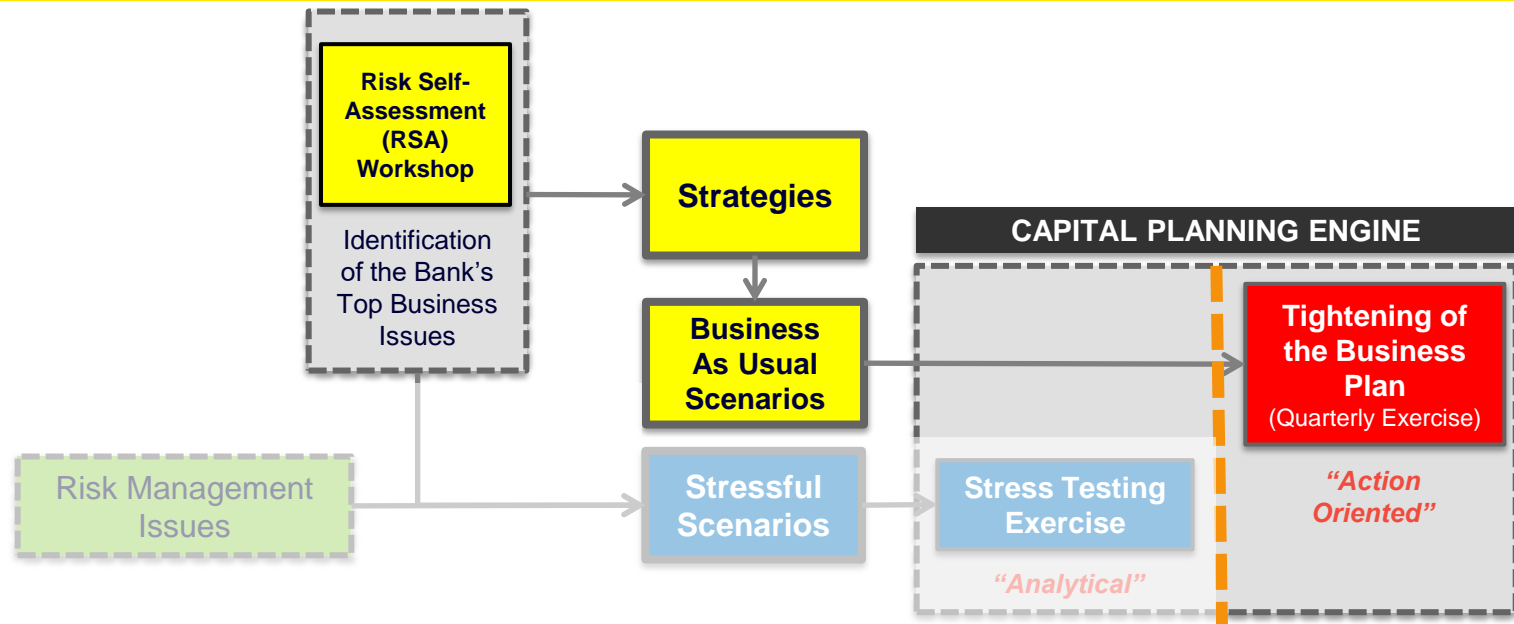
Capital Planning Engine:

- ▶ It incorporates identified top business issues of the Bank into its five-year business plan
- ▶ It gives a snapshot of how much capital flexibility exists to support the Bank's risk appetite and strategy
- ▶ It helps management understand the capital requirements under different scenarios



Running the Capital Engine

An integrative approach in capital planning



- ▶ **Business As Usual Scenarios (BAU)** scenario analysis is undertaken by the Capital Management Team or Equivalent quarterly to focus on the impact of changes in strategy (e.g. changes in target volumes, mix and yields of loans and deposits), changes in efficiency (thru the cost to income ratio) and inability to meet forecasts on the Bank's performance (as usually measured by Net Income, ROA or ROE, total assets, intermediation ratio, etc.). This is related to the "strategic risk" or the risk of a loss arising from a poor strategic business decision.

Inputs

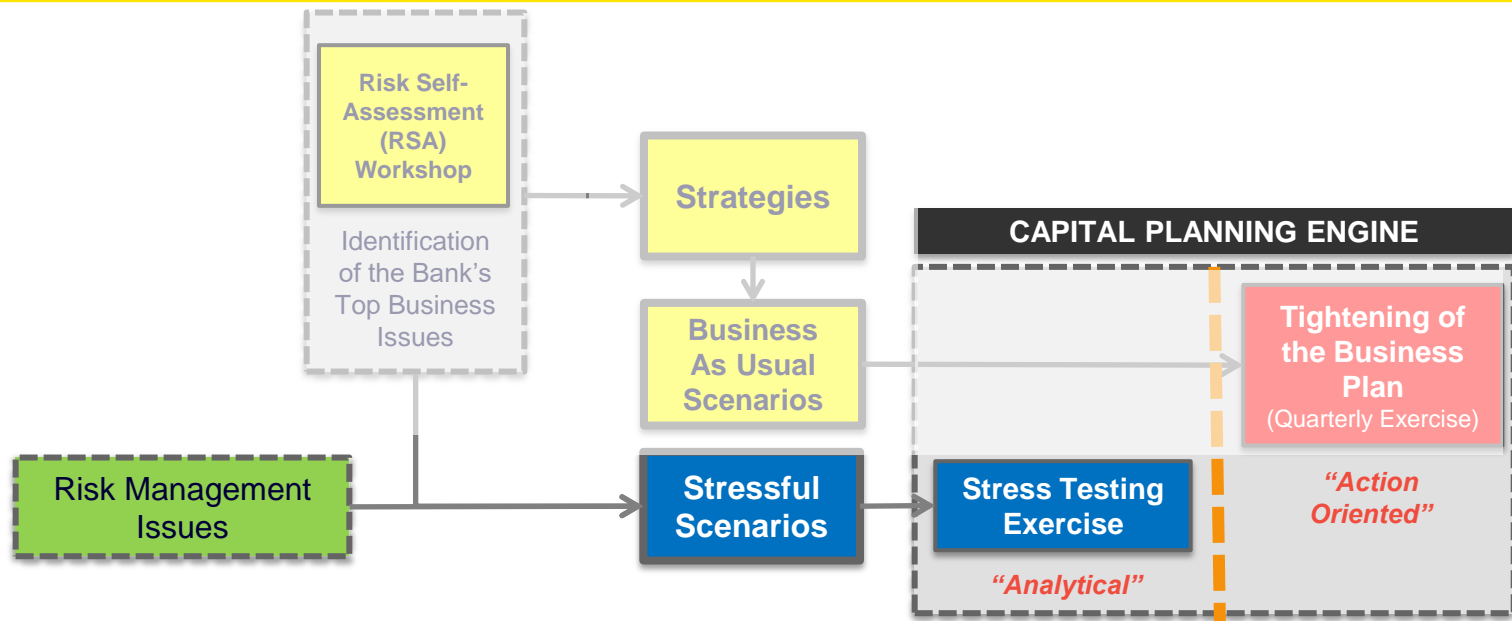
- ▶ Business plan
- ▶ Updated financial figures during the quarter
- ▶ Relevant market data (e.g. interest rates)

Expected Output

- ▶ Action plans to resolve business issues, catch-up on meeting targets, or take advantage of business opportunities identified

Running the Capital Engine

An integrative approach in capital planning



- ▶ **Bank-wide stress testing** is an essential risk management tool used by banks as part of their internal risk management. It provides an indication of how much capital might be needed to absorb losses should large shocks occur. The BSP is interested in how a bank would manage its business and capital so as to survive a recession/market disruption while meeting minimum regulatory standards. The analysis would include financial projections. Given the resulting projected capital needs, a bank should assess whether additional capital is necessary on top of that assessed to cover their existing risk exposures and business plans.

Inputs

- ▶ Approved scenario narrative
- ▶ Market, macro-economic, and industry data
- ▶ Business plan
- ▶ Updated financial figures during the quarter
- ▶ Historical internal external loss data (if any)

Expected Output

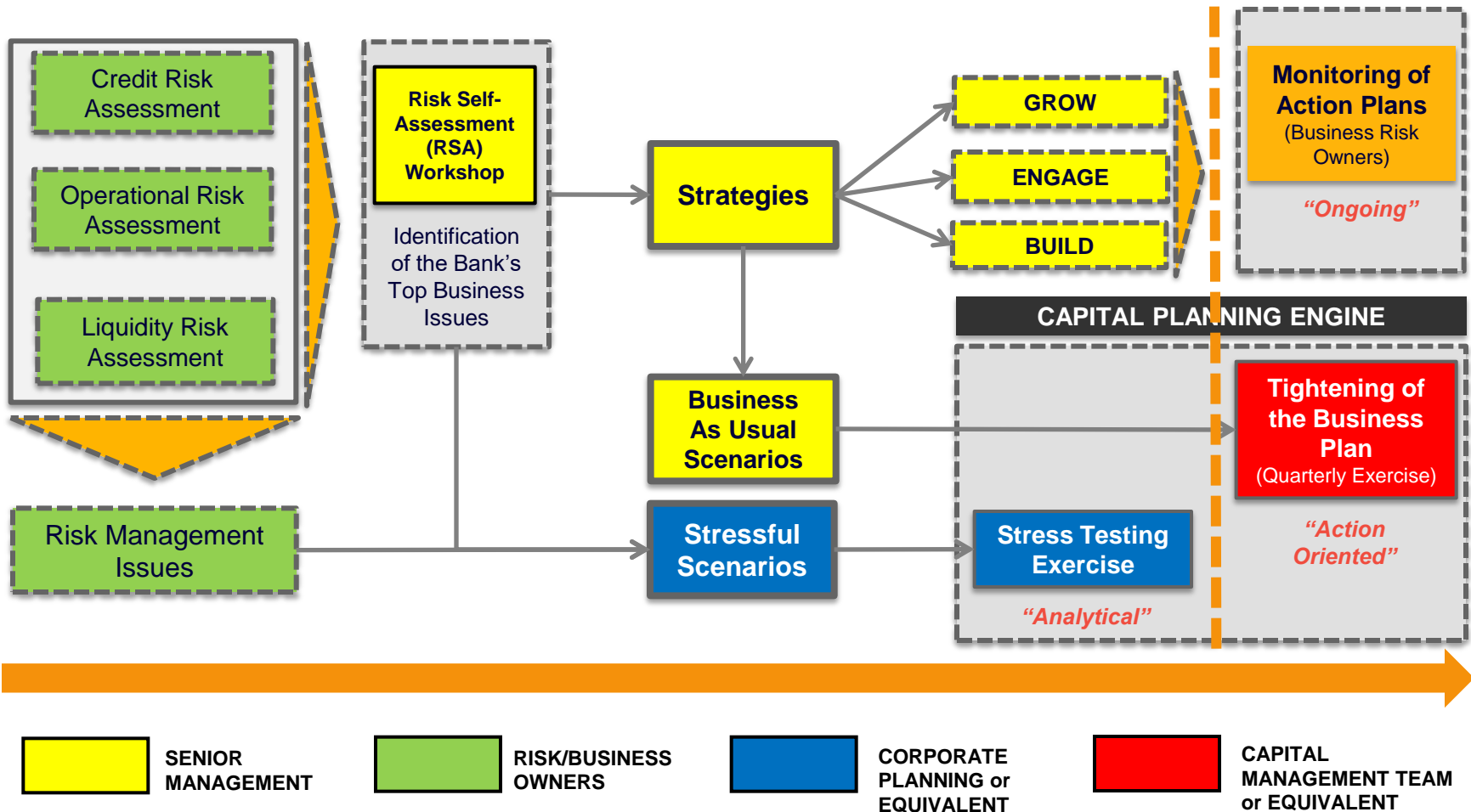
- ▶ Action plans to resolve capital issues
- ▶ Documented contingency plans

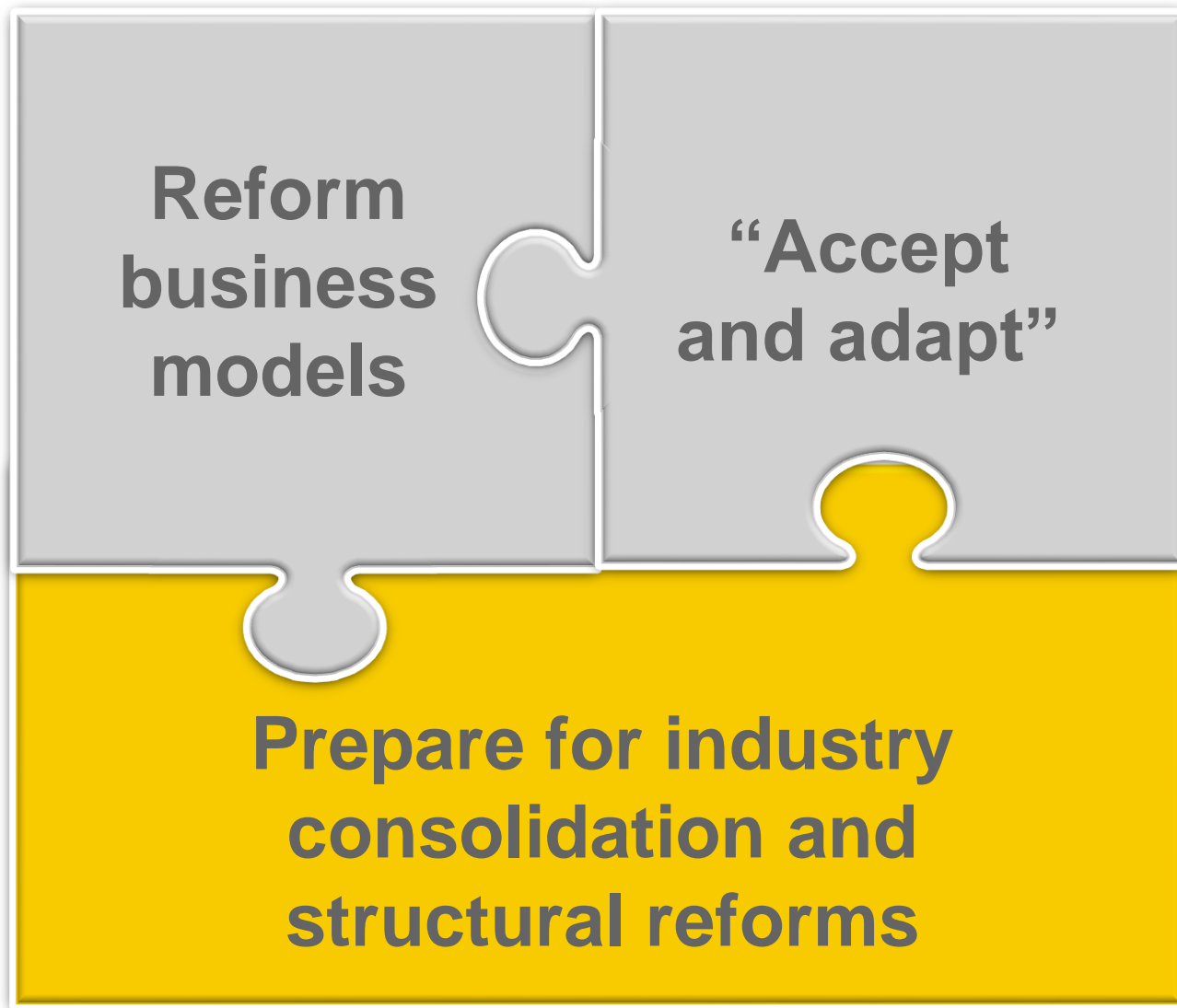
RBCP as an Input to Strategic Planning

Risk-Based Capital Planning

RBCP framework and work streams (illustrated)

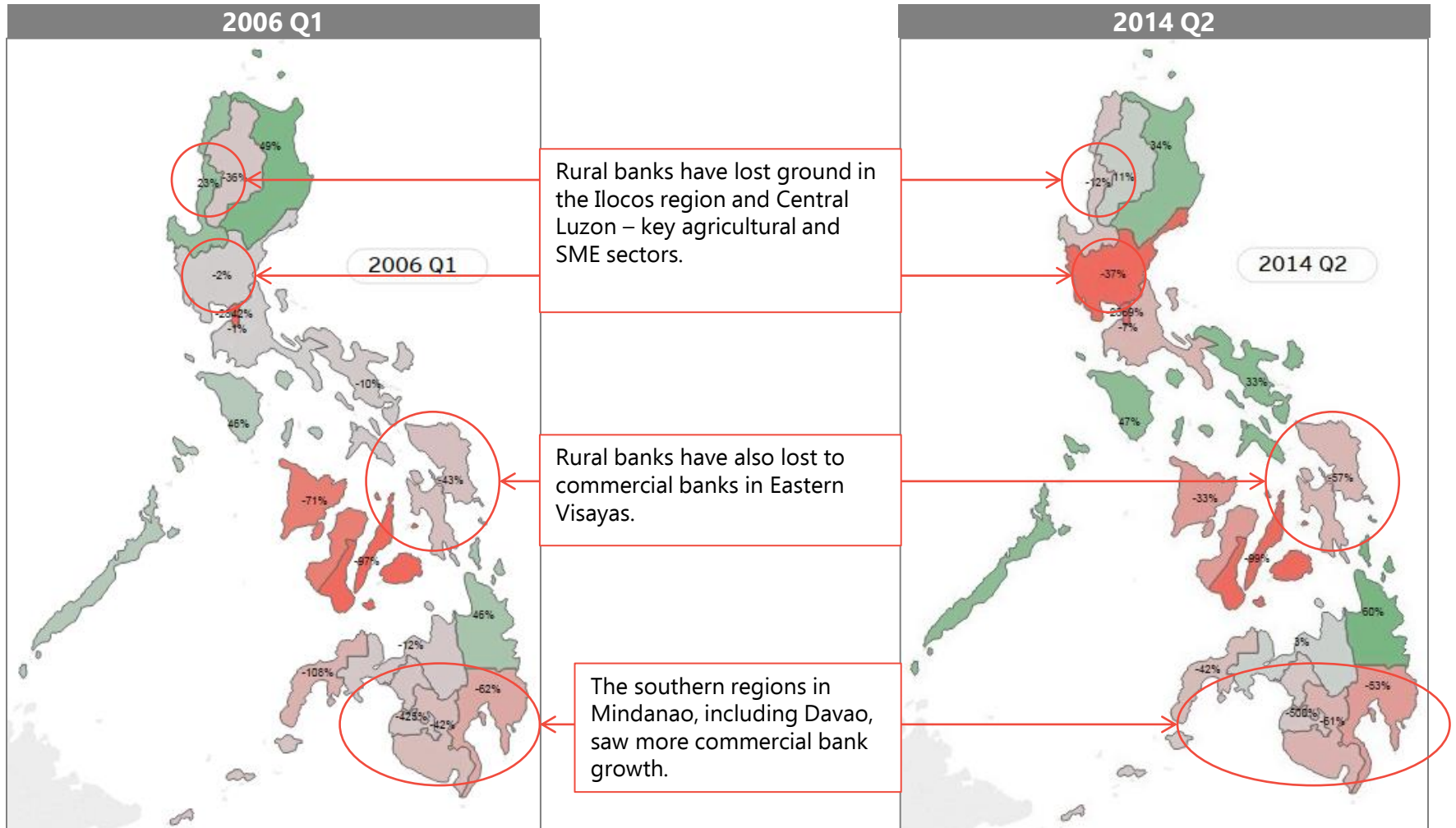
The RBCP Framework and Work Streams





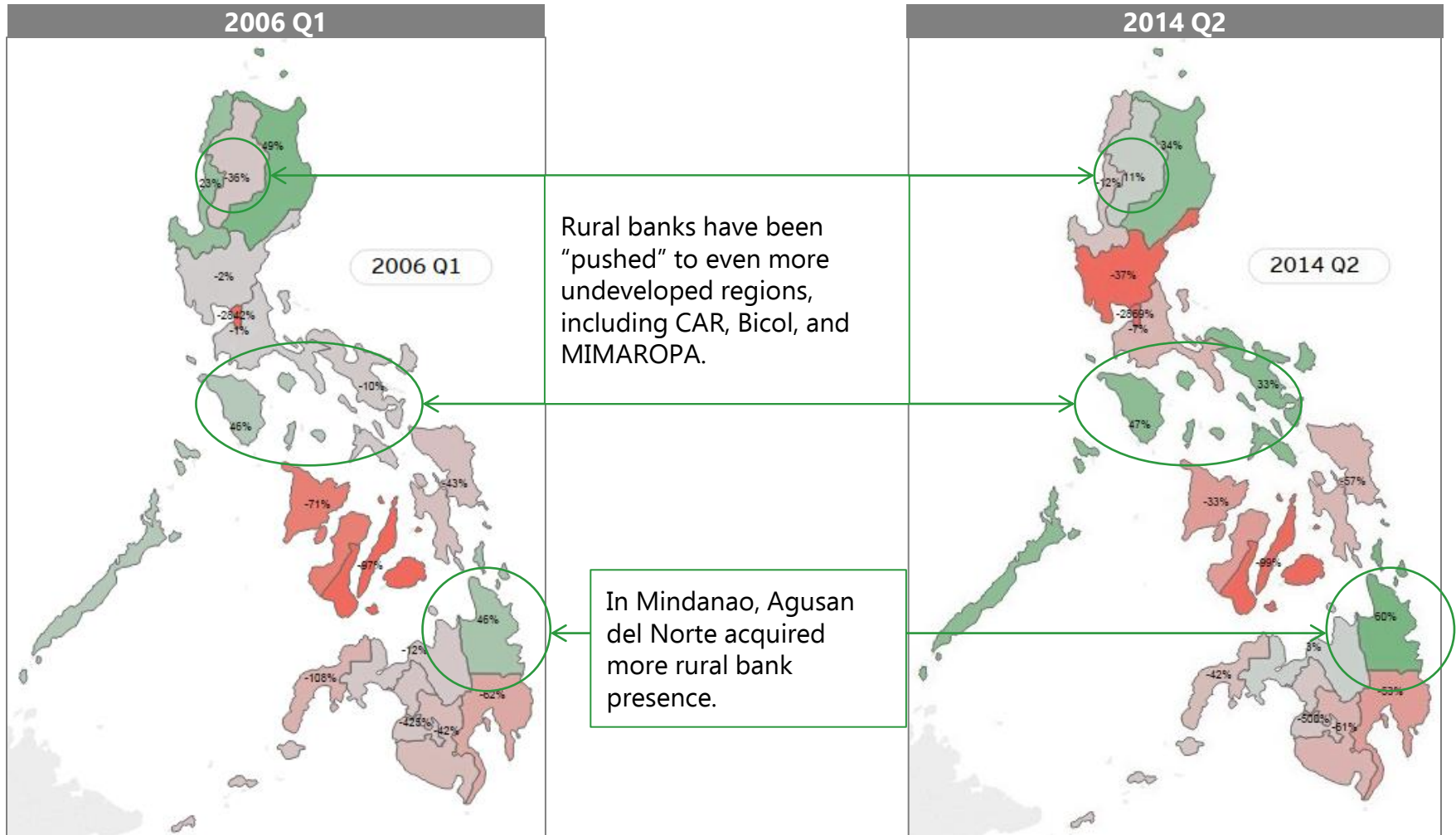
Rural Banks are at risk

Lost Ground



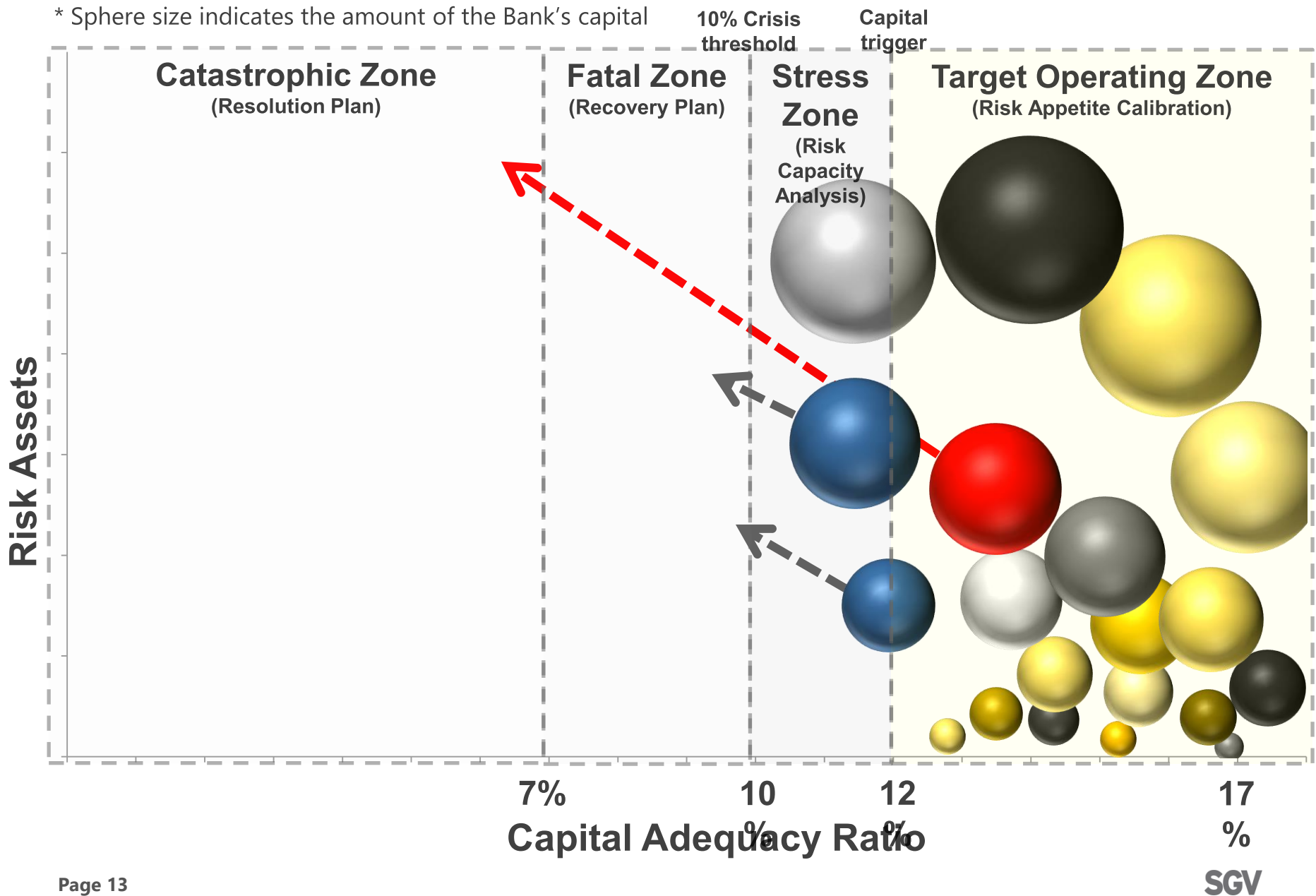
Rural Banks are at risk

New Markets



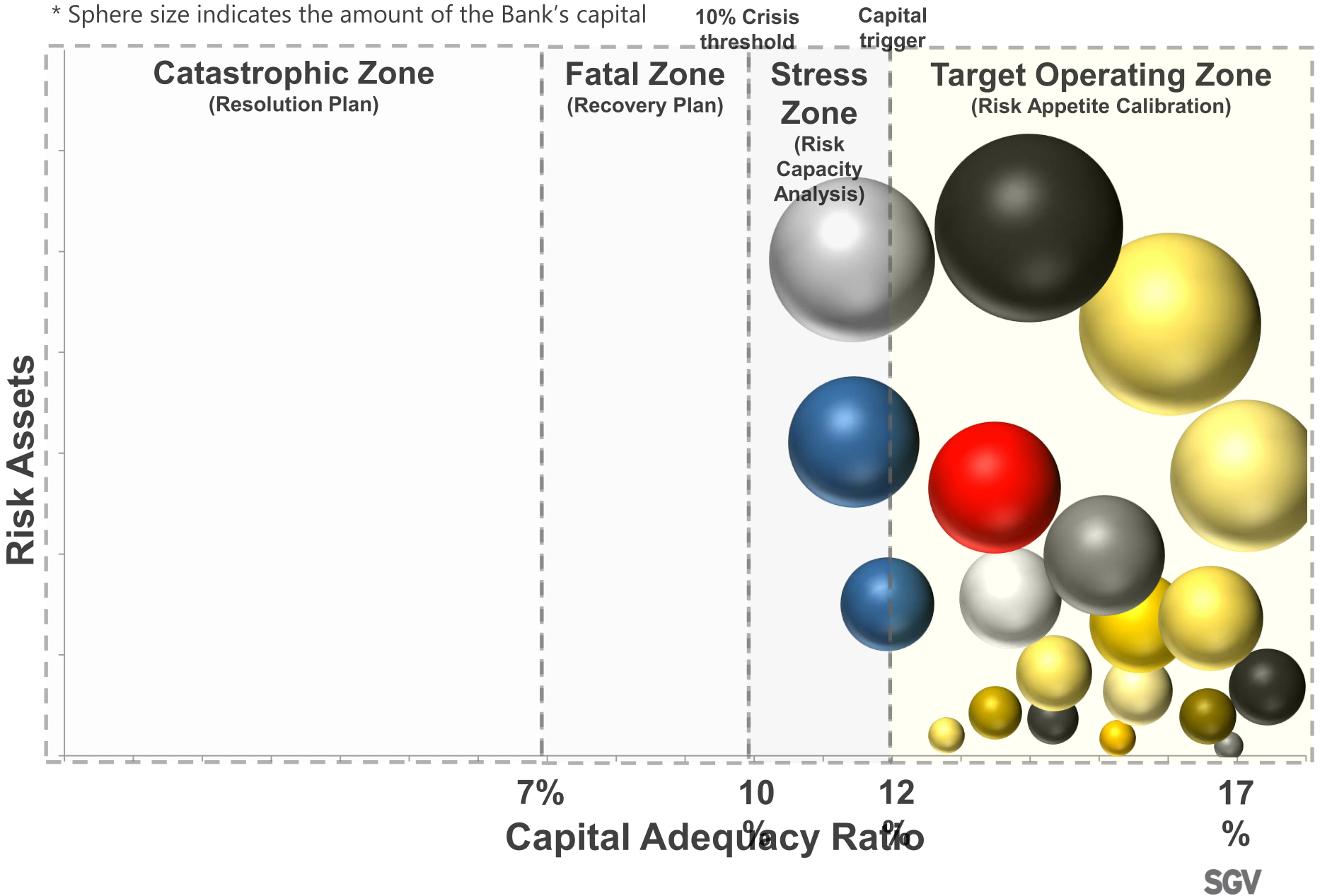
Illustrative CAR Profile of Rural Banks

* Sphere size indicates the amount of the Bank's capital



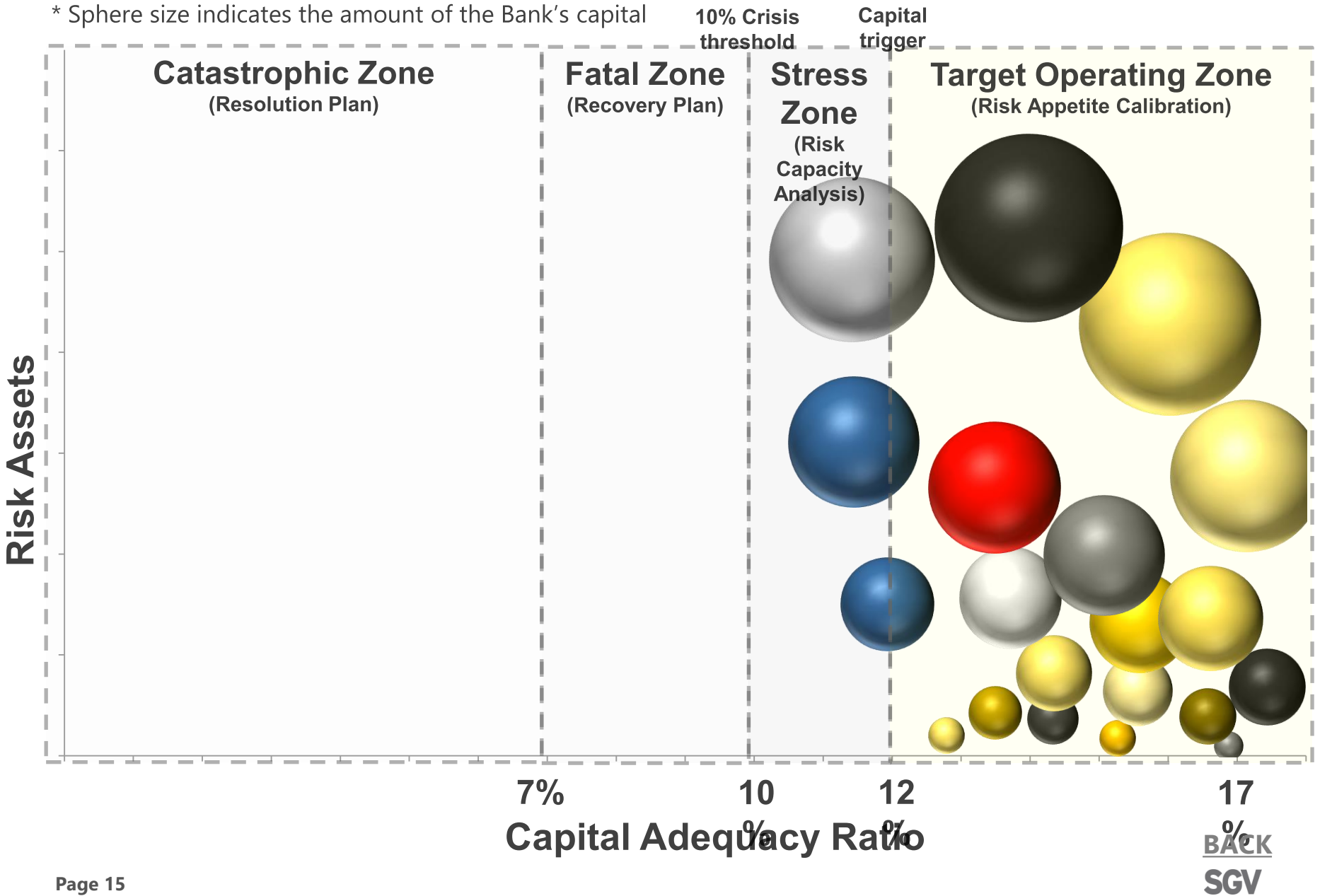
Illustrative CAR Profile of Rural Banks

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Illustrative CAR Profile of Rural Banks

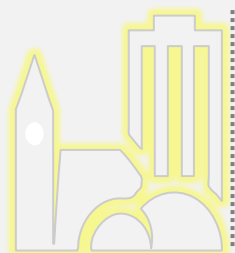
* Sphere size indicates the amount of the Bank's capital



Developmental Trends and Agenda

Sustainable and more inclusive growth agenda

President Duterte's 10-Point Socioeconomic Agenda



Macroeconomic Policies



Tax Reform



Competitiveness and Ease of Doing Business



Infrastructure Spending



Rural Development



Land Administration & Management



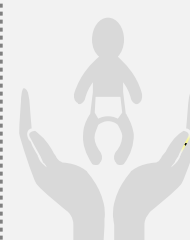
Human Capital Development



Science, Technology & Arts



Social Protection Programs

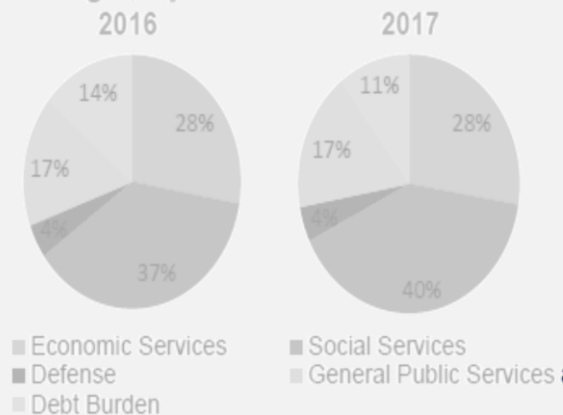


Responsible Parenthood and RH Law

Macroeconomic Assumptions

Indicators	2016	2017
GDP, %	6.0 –7.0	6.5 –7.5
Inflation, %	2.0–4.0	2.0–4.0
Exports, %	3.0	6.0
Imports, %	7.0	10.0
Forex rate, PhP/\$	45-48	45-48
T-bill rate, %	2.0–4.0	2.5–4.0
Dubai crude, \$/bbl	35-50	40-55

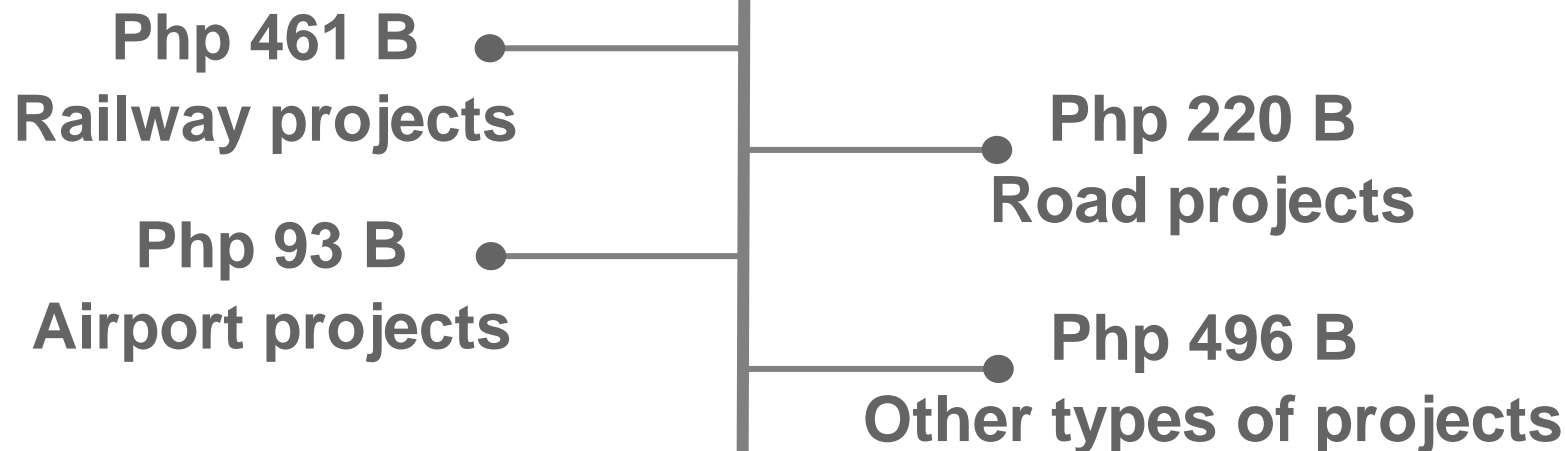
NG Budget, By Sector



Source: BSP IRO News, accessed July 2016

Public-Private Partnership projects

PhP 1.270 T PPP projects in the pipeline (as of Jan. 2017)*



NOTABLE PROJECTS

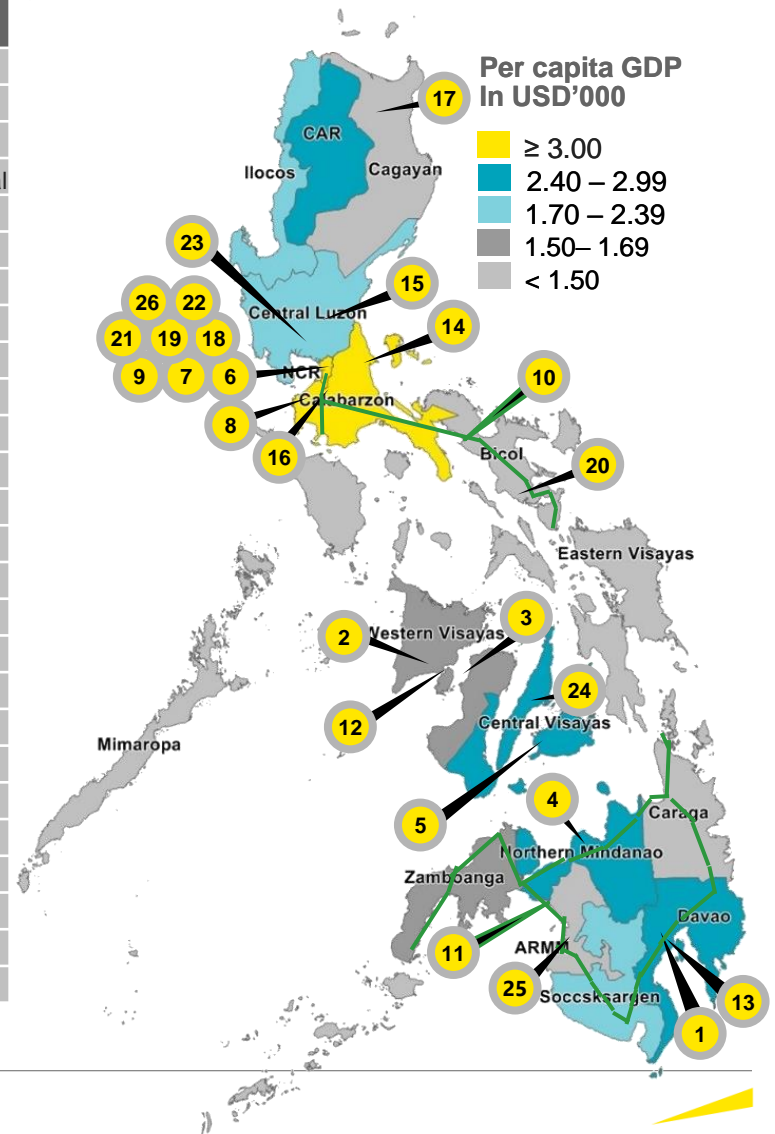
MRT Line 7, LRT Lines 4 & 6
PNR South
NLEX-SLEX Connector Road
Cebu, Davao, Laguindingan, Bacolod, Iloilo Airports

**All figures are rounded up*

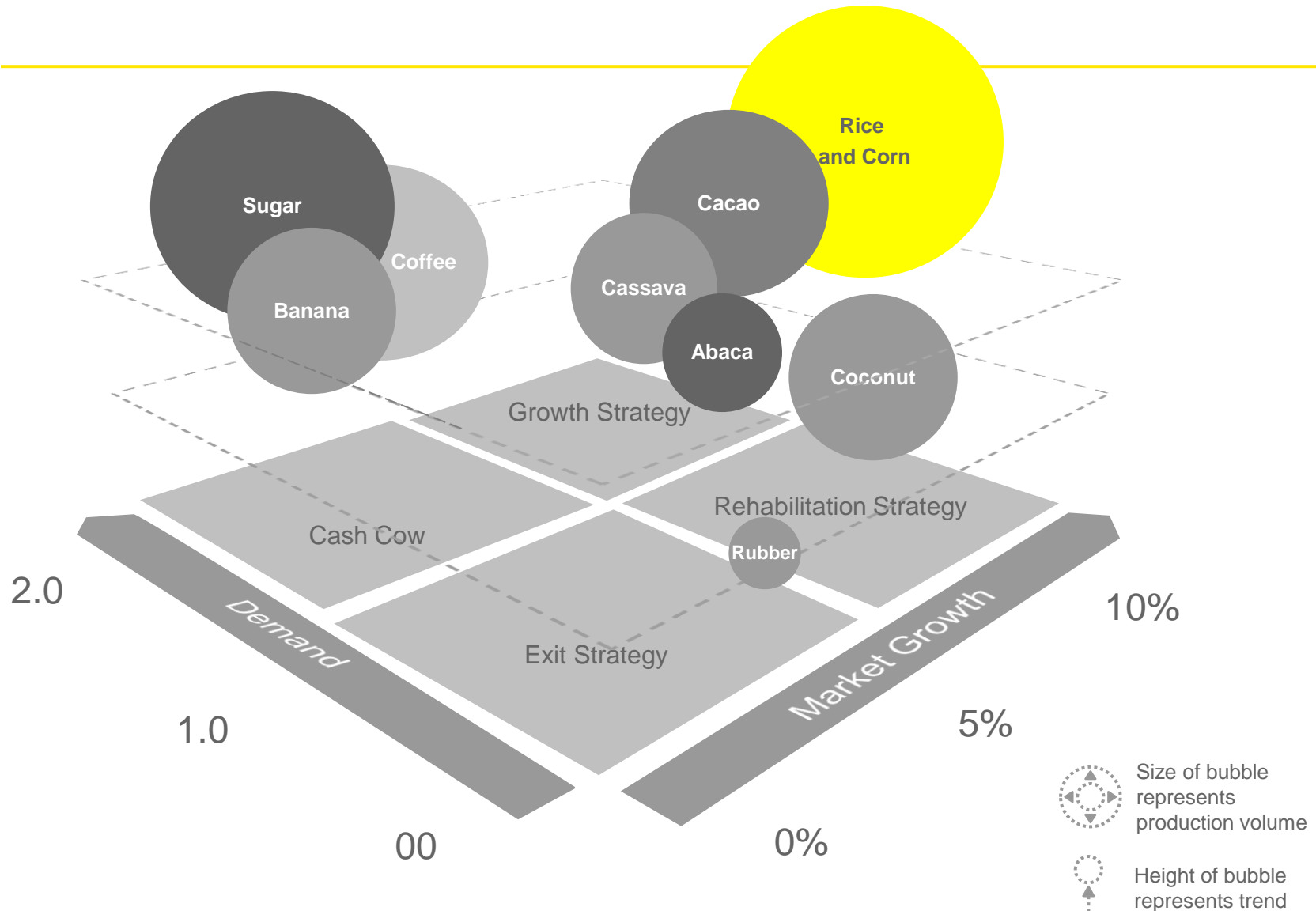
PPP and other infrastructure priority projects

	Project Name	Cost (PhP'b)	Agency	Location
1	Davao Airport	40.6	DOTr, CAAP	Davao, Davao del Sur
2	Iloilo Airport	30.4	DOTr, CAAP	Cabatuan, Iloilo
3	Bacolod Airport	20.3	DOTr, CAAP	Silay, Negros Occidental
4	Laguindingan Airport	14.6	DOTr, CAAP	Laguindingan, Misamis Oriental
5	New Bohol Airport	4.6	DOTr, CAAP	Tagbilaran, Bohol
6	NLEX-SLEX Connector	23.2	DPWH	NCR
7	Road Transport IT	0.3	DOTr, LTFRB	NCR
8	LRT Line 6	65.1	DOTr	Cavite, Calabarzon
9	LRT Line 2	TBD	DOTr, LRTA	Manila, NCR
10	North South Railway	214.0	DOTr	5 cities in 3 regions
11	Mindanao Railway	78.0		7 Urbanised cities in Mindanao
12	Panay Railway	16.0		La Paz, Iloilo City
13	Davao Sasa Port	19.0	DOTr	Davao, Davao del Sur
14	NCSWS - Kaliwa Dam	18.7	MWSS, DPWH	Infanta, Quezon, Calabarzon
15	Regional Prison	50.2	DOJ, BuCor	Fort Magsaysay, Nueva Ecija
16	Tanauan City Public Mkt	0.4	Govt of Tanauan	Tanauan, Batangas
17	Baggao Water Supply	0.1	Govt of Baggao	Baggao, Cagayan
18	MM Flood Management	23.5	DPWH	NCR
19	MM Bus Rapid Transit	37.8	DOTr	NCR
20	Bicol Intl Airport	4.8	DOTr	Bicol Region
21	NAIA PPP	74.6	DOTr	NCR
22	General Luis Road	3.0	DPWH	NCR
23	Plaridel Bypass Road	10.5	DPWH	Bulacan
24	Cebu Intl Container Port	9.2	PPA	Cebu
25	Malitubog Irrigation 2	5.4	DPWH	N Cotabato and Maguindanao
26	New Nayong Pilipino	1.5	DOT	NCR

Source: Wallace Business Forum. PPP Center website, accessed Nov 2016



Priority commodities



Thank you!