

Financial Supervision and Regulation

Algeria

Developing a Risk Rating Framework for Banks

METAC assisted Banque d'Algerie (BA) during June 10–27 to develop a risk rating framework for banks, representing the last phase of a multi-step project that started in 2020. The project aimed at replacing the existing CAMELS rating system with a new rating system that covers a wider array of risks and is based on a set of quantitative and qualitative indicators. Unlike the CAMELS rating, the new rating will be produced by the off-site function to ensure updated results. The mission (i) finalized the methodological guide that describes the architecture, processes, and procedures of rating; (ii) reviewed the test results and proposed final finetuning to some indicators, weights, and benchmarks; and (iii) developed a guide relating the rating of a bank and its size to the intensity and frequency of supervisory activities. Finally, regulations to further enhance the new rating system and reinforce risk-based supervision were proposed as next steps.

Developing Regulation on Operational Risk

During 8-12 December, METAC assisted the Banque d'Algérie (BA) in developing new regulation on operational risk in reference to Basel Committee on Banking Supervision (BCBS) principles on the management of operational risk and to the Basel Core Principles for Effective Banking Supervision. The draft regulation covered all aspects of operational risk management such as governance, risk management environment, measurement and monitoring mechanisms, information technology and business continuity planning. The mission further developed a new reporting requirement containing detailed information of types of operational losses. The enhancement of BA's regulatory framework and supervisors' knowledge on the topic will advance the implementation of new banks' rating system and Risk-based Supervision.

Enhancing Onsite Inspection Manual

In April, METAC supported the Banque d'Algérie in updating its inspection manual—drafted more than 15 years ago—to align with the newly developed bank rating methodology, developed with METAC's assistance. Two new chapters on governance and concentration risk were added, and the credit risk chapter was significantly revised. Remaining sections on liquidity, internal control, and operational risk will be updated in a future mission. The manual provides a unified framework and practical tools for onsite inspectors, enhancing risk-based supervision and complementing progress made in the bank risk rating initiative.

Egypt

Onsite Inspection of Risk Management, Internal Control, ICAAP and IFRS 9

METAC provided capacity building for the on-site supervisors of the Central Bank of Egypt (CBE) during 9–13 June in onsite inspection of risk management, internal control, Internal Capital Adequacy Assessment Process (ICAAP) and IFRS 9. It presented onsite inspection methodologies to assess risk management, corporate governance, and internal control. The mission explained ICAAP philosophy, principles, and assessment methodology, presented onsite inspection methodology for IFRS 9 implementation, and illustrated the interaction between regulatory and accounting provisioning and impact

on capital. The workshop was attended by 9 senior onsite supervisors who were trained in identifying gaps and room to modernize their current procedures of onsite inspection.

Enhancing Regulation on Interest Rate Risk in the Banking Book (IRRBB)

Due to higher interest rates and inflationary pressures, strengthening banks' management and supervisory assessment of interest rate risk has become among the priorities of banks' supervisors. At the request of the Central Bank of Egypt (CBE), METAC supported the review and enhancement of the CBE's current regulation on Interest Rate Risk in the Banking Book (IRRBB) during 10-14 November. The mission was divided into two parts: the first focused on strengthening CBE staff's understanding of IRRBB concepts, principles, and measurement. The second part reviewed the CBE's current regulation and provided recommendations to enhance it in line with Basel Standards on IRRBB. This helps enhancing the management and monitoring of IRRBB risk, promoting risk-based supervision, and supporting the implementation of pillar 2 approach of the Basel Capital Framework.

Iraq

Developing and implementing the Basel Framework Pillar 2 Supervisory Review Process

To strengthen the Central Bank of Iraq (CBI) supervisors' capacity in Basel Framework Pillar 2 and ensuring banks have sufficient capital and liquidity to support all the risks in their business, a METAC mission met six CBI participants in Amman, Jordan, during 24-28 June. The mission focused on enhancing the CBI supervisors' understanding of the supervisory review process (SRP) and internal capital adequacy assessment process (ICAAP). The mission team presented and discussed the purpose, key components, and regulatory aspects along with implementation strategies.

Implementing the Supervisory Review Process

This follow-up mission during 8-12 December was designed to enhance the understanding of Supervisory Review Process (SRP), the Internal Capital Adequacy Assessment Process (ICAAP), and off-site supervision. METAC presented essential concepts and methodologies pertinent to off-site supervision and engaged in discussions regarding components, regulatory aspects, and implementation strategies for both ICAAP and SRP. The mission also conducted a thorough examination of the banks' risk assessment systems in collaboration with Central Bank of Iraq (CBI) supervisors to ensure comprehensive coverage of all relevant risks within the country's banking sector.

Implementing the Supervisory Review Process – Follow-up Mission

METAC conducted another follow-up mission during January 19-23 to deepen the expertise of CBI supervisors regarding the SRP, the risk assessment system, and the ICAAP. As part of this initiative, the mission conducted a comprehensive review of the draft regulations concerning ICAAP, examining its essential components, regulatory aspects, and scope of implementation. Furthermore, METAC collaborated with the CBI team in refining the structure of the risk matrix, ensuring that it comprehensively addresses all relevant risks within the Iraqi banking sector.

Development and implementation of the Basel Framework's Pillar 2 supervisory review process

In February, METAC supported the Central Bank of Iraq (CBI) in the development and comprehensive implementation of the Basel Framework Pillar 2 supervisory review process. This third follow-up mission focused on regulating the Internal Capital Adequacy Assessment Process for banks, following an initial

internal review conducted in the CBI. The mission aimed at further developing the risk matrix and assessing business models from the perspective of off-site supervision.

Jordan

Developing regulation on Interest Rate Risk in the Banking Book (IRRBB)

The project started on 13-17 October with a workshop aiming to build supervisors' knowledge on the topic to help the Central Bank of Jordan (CBJ) to develop the regulation recommended by Jordan's Financial System Stability Assessment FSAP report, issued in April 2023. The workshop covered the key concepts of the Interest Rate Risk in the Banking Book (IRRBB) and presented the measurement approaches. It also presented the Basel Committee's principles for banks and the supervisor on interest rate risk and discussed its integration in the Supervisory Review Process and its impact on capital surcharge. The mission agreed with the CBJ to produce a first draft of IRRBB regulation that METAC will review in a prospective mission in early FY26. This will help strengthen banks' management and supervisory assessment of interest rate risk which became a supervisory priority amid a higher interest rate environment.

Developing SRP Risk Rating Methodology for Banks

METAC continued with the CBJ the multi-step medium-term project on developing SRP risk rating methodology for banks, which will be conducted virtually until the end of fiscal year 2025. The virtual activity will be followed by an in-person mission in early FY26 to finalize the overall SRP architecture, the various building blocks and launch the testing process. During October 20-30, METAC reviewed the first two chapters of the rating methodology (i) SRP overall architecture and (ii) credit risk. Other chapters on liquidity, operational risk, internal control and governance, profitability and business model, and market risk will follow in the coming months. The completion of this multi-step project will support the CBJ supervisory approach to move towards Risk-based Supervision, which will help address some of the FSAP report's recommendations on banking supervision.

Enhancing Regulation on Transactions with Related Parties

From 26 to 29 January, METAC assisted the Central Bank of Jordan (CBJ) in enhancing regulation on Transactions with Related Parties. The mission aimed at closing the regulatory gaps identified by the Jordan Financial System Stability Assessment (FSAP) issued in April 2023. The enhanced regulation revised the scope of application to include foreign branches of Jordanian banks, enlarged the definition of related parties to align with Basel requirements and reduced the present relatively high prudential limit on banks' aggregate exposure to related parties. It also enhanced governance requirements, developed reporting requirement, and advised on the effective supervision of related party transactions. The mission helped enhancing regulatory and supervisory frameworks for related parties, which will strengthen good governance practices.

Developing SRP Risk Rating Methodology for Banks

In April, METAC continued its support to the Central Bank of Jordan in developing a risk rating framework for banks, inspired by the European Supervisory Review and Evaluation Process (SREP) methodology. This is a multi-phase, medium-term project conducted in a hybrid format, aimed at advancing the CBJ's transition to a more risk-based supervisory approach. During the current phase, the mission reviewed the manual on key elements of the Supervisory Review Process (SRP), including its overall structure, as well

as components covering credit risk, liquidity, business model, and operational risks. The mission provided recommendations to enhance and streamline these components. An upcoming mission, scheduled for May, will focus on discussing the recommendations and finalizing Step One of the three-step SRP roadmap.

Lebanon

Enhancing Bank Examiner's Capacity to Assess Asset Classification and Provisioning Levels

In March, METAC strengthened Banking Control Commission of Lebanon (BCCL) supervisors' capacity in the assessment of asset classification and provisioning levels as an essential supervisory function. The mission emphasized evaluating and ensuring the quality of various asset categories following international standards, including a careful review of participations in subsidiaries and associates, investments in financial securities and real estate portfolios, and making thoughtful adjustments to the book value of assets.

Enhancing Bank Examiner's Capacity to Conduct Business Model Analysis

A series of capacity-building sessions in April assisted the BCCL examiners in improving their skills to review and evaluate the sustainability of banks' business models. This encompasses the entire process from licensing to ongoing supervision and is consistent with the Basel Core Principles.

Morocco

Developing Supervisory Guidance for the Review of Banks' Liquidity Reports

During 21-25 October, METAC assisted Bank Al Maghrib (BAM) in developing a first draft of internal guidelines to aid the supervisors in their review process of banks' Internal Liquidity Adequacy Assessment Process (ILAAP) reports. In its pursuit to implement Basel III requirements, the BAM introduced in 2014 the Liquidity Coverage Ratio requirement with the objective to promote banks' resilience to short-term liquidity risk. BAM recently developed a draft regulation on Net Stable Funding Ratio to mitigate funding risk over a longer horizon and prepared a draft regulation on ILAAP which set out supervisory expectations for banks' internal assessment of liquidity risk. The internal guidelines for ILAAP are planned to be finalized with the help of METAC in February 2024. These guidelines will serve as a reference to guide supervisors in their dialogues with banks on the effectiveness of liquidity management, its governance, and the adequacy of liquidity buffers.

Developing Supervisory Guidelines for ILAAP Review

In February, METAC assisted the Bank Al-Maghrib in developing internal guidelines to support supervisors in reviewing banks' ILAAP (Internal Liquidity Adequacy Assessment Process) reports. These guidelines outline key questions for on-site and off-site supervisors to address during the review, highlighted critical areas of liquidity risk assessment, and specified control techniques to be performed. The mission also provided training to ensure effective implementation of the guidelines, which help supervisors assess banks' liquidity risk profiles, align with Basel III Pillar 2 requirements, and ensure that banks take corrective actions or implement additional liquidity buffers where necessary.

Tunisia

Developing Framework for Dealing with Domestic Systemically Important Banks

METAC supported the Central Bank of Tunisia (CBT) from 6-10 January in developing a framework for identifying Domestic Systemically Important Banks (D-SIB) and determining D-SIB buffers. The mission provided capacity building on the topic, discussed the criteria and relevant weights and indicators to define the D-SIBs, ran several scenarios and tests, defined the range of relevant buffers, and developed a draft framework for D-SIBs. This was achieved in one mission due to the active participation and collaboration of the authorities' team and their effectiveness in extracting the data needed to select indicators and run scenarios. Developing a framework for dealing with D-SIBs helps enhancing the implementation of risk-based supervision and promote financial stability.

West Bank and Gaza

Enhancing Risk-Based Supervision with an updated Risk-Based Supervision Manual

During August 4-8, METAC supported the Palestine Monetary Authority in enhancing risk-based supervision by updating the risk-based supervision manual draft. This included defining the manual's structure, aligning it with the European Union's Supervisory Review and Evaluation Process, and refining the risk assessment system. The process involved revising risk categories from quantitative and qualitative angles, conducting reviews and training on Supervisory Review and Evaluation Process components.

Risk-based Supervision of Banks and Supervisory Review Process

METAC supported the Palestine Monetary Authority (PMA) during 3-7 November in enhancing risk-based supervision (RBS) of banks and advancing the Supervisory Review Process (SRP) project. This second follow-up mission was pivotal in refining the risk assessment system, introducing comprehensive updates to risk categories that blend quantitative metrics with qualitative insights. Furthermore, the mission facilitated in-depth capacity development focused on internal governance and risk management practices in banks, empowering PMA supervisors with enhanced skills and knowledge.

Framework for Banking Supervision

METAC supported the PMA in developing and implementing a robust framework for consolidated and cross-border supervision. To achieve this, an online workshop covered several key topics, including the concept of consolidation and the scope of supervision, enabling supervisors to better understand group structures. The workshop provided an overview of group risks, and discussed challenges related to domestic groups, such as regulatory arbitrage and financial cross-sectoral risks. Supervisory techniques were addressed, encompassing both off-site and on-site approaches. Participants explored risk matrices and supervisory rating systems based on international best practices. The workshop also examined the supervision of foreign bank branches within the domestic banking system, emphasizing necessary safeguards and oversight mechanisms. Additionally, it covered the consolidated, group-wide application of prudential requirements, including capital, liquidity, and other regulatory standards, while discussing broader group risks to help supervisors identify and mitigate systemic risks.

Enhance Risk-Based Supervision of Financial Institutions

In March, METAC supported the Palestine Monetary Authority (PMA) in its efforts to enhance risk-based supervision (RBS) of financial institutions and further develop the Supervisory Review Process (SRP) project. The mission served as a follow-up initiative to assess the outcomes of the initial testing and

implementation of the draft SRP manual and risk matrix. It also provides an opportunity to identify key areas for improvement, fostering an environment of continuous enhancement in supervisory practices.

Yemen

Enhancing Supervision and Regulation on Capital Adequacy Framework

As part of a multi-step project aimed at a full development and implementation of the Basel III Capital Adequacy Framework, a mission during 9-13 June assisted the Central Bank of Yemen (CBY) supervisors in capacity developing of Basel III Capital Adequacy Framework Pillar 1. The mission presented and discussed the components of Pillar 1, the application of proportionality to regulatory requirements and areas where Yemeni supervisors may exercise national discretion. The review and discussions improved Yemeni supervisors' understanding of Pillar 1 components and will help them making informed decisions on the development of their own regulation.

Implementing Pillar 1 of the Basel III Capital Adequacy Framework

During September 16-20, METAC supported the Central Bank of Yemen (CBY) in drafting the Pillar 1 regulation and develop corresponding reporting templates, aligning them with the draft regulation. The mission also discussed the regulatory issuance process and stages, and steps needed for conducting a quantitative impact study.

Developing risk management regulations

During October 19-23, a METAC mission assisted the CBY in developing risk management regulations specific to its banking sector. The mission team presented key principles from the Basel Committee, guiding the CBY representatives in identifying significant risks in the Yemeni banking industry that require regulatory focus and specific requirements. The mission team also outlined the necessary approaches and processes to adapt these requirements to the banking industry. Discussions concluded with drafting a regulation framework for the Yemeni banking system, which the CBY representatives will further refine and develop.

Strengthening Supervisors' understanding of the Basel III Pillar 1 Capital Adequacy Framework

In February, METAC assisted to the Central Bank of Yemen in strengthening its supervisors' understanding of the standardized approaches outlined in the Basel III Pillar 1 Capital Adequacy Framework applicable to conventional banks. The mission presented practical examples and utilized draft supervisory reporting templates developed by METAC to demonstrate the calculation of regulatory capital. It also addressed the implementation of standardized approaches for credit risks and the simplified standardized approach for market risk. The draft templates were tailored as necessary to ensure alignment with the draft regulation while considering additional factors pertinent to the Yemeni banking sector.