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**G. MARKET RISK**

Description of item	Line no.	Standardised approach			Internal models approach <sup>1</sup>			Total (of col. 1 to 7)
		General risk	Specific risk	Options	VaR	sVaR	Specific risk add-on	
Interest rate risk	255			3	4	5	6	7
Equity position risk	256							
Foreign exchange risk	257							
Commodities risk	258							
Other	259							
Total (of items 255 to 259)	260							
Risk-weighted exposure equivalent amount (item 260 multiplied by 12.5) <sup>2</sup>	261							

1. Calculated in accordance with the relevant requirements specified in regulation 28(8) read with the relevant requirements specified in this regulation 37.

2. Based on the higher of the relevant home or host capital requirement.

**H. INTEREST-RATE RISK: BANKING BOOK**

Static repricing gap	Line no.	Up to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 12 months	More than 12 months to 3 years	More than 3 years to 5 years	More than 5 years to 10 years	More than 10 years	Non-rate sensitive items	Total
Assets <sup>1</sup>	262										
Liabilities <sup>1</sup> and capital and reserve funds	263										
Net static gap excluding derivative instruments (item 262 minus item 263)	264										
Net static gap, including derivative instruments	265										

1. Excluding derivative instruments.

(All amounts to be rounded off to the nearest '000)

(All amounts to be rounded off to the nearest '000)

**I. EQUITY RISK IN THE BANKING BOOK**

(All amounts to be rounded off to the nearest '000)

<b>Standardised approach for credit risk<sup>1</sup></b>	Line no.	Exposure value	Risk weighting	Risk weighted exposure	Capital requirement
Equities - listed and unlisted	266		2	3	4
Private equity and venture capital	267		100% 150%		

1. Including the simplified standardised approach for credit risk.

<b>IRB approach for credit risk Market based approach</b>	Line no.	Exposure value	Risk weighting	Risk weighted exposure <sup>1</sup>	Capital requirement
<b>Simple risk weight method (total of items 269 and 270)</b>	268			3	4
Equities - listed	269		300%		
Equities - unlisted	270		400%		

<b>IRB approach for credit risk Internal models approach</b>	Line no.	Exposure value	Risk weighting floor	Risk weighted exposure <sup>1</sup>	Capital requirement
			Without limit <sup>2</sup>	With limit <sup>3</sup>	
<b>Internal models approach (total of items 272 and 273)</b>	271		2	3	5
Equities - listed	272		200%		
Equities - unlisted	273		300%		
<b>Memorandum item:</b>					
Diversified amount	274				

1. After the application of a scaling factor of 1.06.
2. Means the relevant risk weighted exposure amount prior to the application of the specified risk weighting floor, if relevant.
3. Means the relevant risk weighted exposure amount after the application of the specified risk weighting floor, when relevant.

<b>IRB approach for credit risk PD/LGD approach</b>	Line no.	Exposure value	Average risk weighted exposure <sup>1</sup>	Capital requirement
Total (of items 276 and 277)	275	1	2	3
Total of performing categories	276			4
Total of default categories	277			

1. After the application of a scaling factor of 1.06.

(All amounts to be rounded off to the nearest '000)									
	Line no.	Gross income			Loans and advances <sup>1</sup>			Relevant risk exposure	Percentage requirement
		Financial year -3	Financial year -2	Financial year -1	Year -3	Year -2	Year -1		
<b>Summary information relating to required capital and reserve funds and risk weighted exposure</b>									
<b>Basic indicator approach</b>	278								
<b>Standardised approach<sup>1</sup>, gross income derived from- (total of items 280 to 287)</b>	279								
Corporate finance	280								18%
Trading and sales	281								18%
Retail brokerage	282								12%
Commercial banking	283								15%
Retail banking	284								12%
Payment and settlement	285								18%
Agency services	286								15%
Asset management	287								12%
<b>Alternative standardised approach<sup>1</sup> (total of items 288 to 292)</b>	288								
Commercial banking <sup>1,2</sup>	289								15%
Retail banking <sup>1,2</sup>	290								12%
Commercial banking and retail banking <sup>1,3</sup>	291								15%
Business lines other than commercial banking and retail banking <sup>1,4</sup>	292								18%
<b>Advanced measurement approach</b>	293								
<b>Capital requirement in respect of operational risk (total of items 278, 279, 288 and 293)</b>	294								
<b>Risk weighted exposure equivalent amount</b>	295								

1. A bank that obtained the approval of the Registrar to apply the alternative standardised approach shall instead of items 280 to 287 complete the relevant items specified in items 288 to 292.

Refer to the relevant directives specified in regulation 33(8)(c)(ii)(A).

2. Refer to regulation 33(8)(c)(ii)(B).

3. Refer to regulation 33(8)(c)(ii)(C).

4. Refer to regulation 33(8)(c)(ii)(C).

**J.2 OPERATIONAL RISK**

		(All amounts to be rounded off to the nearest '000)		
		Line no.	Financial year -3	Financial year -2
			1	2
Gross operating income (item 137)		296		
Adjustments <sup>1,2</sup> (total of items 298 to 304)		297		
Income derived from insurance		298		
Operating expenses, including fees paid by the reporting bank to service providers in respect of outsourcing		299		
Realised profits/losses on sale of securities held in the banking book		300		
Impairment		301		
Extraordinary or irregular items		302		
Adjusted prior period errors		303		
Other adjustments (please specify)		304		
Gross income (item 296 minus item 297)		305		
Hash total		306		

1. To the extent that these items are included in item 296 above.  
 2. Report any relevant expense or other amount to be deducted from gross operating income as a negative amount.

**37. Foreign operations of South African banks - Matters relating to consolidated supervision including directives and interpretations for completion of quarterly return concerning foreign operations of South African banks (Form BA 610)**

(1) The content of the relevant return is confidential and not available for inspection by the public.

(2) The purpose of the directives contained in this regulation 37 and in the form BA 610, amongst other things-

- (a) is to ensure that foreign operations of South African banks are prudently managed;
- (b) is to obtain selected information relating to the foreign operations of South African banks in order to evaluate the risks that such operations are exposed to, which risks may pose a threat to the safety and soundness of the banking group in respect of which the said operation is a member, including selected information in respect of each relevant foreign operation's
  - (i) on-balance sheet assets and liabilities;
  - (ii) off-balance sheet items;
  - (iii) profit or loss situation;
  - (iv) capital adequacy;
  - (v) exposure to credit risk
  - (vi) exposure to market risk;
  - (vii) exposure to operational risk;
  - (viii) exposure to equity risk arising from positions held in its banking book;
- (c) is to evaluate the adequacy of risk management and internal controls of the said foreign operation;
- (d) is to obtain an understanding of the activities conducted by the said foreign operation;
- (e) is to ensure that the said foreign operation, based on its risk profile, is adequately capitalised.

(3) Unless specifically otherwise provided in this regulation 37 or specified in writing by the Registrar, all the relevant directives and interpretations-

- (a) relating to the completion on a solo basis of the respective risk-based returns by a bank in the Republic; or
- (b) for the calculation on a solo basis of the relevant minimum required amount of capital and reserve funds of a bank in the Republic,

shall *mutatis mutandis* apply to the return to be completed in respect of any foreign operation of the said bank in the Republic or for calculating the relevant minimum required amount of capital and reserve funds to be held by the said foreign operation, provided that-

- (i) based on the circumstances prevailing in each relevant country the said foreign operation shall apply and interpret any relevant definition contained in these Regulations, provided that in cases of uncertainty or when a conflict in interpretation may arise the said bank or foreign operation shall in writing refer the matter to the Registrar for a directive to be issued in terms of the provisions of section 6(6) of the Act;
- (ii) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar a foreign operation of a bank in the Republic may complete the required information based on the rules and regulations of a relevant host supervisor when the said rules and regulations-
  - (A) are deemed by the Registrar to be equivalent in all material respects to the relevant requirements specified in these Regulations; or
  - (B) result in more complete or accurate information.

(4) Unless specifically otherwise provided in this regulation 37 or specified in writing by the Registrar, all the relevant provisions specified or envisaged in regulation 36(17) in respect of governance, risk management and internal controls shall *mutatis mutandis* apply to any foreign operation of the relevant bank.

**CAPITAL ADEQUACY AND LEVERAGE**

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2. Regulation 38 - Directives and interpretations for completion of monthly/ quarterly return concerning capital adequacy and leverage (Form BA 700).....	821

**CAPITAL ADEQUACY AND LEVERAGE**

(Confidential and not available for inspection by the public)

Name of bank/ controlling company .....

Month\* quarter\* ended.....(yyyy-mm-dd)

**BA700**Monthly\* in the case of solo reporting  
Quarterly\* in the case of consolidated reporting

(All amounts to be rounded off to the nearest R'000)

Summary information in respect of capital adequacy	Line no.	Risk exposure					Total
		Credit	Counterparty credit risk	Operational	Market	Equity	
Risk weighted exposure	1	2	3	4	5	6	7
Risk weighted exposure equivalent amount prior to concentration risk	1						
Risk weighted exposure equivalent amount in respect of concentration risk	2						
Risk weighted exposure amount in respect of threshold items	3						
Aggregate risk weighted exposure equivalent amounts prior to specified add-ons or floors (total of item 1 to 3)	4						
Additional risk weighted exposure equivalent amounts specified by the Registrar <sup>1</sup>	5						
Aggregate risk weighted exposure equivalent amounts (total of items 4 and 5)	6						
<b>Minimum required capital and reserve funds</b>							
Base minimum required capital and reserve funds per specified risk type, based on risk-weighted exposure (item 6 multiplied with item 9, column 3)	7						
Minimum required capital and reserve funds per specified risk type, based on risk-weighted exposure (item 6 multiplied with item 16, column 3)	8						
Rand amounts (R'000)							
Percentages		Common Equity					
Common Equity Tier 1		Tier 1	Total	Common Equity Tier 1		Tier 1	Total
1		2	3	4		5	6
<b>Required capital adequacy ratios and amounts</b>							
Base minimum <sup>2</sup>	9						
Add-on: systemically important bank/ controlling company <sup>3</sup> (SIB)	10						
Minimum required ratio, including SIB add-on (item 9 plus item 10)	11						
Add-on: idiosyncratic requirement specified by the Registrar <sup>4</sup>	12						
Minimum required ratio, prior to buffers (item 11 plus item 12)	13						
Add-on: countercyclical buffer <sup>5</sup>	14						
Add-on: conservation buffer <sup>6</sup>	15						
Total minimum required ratio (total of items 13 to 15)	16						
Capital adequacy ratio of the reporting bank/ controlling company	17						

1. Relates to items such as capital floors, add-ons to risk-weighted exposure, etc.

2. Refer to regulations 38(8)(e)(i), 38(8)(e)(ii) and 38(9).

3. Refer to regulation 38(8)(e)(vi).

4. Refer to regulation 38(8)(e)(iii).

5. Refer to regulations 38(8)(e)(v) and 38(8)(g).

6. Refer to regulations 38(8)(e)(iv) and 38(8)(f).

(All amounts to be rounded off to the nearest R'000)

<b>Summary information in respect of capital adequacy</b>	<b>Line no.</b>	<b>Common Equity Tier 1</b>	<b>Tier 1</b>	<b>Total</b>
		<b>1</b>	<b>2</b>	<b>3</b>
<b>Minimum required capital and reserve funds</b>				
Minimum required capital and reserve funds prior to specified floors or add-ons (item 16)	18			
Additional capital requirement specified by the Registrar <sup>1</sup>	19			
Minimum required capital and reserve funds including specified floors or add-ons <sup>1</sup> (total of items 18 and 19)	20			
Minimum required amount of capital and reserve funds in accordance with section 70 of the Act	21			
<b>Aggregate amount of qualifying capital and reserve funds</b>				
<b>Excess/ (shortfall) capital and reserve funds prior to the buffer requirements and other specified minima (item 22 less item 13)</b>	22			
<b>Excess/ (shortfall) capital and reserve funds (item 22 less the higher of item 20 or 21)</b>	23			
	24			

1. Relates to items such as capital floors, add-ons to risk-weighted exposure, etc.

<b>Summary information in respect of leverage</b>	<b>Line no.</b>	<b>Current reporting month</b>	<b>Current quarter<sup>1</sup></b>
		<b>1</b>	<b>2</b>
<b>Leverage ratio (item 77, column 1, divided by item 260, column 1)</b>	25		
<b>Specified minimum leverage ratio<sup>2</sup></b>	26		4%

1. The average of the relevant month-end leverage ratios for the reporting month and the two months preceding the reporting month.  
 2. Refer to regulation 38(17).

<b>Common Equity Tier 1 capital and reserve funds</b>	<b>Line no.</b>	<b>Balance at the end of the reporting period</b>	<b>Balance at the end of the previous reporting period</b>	<b>Movement during the reporting period (col 1 minus col 2)</b>
		<b>1</b>	<b>2</b>	<b>3</b>
<b>Common Equity Tier 1 capital and reserve funds attributable to common shareholders (total of items 28 to 31)</b>	27			
<b>Paid in capital<sup>1</sup></b>	28			
<b>Retained earnings</b>	29			
Less: unappropriated profits <sup>2</sup>	30			
<b>Accumulated other comprehensive income/reserves<sup>3</sup> of which:</b>	31			
Unrealised gains and losses on available for sale items	32			
Gains and losses on derivatives held as cash flow hedges	33			
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	34			
Actuarial reserve	35			
Unrealised gains and losses from a foreign currency hedge of a net investment in a foreign operation	36			
Property revaluation reserve	37			
Share-based payment reserve	38			
Other reserves (please specify)	39			
<b>Minority interest recognised in common equity tier 1 capital and reserve funds<sup>4</sup></b>	40			
<b>Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustments (item 27 plus item 40)</b>	41			

1. Refer to regulation 38(13).  
 2. Refer to regulation 38(10).  
 3. The full amount prior to the application of any relevant filter or deduction.  
 4. Sum of relevant amounts reflected on the form BA 600 related to subsidiaries that issued capital held by third parties.

(All amounts to be rounded off to the nearest R'000)				
<b>Common Equity Tier 1 capital and reserve funds</b>	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
		1	2	3
<b>Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds<sup>2</sup> (total of items 43 to 53)</b>	42			
Goodwill, net of related deferred tax liability	43			
Intangible assets, other than goodwill, net of related deferred tax liability	44			
Deferred tax assets, excluding temporary differences, net of related deferred tax liabilities	45			
Investments in own shares, excluding amounts already derecognised in terms of Financial Reporting Standards	46			
Reciprocal cross holdings in common equity	47			
Shortfall of eligible provisions compared to expected loss <sup>1</sup>	48			
Cash flow hedge reserve	49			
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	50			
Defined benefit pension fund assets	51			
Securitisation gain on sale (expected future margin income)	52			
Other regulatory adjustments (please specify)	53			
<b>Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 41 less item 42)</b>	54			
Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold)	55			
<b>Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 54 less item 55)</b>	56			
Investments in the common stock of financial entities (amount above 10% threshold)	57			
Mortgage servicing rights (amount above 10% threshold)	58			
Deferred tax assets arising from temporary differences (amount above 10% threshold)	59			
<b>Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 56 less items 57 to 59)</b>	60			
Regulatory adjustments to be applied to common equity tier 1 capital and reserve funds due to insufficient additional Tier 1 capital and reserve funds to cover specified deductions	61			
<b>Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 60 less item 61)</b>	62			
Amount exceeding the 15% threshold <sup>3</sup>	63			
<b>Qualifying common equity tier 1 capital and reserve funds (item 62 less item 63)</b>	64			

1. Relates to a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk.  
 2. Refer to regulation 38(5)(a)(i).  
 3. Refer to regulation 38(5)(b).

(All amounts to be rounded off to the nearest R'000)			
Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
	1	2	3
<b>Additional Tier 1 capital and reserve funds and Total Tier 1 capital and reserve funds</b>			
65			
66			
67			
68			
69			
70			
71			
72			
73			
74			
75			
76			
77			

1. Refer to regulation 38(13)(b).

2. Sum of amounts reflected on the form BA 600 related to subsidiaries that issued relevant instruments to third parties.

3. Refer to regulation 38(5)(a)(ii).

(All amounts to be rounded off to the nearest R'000)

Tier 2 capital and reserve funds and Total capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
		1	2	3
Tier 2 capital and unimpaired reserve funds prior to adjustments and deductions (total of items 79, 81 and 83)	78			
Tier 2 capital instruments issued <sup>1</sup>	79			
of which:				
directly issued instruments subject to phase out from Tier 2 capital Instruments recognised as Tier 2 capital issued by subsidiaries to third parties <sup>2</sup>	80			
of which:				
instruments issued by subsidiaries subject to phase out	81			
Tier 2 unimpaired reserve funds	82			
of which:				
general allowance for credit impairment: standardised approach <sup>3</sup> excess amount in respect of eligible provisions: IRB approach <sup>4</sup>	83			
Total of specified adjustments to and deductions from tier 2 capital and reserve funds <sup>5</sup>	84			
Qualifying tier 2 capital and reserve funds (item 78 less item 86)	85			
Total qualifying capital and reserve funds (item 77 plus item 87)	86			
of which:				
allocated to support market risk	87			
	88			
	89			

1. Refer to regulation 38(14).
2. Sum of amounts reflected on the form BA 600 related to subsidiaries that issued relevant instruments to third parties.
3. The portion of general allowance for credit impairment which relates to exposures subject to the standardised approach for credit risk may be included in tier 2 unimpaired reserve funds up to a maximum amount of 1,25 per cent of item 47, column 12, of the form BA 200. Refer to regulation 23(22)(c).
4. The surplus amount of eligible provisions calculated in accordance with the provisions of regulation 23(22)(d) in respect of exposures subject to the IRB approach may be included in tier 2 unimpaired reserve funds up to a maximum amount of 0,6 per cent of item 156, column 10, of the form BA 200.
5. Refer to regulation 38(5)(a)(iii).

(All amounts to be rounded off to the nearest R'000)

<i>Memorandum items: Reconciliation in respect of unappropriated profits</i>	Line no.	Current	Previous
		reporting period	reporting period
		1	2
Balance in respect of unappropriated profits	90		
Movements during the period in respect of:			
Current profits/ (loss) after tax	91		
Payment of dividends	92		
Transfers from appropriated profits	93		
Transfers to appropriated profits	94		
Transfers (to) / from reserves not qualifying as common equity tier 1 capital	95		
Balance in respect of unappropriated profits (total of items 90, 91 and 93, less item 92, plus 95 when credit/ minus 95 when debit)	96		

<i>Memorandum item: Capital adequacy adjusted for unappropriated profits</i>	Line no.	Capital adequacy ratio: percentages		
		Common Equity Tier 1	Tier 1	Total
		1	2	3
Capital adequacy ratio, including unappropriated profits	97			

(All amounts to be rounded off to the nearest R'000)

Reconciliation between qualifying capital and reserve funds and accounting equity and reserves	Line no.	Balance sheet amount <sup>1</sup>	Amounts included under regulatory scope of consolidation	Amounts included for regulatory purposes
			1	2
Share capital and premium	98			
Retained earnings	99			
Other reserve funds (total of items 101 to 107)	100			
unrealised gains and losses on available for sale items	101			
gains and losses on derivatives held as cash flow hedges	102			
gains and losses resulting from converting foreign currency subsidiaries to the parent currency	103			
actuarial reserve	104			
unrealised gains and losses from a foreign currency hedge of a net investment in a foreign operation	105			
property revaluation reserve	106			
other reserves	107			
Minority interests	108			
Regulatory adjustments: (total of items 110 to 122)	109			
Goodwill	110			
Intangible assets other than goodwill	111			
Mortgage servicing rights	112			
Deferred tax assets	113			
Investments in own shares, excluding amounts already derecognised in terms of Financial Reporting Standards)	114			
Reciprocal cross holdings in common equity	115			
Shortfall of provisions to expected losses	116			
Cash flow hedge reserve	117			
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	118			
Defined benefit pension fund assets	119			
Securitisation gain on sale (expected future margin income)	120			
Investments in financial entities	121			
Other	122			
<b>Qualifying common equity tier 1 capital and reserve funds</b>	123			
Additional Tier 1 instruments	124			
Minority interests	125			
Regulatory adjustments	126			
<b>Qualifying tier 1 capital and reserve funds</b>	127			
Tier 2 instruments	128			
Minority interests	129			
General allowance for credit impairments	130			
Regulatory adjustments	131			
<b>Total</b>	132			

1. Determined in accordance with relevant Financial Reporting Standards and reported in the bank or controlling company's audited financial statements.

(All amounts to be rounded off to the nearest R'000)

Information related to specified regulatory adjustments and deductions	Line no.	Current reporting period
		1
<b>Goodwill:</b>		
Total gross value of goodwill	133	
Associated deferred tax liability which would be extinguished if the goodwill becomes impaired or derecognised in terms of relevant Financial Reporting Standards	134	
<b>Goodwill net of related tax liability</b> (amount to be deducted from common equity tier 1 capital and reserve funds) (item 133 less item 134)	135	
<b>Intangible assets other than goodwill and mortgage servicing rights:</b>		
Total gross value of all relevant intangible assets	136	
Associated deferred tax liability which would be extinguished if the relevant intangible assets becomes impaired or derecognised in terms of relevant Financial Reporting Standards	137	
<b>Relevant intangible assets net of related tax liability</b> (amount to be deducted from common equity tier 1 capital and reserve funds) (item 136 less item 137)	138	
<b>Deferred tax assets which do not rely on the future profitability of the bank to be realised</b>		
Total gross amount	139	
Total net amount	140	
<b>Deferred tax assets which do rely on the future profitability of the bank to be realised</b>		
Total gross amount	141	
Total net amount	142	
of which:		
amounts arising from carry forwards of unused tax losses, unused tax credits and all other relevant amounts, net of the pro rata share of any deferred tax liabilities	143	
amounts arising from temporary differences, net of the pro rata share of any deferred tax liabilities	144	
<b>Deferred tax asset amount to be deducted in full from common equity tier 1 capital and reserve funds</b>		
<b>Deferred tax asset amount subject to the threshold deduction treatment</b>		
<b>Investments in own shares and instruments qualifying as capital</b>		
Total amount to be deducted from common equity tier 1 capital and reserve funds (total of items 148 to 150)	145	
Direct investments in own shares, net of any relevant short positions that involve no counterparty risk	146	
Indirect investments in own shares, such as holding of relevant index securities, net of any relevant short positions	147	
Total potential purchase cost of own shares which the group could be contractually obliged to purchase	148	
<b>Total amount to be deducted from Additional Tier 1 capital and reserve funds</b> (total of items 152 to 154)	149	
Direct investments in own Additional Tier 1 capital instruments, net of any relevant short positions that involve no counterparty risk	150	
Indirect investments in own Additional Tier 1 capital instruments, such as holding of relevant index securities, net of any relevant short positions	151	
Total potential purchase cost of own Additional Tier 1 capital which the group could be contractually obliged to purchase	152	
<b>Total amount to be deducted from Tier 2 capital and reserve funds</b> (total of items 156 to 158)	153	
Direct investments in own Tier 2 capital instruments, net of any relevant short positions that involve no counterparty risk	154	
Indirect investments in own Tier 2 capital instruments, such as holding of relevant index securities, net of any relevant short positions	155	
Total potential purchase cost of own Tier 2 capital which the group could be contractually obliged to purchase	156	
	157	
	158	

(All amounts to be rounded off to the nearest R'000)

Information related to specified regulatory adjustments and deductions	Line no.	Current reporting period
		1
<b>Reciprocal cross holdings in respect of:</b>		
Common equity tier 1 capital instruments, that is, amount to be deducted from Common equity tier 1 capital	159	
Additional Tier 1 capital instruments, that is, amount to be deducted from Additional Tier 1 capital	160	
Tier 2 capital instruments, that is, amount to be deducted from Tier 2 capital	161	
<b>Provisions and expected loss</b>		
<b>IRB approach</b>		
Gross amount of eligible provisions	162	
Total eligible expected loss	163	
<b>Shortfall of eligible provisions to expected losses to be deducted from common equity tier 1 capital and reserve funds (item 163 less item 162)</b>	164	
<b>Cash flow hedge reserve</b>		
Total positive or negative value of the cash flow hedge reserve as stated on the balance sheet of which:	165	
positive or negative amount that relates to the hedging of projected cash flows that are not recognised on the balance sheet (if gain report as positive; if loss report as negative)	166	
positive or negative amount that relates to the hedging of projected cash flows on assets that are recognised on the balance sheet but are not fair valued on the balance sheet, such as loans and receivable (if gain report as positive; if loss report as negative)	167	
positive or negative amount that relates to the hedging of projected cash flows on liabilities that are recognised on the balance sheet but are not fair valued on the balance sheet (if gain report as positive; if loss report as negative)	168	
other items, including those related to projected cash flows on assets and liabilities which are recognised on the balance sheet and are fair valued (if gain report as positive; if loss report as negative)	169	
<b>Amount to be deducted from (or added to if negative) common equity tier 1 capital and reserve funds (total of items 166 to 168)</b>	170	
<b>Cumulative gains and losses due to changes in own credit risk on fair valued liabilities</b>		
<b>Total cumulative net gains and (losses) in equity due to changes in the fair value of liabilities that are due to a change in the bank's own credit risk.</b> Amount to be deducted from (or added to if negative) common equity tier 1 capital and reserve funds (if gain report as positive; if loss report as negative)	171	
of which:		
total cumulative net gains and (losses) in equity due to changes in the fair value of derivatives that are due to a change in the bank's own credit risk. Amount to be deducted from (or added to if negative) common equity tier 1 capital and reserve funds (if gain report as positive; if loss report as negative)	172	
Total derivative debit valuation adjustments	173	
<b>Defined benefit pension fund assets</b>		
For every separate defined benefit pension scheme which gives rise to a net asset on the balance sheet, the total of such net assets less any associated deferred tax liability that would be extinguished if the asset should be impaired	174	
Amount by which the above deduction from capital and reserve funds can be reduced by demonstrating unrestricted and unfettered access to assets in the relevant funds	175	
Amount to be included in risk-weighted assets in respect of the amounts used above to offset the deduction of pension fund assets	176	
<b>Total amount to be deducted from common equity tier 1 capital and reserve funds</b>	177	

(All amounts to be rounded off to the nearest R'000)

Information related to specified regulatory adjustments and deductions	Line no.	Current reporting period
	1	
<b>Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital</b>		
Gross holdings of common stock	178	
Permitted offsetting short positions in relation to the specific gross holdings included above	179	
<b>Holdings of common stock net of short positions</b>	180	
Gross holdings of Additional Tier 1 capital	181	
Permitted offsetting short positions in relation to the specific gross holdings included above	182	
<b>Holdings of Additional Tier 1 capital net of short positions</b>	183	
Gross holdings of Tier 2 capital	184	
Permitted offsetting short positions in relation to the specific gross holdings included above	185	
<b>Holdings of Tier 2 capital net of short positions</b>	186	
<b>Sum of all net holdings where the bank does not own more than 10% of the issued share capital (total of items 180, 183 and 186)</b>	187	
Common Equity Tier 1 capital after all regulatory adjustments that do not depend on a threshold	188	
<b>Amount by which the sum of all holdings exceeds 10% of the common equity tier 1 capital and reserve funds, after all deductions that do not depend on a threshold, that is, the amount to be deducted from capital and reserve funds</b>	189	
Allocation of the deduction to:		
common equity tier 1 capital and reserve funds	190	
tier 1 capital and reserve funds	191	
total capital and reserve funds	192	
Amounts not deducted but subject to relevant risk weighting (amounts below allocated on a pro rata basis)		
<b>Holdings of-</b>		
common stock net of short positions (item 180 less item 190)	193	
additional Tier 1 capital net of short positions (item 183 less item 191)	194	
Tier 2 capital net of short positions (item 186 less item 192)	195	
Total risk weighted assets of amounts not deducted set out in items 193 to 195)		
of which: amounts that relate to holdings of-		
common stock net of short positions, that is, risk weighted assets of exposures in line item 193)	196	
additional Tier 1 capital net of short positions, that is, risk weighted assets of exposures in line item 194)	197	
Tier 2 capital net of short positions, that is, risk weighted assets of exposures in line item 195)	198	
<b>Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank owns more than 10% of the issued common share capital or where the entity is an affiliate</b>		
Gross holdings of common stock	199	
Permitted offsetting short positions in relation to the specific gross holdings included above	200	
<b>Holdings of common stock net of short positions</b>	201	
Gross holdings of Additional Tier 1 capital	202	
Permitted offsetting short positions in relation to the specific gross holdings included above	203	
<b>Holdings of Additional Tier 1 capital net of short positions</b>	204	
Gross holdings of Tier 2 capital	205	
Permitted offsetting short positions in relation to the specific gross holdings included above	206	
<b>Holdings of Tier 2 capital net of short positions</b>	207	
Common equity tier 1 after all regulatory adjustments except significant investments in financials, mortgage servicing rights and deferred tax asset temporary difference	208	
<b>Amount to be deducted from common equity tier 1 capital and reserve funds as a result of application of 10% cap</b>	209	
<b>Amount to be deducted from Tier 1 capital and reserve funds</b>	210	
<b>Amount to be deducted from Tier 2 capital and reserve funds</b>	211	

(All amounts to be rounded off to the nearest R'000)

Information related to specified regulatory adjustments and deductions	Line no.	Current reporting period
		1
<b>Mortgage servicing rights</b>		
Total amount of mortgage servicing rights classified as intangible assets	212	
Associated deferred tax liability which would be extinguished if the intangible asset becomes impaired or derecognised in terms of relevant Financial Reporting Standards	213	
<b>Mortgage servicing rights net of related tax liability</b> (item 212 less item 213)	214	
Common Equity Tier 1 capital and reserve funds after all regulatory adjustments except significant investments in financials, mortgage servicing rights and deferred tax asset temporary difference	215	
<b>Amount to be deducted from Common Equity Tier 1 capital and reserve funds as a result of application of 10% cap</b>	216	
<b>Deferred tax assets due to temporary differences</b>		
Net amount of deferred tax assets due to temporary differences	217	
Common Equity Tier 1 capital and reserve funds after all regulatory adjustments except significant investments in financials and deferred tax asset temporary differences	218	
<b>Amount to be deducted from Common Equity Tier 1 capital and reserve funds as a result of application of 10% cap</b>	219	
<b>Aggregate amount of items subject to the 15% limit in respect of significant investments in financial institutions, mortgage servicing rights and deferred tax assets that arise from temporary differences</b>		
Significant investments in the common equity of financial entities not deducted as part of the 10% cap	220	
Mortgage servicing rights not deducted as part of the 10% cap	221	
Deferred tax assets due to temporary differences not deducted as part of the 10% cap	222	
<b>Sum of significant investments in financials, mortgage servicing rights and deferred tax asset temporary differences not deducted as a result of the 10% cap</b>	223	
<b>Deduction from Common Equity Tier 1 capital and reserve funds in respect of amounts above the 15% cap</b>	224	
<b>Amounts not deducted but risk weighted at 250%</b>		
Significant investments in the common equity of financial entities	225	
Mortgage servicing rights	226	
Deferred tax assets due to temporary differences	227	
<b>Total (of items 225 to 227)</b>	228	
<b>Items subject to risk weight of 1250%</b>		
Significant investments in commercial entities	229	

(All amounts to be rounded off to the nearest R'000)

Information related to specified regulatory adjustments and deductions	Line no.	Common Equity Tier 1	Additional Tier 1	Tier 2
		1	2	3
<b>Other deductions</b>				
Capital requirement in respect of foreign branches	230			
Accumulated losses	231			
Instruments in respect of which no value was received	232			
Financial assistance provided to persons acquiring qualifying instruments	233			
Qualifying instruments held in banks or other regulated institutions <sup>1</sup>	234			
Acknowledgement of debt issued to fund qualifying instruments	235			
Other regulatory adjustments <sup>2</sup> (please specify)	236			
<b>Total (of items 230 to 236)</b>	237			

1. Operation in the Republic, unconsolidated submission only.

2. To the extent not already deducted elsewhere.

(All amounts to be rounded off to the nearest R'000)

Information related to phase out of capital instruments	Line no.	Additional Tier 1 instruments issued by parent	Tier 2 instruments issued by the parent	Additional Tier 1 instruments issued by subsidiaries	Tier 2 instruments issued by subsidiaries
		1	2	3	4
Instruments subjected to phase out Base amount of instruments, after applying the specified limit that is in place during the current year Value of instruments included in qualifying capital, in the current period	238				
	239				
	240				

(All amounts to be rounded off to the nearest R'000)

Information related to capital distribution and income for the rolling six-month period ending at the reporting date	Line no.	For the six months ending at the current reporting date	1
			1
<b>Income</b>			
Profit after tax	241		
Profit after tax prior to the relevant distributions specified below	242		
<b>Distributions for the rolling six-month period ending at the reporting date (total of items 244 to 249)</b>	243		
Common share dividends	244		
Other coupon/dividend payments on Tier 1 instruments	245		
Common stock share buybacks	246		
Other Tier 1 buyback or repayment (gross)	247		
Discretionary staff compensation/bonuses	248		
Other (please specify)	249		
<b>Specified distributions as percentage of income before distributions</b>	250		

(All amounts to be rounded off to the nearest R'000)

Capital conservation <sup>1</sup>	Line no.	Common equity Tier 1	Tier 1	Total capital
		1	2	3
Minimum required capital adequacy ratio (before the conservation buffer requirement and the countercyclical buffer requirement)	251			
1 st Quartile (100% conservation)	252			
2 nd Quartile (80% conservation)	253			
3 rd Quartile (60% conservation)	254			
4 th Quartile (40% conservation)	255			
Actual capital adequacy ratio	256			
Percentage capital conservation to be applied in terms of the relevant requirements specified in regulations 38(8)(f) and (g)	257			
Maximum percentage distribution <sup>2</sup>	258			Total
Adherence to capital conservation requirement <sup>3</sup>	259			1

<sup>1</sup>. Refer to regulation 38(8)(f).<sup>2</sup>. Based on the inverse of the maximum percentage reported in item 257, columns 1 to 3.<sup>3</sup>. Report "y" if item 258 exceeds item 250, or "n" if item 258 does not exceed item 250.

(All amounts to be rounded off to the nearest R'000)

Leverage	Line no.	Current reporting period
		1
<b>Total exposure for the calculation of the leverage ratio</b> (total of items 261 to 263)	260	
Total exposures (total of items 264 to 266 and 267 to 269)	261	
Regulatory adjustments	262	
Total additional assets to be included <sup>1</sup>	263	
<b>On-balance sheet items<sup>2</sup></b>		
Other assets <sup>3</sup>	264	
Securities financing transactions <sup>4</sup>	265	
Derivatives <sup>4</sup>	266	
<b>Derivatives and off-balance sheet items</b>		
Derivatives <sup>5</sup>	267	
Off-balance sheet items with a > 10% CCF in the Republic <sup>6</sup>	268	
Off-balance sheet items with a 10% CCF in the Republic <sup>6</sup>	269	
<b>Hash total</b>	270	

1. Refer to regulation 38(17)(b)(iii)(B).
2. Amounts should be net of specific provisions and valuations adjustments.
3. Based on gross value (assume no netting or CRM).
4. Based on the relevant value determined in terms of the requirements specified in these Regulations, including any relevant requirement related to netting.
5. Based on the potential future exposure calculated in terms of the current exposure method specified in these Regulations, including any relevant requirement related to netting.
6. Based on the relevant notional amount.

**38. Capital adequacy and leverage - Directives and interpretations for completion of monthly return concerning capital adequacy and leverage (Form BA 700)**

(1) The content of the relevant return is confidential and not available for inspection by the public.

(2) For the measurement of a bank's aggregate risk-weighted exposure as contemplated in section 70(2), 70(2A) or 70(2B) of the Act, the bank-

(a) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to credit risk:

(i) The standardised approach, using one of the alternative frameworks prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6) to 23(9);

(ii) Subject to the prior written approval of the Registrar and such conditions as may be specified in writing by the Registrar, the IRB approach, using one of the alternative frameworks prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) to 23(14);

(iii) Subject to the prior written approval of the Registrar and such conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) and (ii) above.

(b) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to counterparty credit risk:

(i) the current exposure method specified in regulation 23(17);

(ii) the standardised method specified in regulation 23(18);

(iii) subject to the prior written approval of and such further conditions as may be specified in writing by the Registrar the internal model method specified in regulation 23(19);

(iv) subject to the relevant requirements specified in regulation 23(15) and the prior written approval of and such conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) to (iii) above;

- (c) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to market risk:
  - (i) The standardised approach prescribed in regulation 28(7);
  - (ii) Subject to the fulfilment of certain quantitative and qualitative requirements, the prior written approval of the Registrar and such further conditions as may be specified in writing by the Registrar, the internal model approach prescribed in regulation 28(8); or
  - (iii) Subject to the prior written approval of the Registrar and such further conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) and (ii) above.
- (d) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to operational risk:
  - (i) The basic indicator approach prescribed in regulation 33(7);
  - (ii) Subject to the prior written approval of the Registrar and such conditions as may be determined by the Registrar, the standardised or alternative standardised approach prescribed in regulation 33(8);
  - (iii) Subject to the prior written approval of the Registrar and such conditions as may be determined by the Registrar, the advanced measurement approach prescribed in regulation 33(9);
  - (iv) Subject to the prior written approval of the Registrar and such further conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) to (iii) above.
- (e) shall, based on-
  - (i) the approach adopted by the bank for the measurement of the bank's exposure to credit risk, as envisaged in paragraph (a) above;
  - (ii) such conditions as may be specified in writing by the Registrar,use one of the alternative approaches specified below to determine the bank's exposure in respect of securitisation schemes:
  - (A) the standardised approach prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6)(h) and 23(8)(h) respectively;
  - (B) the IRB approach prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) and 23(13) respectively.

(3) For purposes of calculating-

- (a) the minimum aggregate amount of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to risks other than market risk, and that a bank is required to maintain, based on such conditions as may be specified in writing by the Registrar from time to time, the bank-
  - (i) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14), risk weight such average daily balance or month-end balance of assets as may be specified in the respective returns or in writing by the Registrar;
  - (ii) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14), risk weight such average daily balance or month-end balance of off-balance sheet items as may be specified in the respective returns or in writing by the Registrar;
  - (iii) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(19), risk weight such average amount or month-end balance of the bank's exposure in respect of unsettled transactions held in the bank's banking book as may be specified in the respective returns or in writing by the Registrar;
  - (iv) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14) and regulations 24(6) to 24(8), risk weight such average amount or month-end balance of the bank's large exposures or concentration risk as may be specified in the respective returns or in writing by the Registrar;
- (b) the minimum aggregate amount of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to market risk, that a bank is required to maintain, the bank shall in accordance with the relevant requirements specified in regulation 28 risk weight all relevant daily positions held in the bank's trading book and all relevant positions held in the bank's banking book.

- (4) When the Registrar is of the opinion that a bank's-
- (a) calculated aggregate risk exposure does not sufficiently reflect:
    - (i) the bank's actual risk profile;
    - (ii) the factors external to the bank, such as the effect of business cycles;
    - (iii) the risk relating to a particular type of exposure such as credit risk, market risk or operational risk;
    - (iv) the risk relating to a group of exposures such as corporate exposure or retail exposure,
  - (b) qualifying capital and reserve funds are likely to be overstated due to, for example, reserves that are subject to material volatility as a result of short-term fair value gains or adjustment;
  - (c) policies, processes and procedures relating to its risk assessment are inadequate;
  - (d) policies, processes and procedures relating to compensation or remuneration are inadequate;

For example, when the bank's compensation or remuneration policies, processes and procedures, particularly in respect of bonus or other discretionary payments, do not duly incorporate all relevant material types of risk, or when bonus or other discretionary payments are finalised over short periods without adequate regard for related material risk exposure carried by the bank over a longer period.

- (e) internal control systems are inadequate;

the Registrar, among other things, may require the said bank-

- (i) to maintain additional capital, calculated in such a manner and subject to such conditions as may be specified in writing by the Registrar;
- (ii) to deduct from its qualifying capital and reserve funds such amount calculated in such a manner and subject to such conditions as may be specified in writing by the Registrar;
- (iii) to strengthen the bank's risk management policies, processes or procedures;
- (iv) to duly align the bank's compensation or remuneration policies, processes or procedures with the bank's relevant exposure to risk;

(v) to strengthen the bank's internal control systems.

*(5) Matters related to adjustments to or deductions from capital and reserve funds*

- (a) Subject to the provisions of paragraph (b), based on the relevant requirements specified in sections 70 and 70A of the Act, a bank or controlling company shall deduct-
- (i) from its common equity tier 1 capital and reserve funds-
- (A) the relevant amount, net of any associated deferred tax liability which would be extinguished if the relevant intangible asset becomes impaired or is derecognised in terms of the relevant requirements specified in Financial Reporting Standards issued from time to time, related to goodwill, including any goodwill included in the valuation of significant investments in the capital of banks, financial entities or insurance entities that fall outside the scope of consolidation in terms of the provisions of these Regulations;
- (B) the relevant amount related to intangible assets other than goodwill, excluding any relevant amount related to mortgage servicing rights, net of any associated deferred tax liability which would be extinguished if the relevant intangible asset becomes impaired or is derecognised in terms of the relevant requirements specified in Financial Reporting Standards issued from time to time;
- (C) the relevant amount related to deferred tax assets that rely on future profitability of the bank to be realised, provided that-
- (i) the bank shall distinguish between the component of deferred tax assets that relates to temporary differences, such as an allowance for credit losses, and other deferred tax assets;
- (ii) deferred tax assets that relate to temporary differences shall be treated in accordance with the relevant requirements specified in paragraph (b) below;
- (iii) a deferred tax asset may be netted against an associated deferred tax liability only if the said asset and liability relate to taxes levied by the same taxation authority and offsetting is explicitly permitted by that relevant taxation authority, provided that the said deferred tax liabilities that may be netted against the relevant amount of deferred tax assets shall exclude any amount that has been netted against the deduction of goodwill, intangible assets other than goodwill and defined benefit pension assets;

- (iv) the bank shall, on a pro-rata basis, allocate deferred tax liabilities between deferred tax assets subject to the threshold deduction treatment specified in paragraph (b) below, and deferred tax assets to be deducted in full from capital and reserve funds;
  - (v) any relevant amount related to current year tax losses that gives rise to a claim or receivable amount from the government or local tax authority, typically classified as a current tax assets, shall be assigned the relevant sovereign risk weight;
- (D) any relevant positive amount related to a cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet, including any relevant amount related to projected cash flows, provided that any relevant negative amount related to a cash flow hedge reserve shall also be derecognised, that is, added back to common equity tier 1 capital;
- (E) the gross amount by which the aggregate amount of expected loss of a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk, calculated in accordance with the relevant requirements specified in regulation 23(21) of these Regulations, exceeds the bank's eligible provisions, which gross amount shall not be reduced by any tax effects that may occur if provisions were to rise to the level of expected losses;
- (F) any relevant increase in equity capital or common equity tier 1 capital resulting from a securitisation or resecuritisation transaction, such as an increase associated with expected future margin income resulting in a gain-on-sale;
- (G) any unrealised gain resulting from changes in the fair value of liabilities due to changes in the bank or controlling company's own credit risk, provided that-
- (i) the bank or controlling company shall also derecognise from its common equity tier 1 capital and reserve funds any relevant amount related to any unrealised loss due to changes in the bank or controlling company's own credit risk;
  - (ii) with regard to any relevant derivative liability, the bank or controlling company shall derecognise all relevant accounting valuation adjustments arising from the bank or controlling company's own credit risk;

- (iii) the bank or controlling company shall in no case apply any netting or offsetting between valuation adjustments arising from the bank or controlling company's own credit risk and those arising from its counterparties' credit risk;
- (H) any relevant amount related to a defined benefit pension fund constituting an asset on the balance sheet, net of any associated deferred tax liability which would be extinguished if the asset should become impaired or derecognised in terms of the relevant requirements specified in Financial Reporting Standards, provided that-
- (i) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, assets in the said fund to which the bank has unrestricted and unfettered access may offset the relevant deduction;
  - (ii) offsetting assets as envisaged in sub-item (i) above shall be assigned the risk weight that would have applied were the assets owned directly by the bank; and
  - (iii) any amount related to a defined benefit pension fund liability, as included on the balance sheet, shall be fully recognised in the calculation of the bank's net asset value, including in particular in the calculation of the bank's common equity tier 1 capital, that is, common equity tier 1 capital shall not be increased through the derecognition of any defined benefit pension fund liability;
- (I) the relevant amount related to any direct or indirect investment in or direct or indirect funding provided for direct or indirect investment in the bank or controlling company's own shares or instruments qualifying as common equity tier 1 capital, provided that-
- (i) any relevant gross long position may be deducted net of any relevant short position in the same underlying exposure only if the relevant short position involves no counterparty risk;
  - (ii) the bank shall look through holdings of index securities to deduct any relevant exposure to own shares or instruments qualifying as common equity tier 1 capital, provided that any gross long position in own shares resulting from holdings of index securities may be netted against short positions in own shares resulting from short positions in the same underlying index, even when the short positions may involve counterparty risk, which counterparty risk shall be subject to the relevant requirement for counterparty credit risk;

- (J) the relevant amount related to any investment in, or reciprocal cross holding of, instruments or shares qualifying as capital of any other bank, controlling company, other financial entity or insurance entity, provided that the reporting bank or controlling company shall apply a corresponding deduction approach, that is, deductions shall be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself;
- (K) the higher amount of any capital requirement imposed by either the home country or host country supervisor in respect of any foreign branch of the bank, provided that-
  - (i) this deduction shall not apply when the assets and liabilities of a foreign branch of a bank are combined with the assets and liabilities of the locally incorporated parent bank in order to calculate a consolidated required amount of capital and reserve funds in respect of the said consolidated bank and branch of a bank;
  - (ii) when the host supervisor imposes a minimum capital requirement in respect of the said foreign branch notwithstanding the consolidation of the assets and liabilities of the said branch with the assets and liabilities of the said parent bank, the amount to be deducted shall be equal to any shortfall in the amount of capital held by the said branch in respect of the said host capital requirement;
- (L) the relevant net positive amount, that is, the gross long position net of any relevant short position in the same underlying instrument where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year, determined in terms of the provisions of this item (L), related to any direct or indirect investment, including any relevant synthetic investment, in instruments qualifying as capital of any bank, financial or insurance entity that falls outside the scope of consolidation in terms of the provisions of these Regulations, and where the reporting bank or controlling company does not own more than 10 per cent of the issued common share capital of that entity, irrespective whether the relevant investment is held in the banking book or trading book, provided that-

- (i) in order to determine the appropriate amount to be deducted a bank or controlling company shall look through holdings of index securities to determine the actual underlying holdings of capital in the relevant entity, provided that when a bank or controlling company finds it operationally burdensome to look through and monitor their exact exposure to the capital of other financial institutions as a result of their holdings of index securities, the bank or controlling company may obtain the prior written approval of the Registrar to use a conservative estimate, which estimate shall be well founded and duly motivated by the relevant applicant;
- (ii) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a bank or controlling company may exclude from this deduction investments made to resolve or provide financial assistance to reorganise a distressed institution;
- (iii) for purposes of determining the relevant deduction in terms of the provisions of this item (L), any investment in a qualifying capital instrument that does not meet the criteria for or is not equivalent to common equity tier 1 capital or additional tier 1 capital or tier 2 capital shall be deemed to constitute common equity or common equity tier 1 capital;
- (iv) when the aggregate amount of investments envisaged in this item (L) exceeds 10 per cent of the bank or controlling company's common equity tier 1 capital after applying all other relevant regulatory adjustments or deductions prior to this deduction, the amount in excess of 10 per cent shall be the amount to be deducted, applying a corresponding deduction approach, that is, the deduction shall be made against the same component of capital for which the capital would qualify if it was issued by the bank itself.

Accordingly, the amount to be deducted from common equity tier 1 capital shall be the total of all holdings which in aggregate exceed 10 per cent of the relevant bank or controlling company's common equity tier 1 capital multiplied by the common equity holdings or common equity tier 1 capital as a percentage of the total capital holdings, that is, the relevant portion of total capital holdings held in common equity or common equity tier 1 capital.

- (v) when a bank or controlling company is required to make a deduction from a particular category of capital under the corresponding deduction approach and it does not have sufficient capital in that category to allow that deduction, the shortfall shall be deducted from the next higher category of capital, that is, when a bank, for example, does not have sufficient additional tier 1 capital to allow the relevant deduction, the shortfall shall be deducted from its common equity tier 1 capital;
  - (vi) any relevant amount below the relevant specified threshold, which is not required to be deducted, shall be appropriately risk weighted, that is, instruments held in the trading book shall be treated in accordance with the relevant requirements specified in these Regulations for market risk, and instruments held in the banking book shall be treated in accordance with the relevant requirements specified in these Regulations for the internal ratings-based or standardised approach, provided that for the application of risk weights, the amount of the relevant holdings shall be allocated on a pro-rata basis between those below and those above the relevant specified threshold;
- (M) the relevant net positive amount, that is, the gross long position net of any relevant short position in the same underlying instrument where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year, determined in terms of the provisions of this item (M), related to any direct or indirect investment, including any relevant synthetic investment, in instruments qualifying as capital of a bank, financial or insurance entity that falls outside the scope of consolidation in terms of the provisions of these Regulations where the bank or controlling company owns more than 10 per cent of the issued common share capital of the issuing entity or where the entity is an affiliate or associate of the bank or controlling company, irrespective whether the relevant investment is held in the banking book or trading book, provided that-
- (i) in order to determine the appropriate amount to be deducted a bank or controlling company shall look through holdings of index securities to determine the actual underlying holdings of capital in the relevant entity, provided that when a bank or controlling company finds it operationally burdensome to look through and monitor their exact exposure to the capital of other financial institutions as a result of their holdings of index securities, the bank or controlling company may obtain the prior written approval of the Registrar to use a conservative estimate, which estimate shall be well founded and duly motivated by the relevant applicant;
  - (ii) subject to the prior written approval of and such conditions as

- may be specified in writing by the Registrar a bank or controlling company may exclude from this deduction investments made to resolve or provide financial assistance to reorganise a distressed institution;
- (iii) for purposes of determining the relevant deduction in terms of the provisions of this item (M), any investment in a qualifying capital instrument that does not meet the criteria for or is not equivalent to common equity tier 1 capital or additional tier 1 capital or tier 2 capital shall be deemed to constitute common equity or common equity tier 1 capital;
  - (iv) the relevant deduction shall be the aggregate amount of all relevant investments in instruments other than common shares or instruments qualifying as common equity tier 1 capital, following a corresponding deduction approach, that is, the deduction shall be made against the same category of capital for which the capital would qualify if it was issued by the bank itself, provided that, instead of a full deduction, specified investments in common shares or instruments qualifying as common equity tier 1 capital shall be treated in accordance with the relevant requirements specified in paragraph (b) below;
  - (v) when a bank or controlling company is required to make a deduction from a particular category of capital under the corresponding deduction approach and it does not have sufficient capital in that category to allow that deduction, the shortfall shall be deducted from the next higher category of capital, that is, when a bank, for example, does not have sufficient additional tier 1 capital to allow the relevant deduction, the shortfall shall be deducted from common equity tier 1 capital;
- (N) the value of assets lodged or pledged to secure liabilities incurred under any other law when the effect of such lodging or pledging is that such assets are not available for the purpose of meeting the liabilities of the bank in terms of the Banks Act, 1990, provided that, subject to such conditions and treatment as may be specified in writing by the Registrar, the Registrar may determine cases in which the value of assets lodged or pledged to secure liabilities of the bank do not constitute a deduction against the common equity tier 1 capital and reserve funds of the said bank;

- (O) the net present value of acknowledgements of debt outstanding issued to directly or indirectly fund instruments that rank as qualifying common equity tier 1 capital, which net present value shall be deducted from the issuer's common equity tier 1 capital, unless such acknowledgements of debt are subordinated in a manner similar to the instruments that rank as qualifying common equity tier 1 capital;
  - (P) any instrument or share that qualifies as common equity tier 1 capital of the reporting bank and for which the reporting bank has received no value;
  - (Q) accumulated losses;
- (ii) from its additional tier 1 capital and reserve funds-
- (A) the relevant amount related to any direct or indirect investment in or direct or indirect funding provided for direct or indirect investment in the bank or controlling company's own shares or instruments qualifying as additional tier 1 capital, provided that-
    - (i) any gross long position may be deducted net of any relevant short positions in the same underlying exposure only if the relevant short positions involve no counterparty risk;
    - (ii) the bank shall look through holdings of index securities to deduct any relevant exposure to own shares or instruments qualifying as additional tier 1 capital, provided that any gross long position in own shares resulting from holdings of index securities may be netted against short position in own shares resulting from short positions in the same underlying index, even when the short positions may involve counterparty risk, which shall be subject to the relevant requirement for counterparty credit risk;
  - (B) the relevant amount related to any investment in or reciprocal cross holding of instruments or shares qualifying as capital of any other bank, controlling company, other financial entity or insurance entity, provided that the reporting bank or controlling company shall apply a corresponding deduction approach, that is, deductions shall be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself;

- (C) the relevant amount, based on the requirements specified in paragraph (a)(i)(L) above, that is, the provisions of paragraph (a)(i)(L) above, insofar as they relate to the relevant portion of additional tier 1 capital, shall *mutatis mutandis* apply to the deduction to be made against additional tier 1 capital, provided that the amount to be deducted from additional tier 1 capital shall be calculated as the total of all holdings which in aggregate exceed 10 per cent of the relevant bank or controlling company's common equity or common equity tier 1 capital multiplied by the additional tier 1 capital holdings as a percentage of the total capital holdings;
  - (D) the relevant amount, based on the requirements specified in paragraph (a)(i)(M) above, that is, the provisions of paragraph (a)(i)(M) above, insofar as they relate to the relevant portion of additional tier 1 capital, shall *mutatis mutandis* apply to the deduction to be made against additional tier 1 capital;
  - (E) any instrument or share that qualifies as additional tier 1 capital of the reporting bank and for which the reporting bank has received no value;
- (iii) from its tier 2 capital and reserve funds-
- (A) the relevant amount related to any direct or indirect investment in or direct or indirect funding provided for direct or indirect investment in the bank or controlling company's own shares or instruments qualifying as tier 2 capital, provided that-
    - (i) any gross long position may be deducted net of any relevant short positions in the same underlying exposure only if the relevant short positions involve no counterparty risk;
    - (ii) the bank shall look through holdings of index securities to deduct any relevant exposure to own shares or instruments qualifying as tier 2 capital, provided that any gross long position in own shares or instruments resulting from holdings of index securities may be netted against short position in own shares or instruments resulting from short positions in the same underlying index, even when the short positions may involve counterparty risk, which shall be subject to the relevant requirement for counterparty credit risk;
  - (B) the relevant amount related to any investment in or reciprocal cross holding of instruments or shares qualifying as capital of any other bank, controlling company, other financial entity or insurance entity, provided that the reporting bank or controlling company shall apply a corresponding deduction approach, that is, deductions shall be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself;

- (C) the relevant amount, based on the requirements specified in paragraph (a)(i)(L) above, that is, the provisions of paragraph (a)(i)(L) above, insofar as they relate to the relevant portion of tier 2 capital, shall *mutatis mutandis* apply to the deduction to be made against tier 2 capital, provided that the amount to be deducted from tier 2 capital shall be calculated as the total of all holdings which in aggregate exceed 10 per cent of the relevant bank or controlling company's common equity or common equity tier 1 capital multiplied by the tier 2 capital holdings as a percentage of the total capital holdings;
  - (D) the relevant amount, based on the requirements specified in paragraph (a)(i)(M) above, that is, the provisions of paragraph (a)(i)(M) above, insofar as they relate to the relevant portion of tier 2 capital, shall *mutatis mutandis* apply to the deduction to be made against tier 2 capital.
  - (E) any instrument or share that qualifies as tier 2 capital of the reporting bank and for which the reporting bank has received no value, excluding instruments or shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of assets, as may be prescribed in these Regulations;
- (b) Subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, instead of a full deduction as envisaged in paragraph (a) above, the items specified below shall each receive limited recognition when a bank or controlling company calculates its common equity tier 1 capital and reserve funds, with recognition being capped at 10 per cent of the bank or controlling company's common equity or common equity tier 1 capital and reserve funds after the application of all specified adjustments and/ or deductions set out in paragraph (a) above:
- (i) Significant investments in the common shares or common equity tier 1 capital of unconsolidated financial institutions such as banks, insurance and other financial entities envisaged in paragraph (a)(i)(M) above.
  - (ii) Any relevant amount related to mortgage servicing rights (MSRs).
  - (iii) Any relevant amount related to deferred tax assets that arise from temporary differences.

Provided that-

- (A) as from 1 January 2013, a bank shall deduct from its common equity tier 1 capital the amount by which the aggregate amount of the three items specified above exceeds 15 per cent of its common equity tier 1 capital, calculated prior to the deduction of the specified items but after the application of all other relevant adjustments and/ or deductions applied in the calculation of common equity tier 1 capital in terms of these Regulations;
- (B) the respective items included in the 15 per cent aggregate limit shall be fully disclosed in all relevant disclosures to the public made in terms of the provisions of these Regulations;
- (C) as from 1 January 2018, the relevant amount related to the three specified items that is still recognised after the application of all regulatory adjustments shall not exceed 15 per cent of the common equity tier 1 capital of the relevant bank or controlling company.

For example, a bank has common equity tier 1 capital of R850 million net of all relevant deductions, including any relevant deduction related to the specified three items.

The maximum amount related to the specified items that may be recognised by the bank in its calculation of common equity tier 1 capital is R850 million x 17.65 per cent (that is, 15/85) = R150 million. Any excess amount above R150 million shall be deducted from the bank's common equity tier 1 capital.

If the bank has specified items, excluding amounts deducted after applying the individual 10 per cent limits, that in aggregate is equal to the 15 per cent limit, common equity tier 1 capital after inclusion of the specified items shall amount to R850 million + R150 million = R1 billion, that is, the aggregate amount of items specified hereinbefore, expressed as a percentage of the total amount of common equity tier 1 capital, is equal to 15 per cent.

- (D) any amount related to the three items specified hereinbefore that is not deducted in the calculation of common equity tier 1 capital shall be risk weighted at 250 per cent.
- (c) Assets or amounts representing deductions against the reporting bank or controlling company's capital and reserve funds, which assets or amounts, in terms of the provisions of section 70 of the Act shall be deducted from the respective categories of capital and unimpaired reserve funds, shall be recorded against the appropriate line items specified in the form BA 700.

(6) *Conditions relating to external credit assessment in respect of a securitisation scheme or resecuritisation exposure*

Irrespective whether a bank adopted the standardised approach or IRB approach for the measurement of the bank's exposure relating to credit risk and securitisation schemes or resecuritisation exposure, when the bank calculates its minimum required amount of capital and reserve funds, the bank shall not recognise any credit assessment issued in respect of any securitisation or resecuritisation exposure unless the said external credit assessment complies with the requirements specified below:

(a) The external credit assessment-

- (i) shall be issued by an eligible external credit assessment institution-
    - (A) which credit assessment shall be publicly available, that is, the credit assessment shall be published by the relevant external credit assessment institution in an accessible form and shall be included in the external credit assessment institution's transition matrix, instead of being made available only to the parties involved in the securitisation scheme or resecuritisation exposure;
    - (B) which credit assessment institution shall have demonstrated its expertise relating to the assessment of securitisation or resecuritisation exposures, which expertise is likely to be evidenced by strong market acceptance;
  - (ii) shall be based on the total amount of credit exposure arising from all relevant payments due, that is, for example, when the outstanding amount relates to both principal and interest amounts, the credit assessment shall be based on the timely repayment of both the relevant principal amount and the relevant interest amount;
- (b) Notwithstanding any provision to the contrary specified in these Regulations or any other law, in addition to the aforesaid external credit assessment that shall be publicly available-
- (i) the eligible external credit assessment institution's relevant procedures, methodologies, assumptions, and the key elements underlying the aforesaid assessment shall be publicly available, on a non-selective basis, and free of charge;
  - (ii) the relevant loss and cash-flow analysis and sensitivity of ratings to changes in the underlying rating assumptions shall be publicly available.

Provided that, when an eligible credit assessment is not provided free of charge, the relevant eligible external credit assessment institution shall, within its own publicly available Code of Conduct, in accordance with the 'comply or explain' provisions of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies duly explain its non-compliance with the provisions of this paragraph (b);

(c) A bank shall apply credit assessments issued by an eligible external credit assessment institution consistently across a given type of securitisation or resecuritisation exposure, provided that-

- (i) the bank shall not apply credit assessments issued by one eligible credit assessment institution in respect of one or more tranches relating to a particular securitisation scheme or resecuritisation exposure, and credit assessments issued by another eligible credit assessment institution in respect of other positions relating to the same securitisation structure or resecuritisation exposure;
- (ii) a bank shall in no case apply an external credit assessment for the calculation of the bank's minimum required amount of capital and reserve funds when the said assessment is in any manner influenced by or based on any form of unfunded support provided by that bank, irrespective whether the position is held in the bank's banking book or trading book.

For example, when a bank buys asset-backed commercial paper from or related to a scheme or structure in respect of which the bank also provided unfunded securitisation exposure extended by the bank to that ABCP programme, scheme or structure, such as a liquidity facility or credit enhancement, and the latter exposure plays a role in determining the credit assessment on the said ABCP programme, scheme or structure, the bank shall regard the first-said acquired ABCP position as unrated, and continue to maintain capital against the said securitisation exposures provided by the bank, that is, the aforesaid liquidity facility and/or credit enhancement.

- (iii) a bank's capital requirement related to an acquired ABCP position envisaged in subparagraph (ii) above, which position is held in the bank's trading book, shall in no case be less than the required amount of capital and reserve funds related to a similar position held in the bank's banking book;
- (iv) a bank shall recognise any overlap in exposure in accordance with the relevant requirements specified in regulation 23(6)(h)(ix).

For example, a bank that provides a liquidity facility that fully supports the asset-backed commercial paper issued in terms of an ABCP programme, and subsequently purchases twenty per cent of the outstanding ABCP of that programme, may recognise an overlap of twenty per cent.

If the bank provided a liquidity facility that covers ninety per cent of the outstanding ABCP and purchased twenty per cent of the ABCP, the overlap shall be ten per cent.

If the bank provided a liquidity facility that covers fifty per cent of the outstanding ABCP and subsequently purchases twenty per cent of the ABCP, the two exposures shall be risk weighted without recognizing any overlap

(v) when-

- (A) two or more eligible external credit assessment institutions assess the credit risk associated with a particular securitisation exposure differently, the bank shall risk weight the said exposure in accordance with the relevant requirements specified in regulation 23(5)(b)(i);
- (B) an external credit assessment assigned to a particular securitisation exposure is based on protection provided directly to the special purpose institution by an eligible protection provider, the bank
  - (i) shall apply the risk weight associated with the said external credit assessment to the relevant exposure;
  - (ii) shall, in order to avoid any double counting of the protection obtained by the special-purpose institution, disregard the said credit protection;
- (C) protection is obtained by a special-purpose institution from a protection provider other than an eligible protection provider, the bank shall treat the relevant securitisation exposures as unrated;
- (D) credit protection is obtained by the bank in respect of a particular securitisation exposure within a particular securitisation structure, the bank shall treat the relevant exposure as an unrated protected exposure in accordance with the relevant requirements specified in regulations 23(7), 23(9), 23(12) or 23(14).

(7) *Conditions relating to the calculation of minimum required capital and reserve funds in respect of a securitisation scheme or resecuritisation exposure, and related matters*

(a) General conditions

A bank-

- (i) acting in a primary role and subsequently investing in commercial paper issued by a special-purpose institution shall have in place adequate risk-management systems and controls to ensure that the bank does not accumulate disproportionate levels of aggregate exposure to commercial paper issued by the special-purpose institution;
- (ii) that acted in a primary role and subsequently invests in a disproportionate level of commercial paper issued by a special-purpose institution is likely to contravene, amongst other things, the conditions relating to an effective and verifiable transfer of risk and sufficient market discipline as envisaged in the exemption notice relating to securitisation schemes.

(b) Specific conditions

- (i) Subject to the provisions of subregulation (2)(e) and based on-
  - (A) the approach adopted by a bank for the measurement of the bank's exposure to credit risk, as envisaged in subregulation (2)(a) above,
  - (B) the economic substance and not the legal form of a position obtained or exposure incurred by the bank in respect of a traditional or synthetic securitisation scheme,
  - (C) such conditions as may be specified in writing by the Registrar,

a bank shall in accordance with the relevant requirements specified in regulations 23(6), 23(8), 23(11) or 23(13) maintain capital against any risk exposure assumed or retained by the bank as a result of a securitisation or resecuritisation transaction, including any relevant exposure that arises from-

- (i) the extension by the reporting bank of any credit enhancement facility to a special-purpose institution;
- (ii) the provision of any credit protection;
- (iii) an investment by the bank in commercial paper issued by a special-purpose institution;

- (iv) the retention of any subordinated exposure;
- (v) the extension of any liquidity facility to a special-purpose institution,

provided that the bank shall for purposes of these Regulations treat the repurchase of any securitisation or resecuritisation exposures as a retained securitisation or resecuritisation exposure.

- (ii) Irrespective whether a bank adopted the standardised approach or IRB approach for the measurement of the bank's exposure in respect of credit risk and securitisation schemes or resecuritisation exposure, the bank-
  - (A) shall not exclude from the calculation of its required amount of capital and reserve funds any assets transferred to a special-purpose institution unless the said transfer of assets, amongst other things, complies with the relevant conditions specified in paragraph 4(2) of the exemption notice relating to securitisation schemes, provided that the bank shall comply with the relevant capital requirements specified in these Regulations in respect of any relevant risk exposure retained by the bank;
  - (B) shall not, when the bank calculates its required amount of capital and reserve funds, recognise any risk mitigation in respect of a synthetic securitisation scheme unless the said risk mitigation, amongst other things, complies with the relevant conditions specified in paragraph 5(2) of the exemption notice relating to securitisation schemes.
- (iii) Irrespective whether a bank adopted the standardised approach or IRB approach for the measurement of the bank's exposure relating to credit risk and securitisation schemes or resecuritisation exposure, and irrespective whether the relevant position or instrument is held in a bank's banking book or trading book, the bank shall on a continuous basis-
  - (A) have a comprehensive understanding of the risk characteristics of its individual securitisation and resecuritisation exposure, and the risk characteristics of the pools underlying its securitisation or resecuritisation exposure, irrespective whether the relevant position or instrument constitutes an on-balance-sheet or off-balance-sheet position;

- (B) be able to access performance information on the underlying pools, including relevant information related to-
- (i) the exposure type;
  - (ii) the percentage of loans or exposure 30 days, 60 days and 90 days past due;
  - (iii) default rates;
  - (iv) prepayment rates;
  - (v) loans or exposure in foreclosure;
  - (vi) property type;
  - (vii) occupancy;
  - (viii) average credit score or other measures of creditworthiness;
  - (ix) average loan-to-value ratio;
  - (x) industry and geographic diversification;
- (C) have a thorough understanding of all structural features of the relevant securitisation or resecuritisation transaction that may materially impact the performance of the bank's exposure to the transaction, such as-
- (i) the contractual waterfall and waterfall related triggers;
  - (ii) credit enhancements;
  - (iii) liquidity enhancements;
  - (iv) market value triggers; and
  - (v) deal-specific definitions of default.

Provided that when a bank is unable to comply with the requirements specified in this subparagraph (iii), the bank shall deduct from its common equity tier 1 capital and reserve funds the relevant total exposure amount related to the said securitisation or resecuritisation transaction or exposure.

(c) *Granularity*

When the Registrar is of the opinion that the credit risk inherent in a traditional or synthetic securitisation scheme is higher than the credit risk inherent in a well diversified portfolio of similar rated corporate exposure, owing to higher default correlations in the portfolio of assets or risk that was securitised or resecuritised, the Registrar may specify higher risk weights in respect of the commercial paper issued by the special-purpose institution in respect of the relevant securitisation scheme or resecuritisation exposure than the risk weights specified in these Regulations.

(8) *Minimum required capital and reserve funds*

- (a) For the purposes of determining in form BA 700 the minimum amount of-
- (i) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds required to support risks other than market risk and required to be maintained by a bank in terms of section 70 of the Act, a bank shall calculate the said minimum amount, amongst others, in accordance with the relevant provisions specified in subregulation (3)(a) read with the provisions of subregulations (2)(a), (2)(b), (2)(d) and (2)(e) above;
  - (ii) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds required to support market risk and required to be maintained by a bank in terms of section 70 of the Act, a bank shall calculate the said minimum amount, amongst others, in accordance with the relevant provisions specified in subregulation (3)(b) read with subregulation (2)(c) above.
- (b) The percentage, contemplated in section 70 of the Act, of the amount of a bank's assets and other risk exposures, as adjusted through the application of the relevant specified risk weights, proxies or factors, and which is to be used, as contemplated in the said section of the Act, to calculate the minimum amount of allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds that the bank is required to maintain in terms of that section shall be a minimum of 8 per cent, or such a higher percentage as may be determined in accordance with the relevant requirements specified in this subregulation (8) read with the relevant requirements specified in subregulation (9) below, and determined in relevant cases by the Registrar in consultation with the Governor of the Reserve Bank, which percentage or any relevant component thereof, amongst others, shall be inserted in the relevant items specified in the form BA 700.

- (c) The Registrar may with the consent of the Governor of the Reserve Bank determine or amend risk-weight percentages or risk components in respect of assets and other risk exposures, including assets and other risk exposures identified to exist in a country other than the Republic, which assets or risk exposures may or may not specifically be specified or referred to in these Regulations.
- (d) A bank shall maintain the minimum aggregate amount of-
  - (i) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to risks other than market risk; and
  - (ii) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to market risk,

during the period from the twentieth business day of the month following the month or calendar quarter to which a particular return relates up to and including the nineteenth business day of the month following the month or calendar quarter in respect of which the next monthly or quarterly return, as the case may be, is to be furnished by the reporting bank.

- (e) Notwithstanding and without derogating from the provisions of paragraphs (a) to (d) of this subregulation (8), in accordance with, *inter alia*, the relevant requirements specified in the form BA700, regulations 39(1) to 39(6), and regulation 39(16) of these Regulations, a bank shall have in place robust policies, processes and procedures to ensure that the bank continuously maintains-
  - (i) the relevant minimum required specified percentage of eight per cent of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure, provided that-
    - (A) qualifying common equity tier 1 capital and reserve funds to risk weighted exposure shall at no time be no less than 4,5 per cent;
    - (B) qualifying tier 1 capital and reserve funds, that is, the sum of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds, to risk weighted exposure shall at no time be no less than 6 per cent;

and

- (ii) the relevant additional minimum required percentage specified from time to time for systemic risk of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, to risk weighted exposure;

and

- (iii) the relevant additional bank specific minimum required percentage specified from time to time for idiosyncratic risk of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure;

and

- (iv) a capital conservation buffer, which capital conservation buffer-

(A) shall be phased in between 1 January 2016 and 1 January 2019 in accordance with the relevant requirements specified in paragraph (f) below;

(B) shall be fully met with qualifying common equity tier 1 capital and reserve funds, that is, the relevant required capital conservation buffer specified in this subregulation (8)(e) shall be in addition to any relevant required common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and total capital adequacy ratio specified from time to time;

(C) shall range between zero and 2,5 per cent of a bank's relevant amount of risk-weighted exposure;

(D) is intended to ensure that banks build up capital buffers outside periods of stress identified in writing by the Registrar, which capital buffers may be drawn down as losses are incurred during the subsequent periods of stress, that is, a bank that writes off losses against its capital conservation buffer during a period of stress will be able to continue to conduct business with constraints being imposed in respect of specified potential distributions of available capital and reserve funds;

(E) shall in all relevant cases be applied at a solo and consolidated level;

(F) shall comply with the requirements specified in paragraph (f) below;

and

- (v) a countercyclical capital buffer, which countercyclical buffer
  - (A) aims to ensure that the specified minimum capital requirement for banks take into account the macro-financial environment in which the banks operate;
  - (B) shall be an extension of the conservation buffer when implemented, that is-
    - (i) when implemented, the countercyclical buffer shall be phased in between 1 January 2016 and 1 January 2019 in a manner similar to the conservation buffer specified in paragraph (f) below, provided that in the case of excessive credit growth during the specified transition period, the Governor and the Registrar may decide to accelerate the build up of the capital conservation buffer and the countercyclical buffer or implement a larger countercyclical buffer requirement;
    - (ii) a bank shall, for example, be subject to restrictions on distributions when the bank does not meet the relevant specified aggregate capital requirement;
  - (C) when implemented, shall be fully met with qualifying common equity tier 1 capital and reserve funds;
  - (D) shall in all relevant cases be applied at a solo and consolidated level;
  - (E) shall comply with the requirements specified in paragraph (g) below;

and

  - (vi) the relevant additional minimum required percentage specified in writing by the Registrar from time to time for systemically important banks and/or controlling companies identified and specified in writing by the Registrar of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure,
    - (A) which systemically important banks and/or controlling companies, and the related additional minimum required percentage, as a minimum, shall be based on factors such as;
      - (i) size, which shall be based on the aggregate amount of exposures specified in regulation 23 read with the relevant requirements specified in subregulation (17);
      - (ii) interconnectedness;

- (iii) substitutability and financial institution infrastructure; and
- (iv) complexity,

which factors may be assigned equal weights;

- (B) which additional loss-absorbency requirements-

- (i) shall be phased-in in parallel with the aforesaid capital conservation buffer and countercyclical buffer, that is, between 1 January 2016 and 31 December 2018;
- (ii) and any subsequent amendments thereto shall become a minimum standard with effect from 1 January 2019;

and

- (vii) based on, among other things, the bank's -

- (A) board-approved risk appetite or tolerance for risk;
- (B) board-approved business strategy;
- (C) risk profile and control environment;
- (D) future capital needs;
- (E) desired level of capital;
- (F) stress-testing results,

such additional buffer of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure as the board of directors and the senior management of that bank may determine.

Provided that, in addition to any other provision contained in the Act or these Regulations, when the bank's additional buffer of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure is significantly reduced or depleted, for example, as a result of unexpected severe financial distress or economic downturn, the Registrar may, after consultation with the relevant bank, in writing impose constraints on the bank, such as capital distribution constraints, until the bank's additional buffer of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure is restored.

*(f) Matters related to the capital conservation buffer*

Outside periods of stress identified by the Registrar in writing, a bank shall hold a conservation buffer of capital above the other relevant minimum required ratios that may be specified from time to time, provided that-

(i) when a bank's capital conservation buffer has been reduced or drawn down, the bank shall rebuild the buffer, for example, by way of-

(A) a reduction in the bank's discretionary distributions of earnings, such as a reduction in dividend payments, share buy-backs or bonus payments; or

(B) the issuance of further capital to shareholders as an alternative to conserving internally generated capital,

the choice between or balance of which options shall be duly explained to and discussed with the Registrar as part of the bank's ICAAP and capital planning process as envisaged in regulation 39(16);

(ii) in the absence of raising capital in order to rebuild its capital buffer, the bank shall increase the share of earnings retained the closer the bank's respective levels of qualifying capital and reserve funds move toward the minimum capital requirement specified from time to time, that is, a bank that is in the process of reducing or depleting its capital buffer-

(A) shall not rely on future predictions of recovery or growth in earnings, for example, to maintain substantial distributions of earnings to shareholders, other capital providers or employees;

(B) shall not distribute available capital to signal financial strength;

(iii) from 1 January 2016, when a bank's specified capital adequacy ratios are reduced due to write-offs against the capital conservation buffer, the Registrar shall impose capital constraints on the bank that shall include capital distribution constraints, in accordance with the provisions of table 1 below, until the bank's conservation buffer is restored:

**Table 1**

<b>Common equity tier 1 capital and reserve funds ratio</b>	<b>Minimum required capital conservation ratios expressed as a percentage of earnings</b>
6.5% to 7.125%	100%
>7.125% to 7.75%	80%
>7.75% to 8.375%	60%
>8.375% to 9.0%	40%
> 9.0%	0%

For example, a bank with a common equity tier 1 capital and reserve fund ratio of-

- (A) more than 7.125 per cent but less than or equal to 7.75 per cent shall conserve 80 per cent of its earnings in the subsequent financial year, that is, the bank's discretionary distribution of earnings in the form of dividends, share buybacks and/ or discretionary bonus payments shall not exceed 20 per cent of earnings.

If the bank wants to make discretionary payments in excess of the specified constraint, the bank has the option of raising capital equal to the amount above the specified constraint that the bank wishes to distribute.

- (B) 10 per cent, with no additional tier 1 capital and reserve funds and no tier 2 capital and reserve funds would have a zero conservation buffer and therefore be subject to the 100 per cent constraint on capital distributions.

(iv) for purposes of the calculation of the conservation buffer-

- (A) items subject to the restriction on distributions shall include share buybacks, dividends or any other discretionary payment on instruments qualifying as common equity tier 1 capital or additional tier 1 capital, and discretionary bonus payments to directors, executive officers and other members of staff, provided that payments that do not result in a reduction of common equity tier 1 capital and reserve funds, such as scrip dividends as may be specified in writing by the Registrar, shall not be considered distributions as envisaged in this subregulation (8);

- (B) earnings include distributable profits or income calculated prior to the deduction of items subject to the restriction on distributions, which earnings shall be calculated after any relevant amount of tax, that is, any tax impact of making a relevant distribution shall be appropriately reversed, provided that, a bank with no positive earnings and a common equity tier 1 capital and reserve fund ratio of less than 9 per cent shall be restricted from making any positive net distribution;

(v) the bank shall manage its business in such a manner that its capital conservation buffer for the period-

- (A) 1 January 2016 to 31 December 2016 shall be no less than 0,625 per cent;

- (B) 1 January 2017 to 31 December 2017 shall be no less than 1,25 per cent;
- (C) 1 January 2018 to 31 December 2018 shall be no less than 1,875 per cent;
- (D) 1 January 2019 and thereafter shall be equal to 2,50 per cent.

(g) *Matters related to the countercyclical buffer*

As a minimum, the countercyclical capital buffer envisaged in paragraph (e)-

- (i) shall be based on aggregate credit growth and other relevant indicators that indicate excessive credit growth and a build up of system-wide risk;
- (ii) when implemented, shall be imposed on all banks when, based on the discretion of the Governor and the Registrar, excess aggregate credit growth is associated with a build-up of system-wide risk, provided that
  - (A) in order to give banks time to adjust to a buffer level, the Registrar shall pre-announce the relevant decision to implement or raise the level of the countercyclical buffer by up to 12 months before its effective date;
  - (B) banks outside the Republic with credit exposures to counterparties in the Republic shall also be subject to the increased buffer level after the pre-announcement period in respect of the said exposures, provided that to facilitate the successful implementation of this requirement, the Registrar shall timeously engage with all relevant consolidating supervisors and host supervisors;
  - (C) based on factors such as the composition of a bank's portfolio of credit exposure, the buffer that applies to a specific bank may differ from the buffer applied to other banks;
- (iii) shall be released when, based on the discretion of the Governor and the Registrar, the build-up of system-wide risk has dissipated, provided that a decision to release or decrease the level of the countercyclical buffer shall be effective from the date immediately following the date of the announcement;
- (iv) may, based on the discretion of the Governor and the Registrar, be used in conjunction with other available macro-prudential tools to appropriately respond to the macro-financial environment prevailing at the time;

- (v) shall be a weighted average of the relevant buffers specified from time to time across all relevant jurisdictions to which the bank has credit exposures, provided that:
  - (A) for purposes of this calculation, credit exposure shall include all relevant private sector credit exposure that attract a credit risk capital requirement or the risk weighted equivalent trading book capital requirement for specific risk, incremental risk, securitisation and resecuritisation exposure;
  - (B) the weighting applied to the buffer in place in each relevant jurisdiction shall be the bank's total credit risk requirement that relates to private sector credit exposures in that jurisdiction, divided by the bank's total credit risk requirement that relates to private sector credit exposures across all relevant jurisdictions;
  - (C) when considering the jurisdiction to which a private sector credit exposure relates, the bank shall as far as possible apply an ultimate risk exposure basis, that is, the bank shall, for example, use the country where the guarantor of an exposure resides, and not merely the jurisdiction where the exposure has been booked;
  - (D) in the case of the bank's value-at-risk (VaR) requirement for specific risk, the incremental risk requirement and the comprehensive risk measurement requirement, the bank shall in writing submit to the Registrar for approval a proposed approach to translate the aforesaid requirements into appropriate risk weights to be allocated to the relevant geographic location of the specific counterparties to which the relevant capital requirements relate, which weights may, for example, be based on the proportion of the relevant portfolio's total exposure at default (EAD) that is due to the EAD resulting from counterparties in each relevant geographic region;
- (vi) shall, based on the judgement of the Governor and the Registrar of the extent of the build-up of system-wide risk, range between zero and 2,5 per cent of a bank's relevant amount of risk weighted exposure.

For example-

- (A) when the countercyclical capital buffer is zero in all the relevant regions in which the bank has private sector credit exposures, the required capital levels and restrictions shall be the same as specified in table 1 in paragraph (f) above;

- (B) when the countercyclical capital buffer is 2.5 per cent, table 2 below sets out the conservation ratios that shall apply at various levels of common equity tier 1 capital and reserve funds:

**Table 2**

<b>Common equity tier 1 capital and reserve funds ratio</b>	<b>Minimum required capital conservation ratios expressed as a percentage of earnings</b>
6.5% to 7.75%	100%
>7.75% to 9.0%	80%
>9.0% to 10.25%	60%
>10.25% to 11.5%	40%
> 11.5%	0%

**(9) Qualifying capital and reserve funds and related matters**

Based on, among other things, the relevant requirements specified in section 70 of the Act read with the relevant requirements specified in subregulations (8)(a) to (8)(g) above, a bank shall in the calculation of-

- (a) the aggregate amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds that the bank is required to maintain, manage its business in such a manner that-
- (i) its common equity tier 1 capital adequacy ratio, that is, the ratio of qualifying common equity tier 1 capital and reserve funds to risk-weighted exposure, is at no time during the period-
    - (A) 1 January 2013 to 31 December 2013, less than 4,5 per cent;
    - (B) 1 January 2014 to 31 December 2014, less than 5,5 per cent;
    - (C) 1 January 2015 and thereafter, less than 6,5 per cent or such other percentage as may be directed in writing by the Registrar;
  - (ii) its tier 1 capital adequacy ratio, that is, the ratio of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds to risk-weighted exposure, is at no time during the period-
    - (A) 1 January 2013 to 31 December 2013, less than 6 per cent;
    - (B) 1 January 2014 to 31 December 2014, less than 7 per cent;
    - (C) 1 January 2015 and thereafter, less than 8 per cent;

- (iii) its total capital adequacy ratio, that is, the ratio of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk-weighted exposure, is at no time during the period-
  - (A) 1 January 2013 to 31 December 2013, less than 9,5 per cent;
  - (B) 1 January 2014 and thereafter, less than 10 per cent;
- (iv) the ratio of hybrid-debt instruments issued prior to 12 September 2010, forming part of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank, at no time-
  - (A) during the period 1 January 2012 to 31 December 2012 exceeds 15 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank;
  - (B) during the period 1 January 2013 to 31 December 2013 exceeds 10 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank;
  - (C) during the period 1 January 2014 to 31 December 2014 exceeds 5 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank,

Provided that-

- (i) when a hybrid-debt instrument issued prior to 12 September 2010 contains a call or step-up or another incentive to be redeemed between 12 September 2010 and 31 December 2012, and the instrument is not so called and redeemed during that period, and from 1 January 2013 the instrument does not comply with the criteria for inclusion in additional tier 1 capital specified in subregulation (13), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of common equity tier 1 capital and additional tier 1 capital from 1 January 2013;

- (ii) when a hybrid-debt instrument issued prior to 12 September 2010 contains a call or step-up or another incentive to be redeemed on or after 1 January 2013, and the instrument is not so called and redeemed on that date, and following that date the instrument does not comply with the criteria for inclusion in additional tier 1 capital specified in subregulation (13), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of common equity tier 1 capital and additional tier 1 capital from the date that the incentive to redeem was not exercised;
  - (iii) after 1 January 2015 no amount obtained from the issue of any hybrid-debt instrument shall form part of the total amount of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank.
- (b) the aggregate amount of allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, required to support risks other than market risk, including any relevant required amount of capital and reserve funds in respect of credit risk and operational risk, ensure that-
- (i) the ratio of hybrid-debt instruments issued prior to 12 September 2010, forming part of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds, at no time-
    - (A) during the period 1 January 2012 to 31 December 2012 exceeds 15 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds;
    - (B) during the period 1 January 2013 to 31 December 2013 exceeds 10 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank;
    - (C) during the period 1 January 2014 to 31 December 2014 exceeds 5 per cent of the total amount of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank,

Provided that-

- (i) when a hybrid-debt instrument issued prior to 12 September 2010 contains a call or step-up or another incentive to be redeemed between 12 September 2010 and 31 December 2012, and the instrument is not called and redeemed during that period, and on or after 1 January 2013 the instrument does not comply with the criteria for inclusion in additional tier 1 capital specified in subregulation (13), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of common equity tier 1 capital and additional tier 1 capital from 1 January 2013;
- (ii) when a hybrid-debt instrument issued prior to 12 September 2010 contains a call or step-up or another incentive to be redeemed on or after 1 January 2013, and the instrument is not so called and redeemed on that date, and following that date the instrument does not comply with the criteria for inclusion in additional tier 1 capital specified in subregulation (13), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of common equity tier 1 capital and additional tier 1 capital from the date that the incentive to redeem was not exercised;
- (iii) after 1 January 2015 no amount obtained from the issue of any hybrid-debt instrument shall form part of the total amount of qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds of the bank.

**(10) *Conditions relating to reserve funds and retained earnings***

No amount relating to any profit or earnings of a bank or controlling company shall constitute qualifying common equity tier 1 reserve funds or additional tier 1 reserve funds of the said reporting bank or controlling company unless the board of directors of the relevant bank or controlling company formally appropriated the said amount by way of a board resolution to constitute retained earnings of the relevant bank or controlling company, that is, the board of directors of the relevant bank or controlling company shall formally consider the said amount and shall resolve that such profit or earnings constitutes retained earnings to be included in the capital base of the relevant bank or controlling company, which profit or earnings is subsequently available to absorb losses on a going concern basis that may arise from risks pertaining to the particular nature of such bank's or controlling company's business, and the said profit or earnings is disclosed as such in the published financial statements of the relevant bank or controlling company.

(11) *Conditions relating to instruments not qualifying as common equity tier 1 capital and/or additional tier 1 capital due to a prescribed limit or ratio*

Any capital obtained through the issue of shares or instruments that would otherwise rank as-

- (a) common equity tier 1 capital of the reporting bank but is subsequently disqualified to rank as common equity tier 1 capital of the reporting bank as a result of a limit or ratio imposed in respect of qualifying amounts in terms of the provisions of subregulation (9) of these Regulations, shall qualify as additional tier 1 capital of the reporting bank;
- (b) additional tier 1 capital of the reporting bank but is subsequently disqualified to rank as additional tier 1 capital of the reporting bank as a result of a limit or ratio imposed in respect of qualifying amounts in terms of the provisions of subregulation (9) of these Regulations, shall qualify as tier 2 capital of the reporting bank in accordance with the relevant requirements specified in subregulation (14) below.

(12) *Percentage of capital obtained through the issue of certain shares and debt instruments that may qualify as tier 2 capital*

Capital obtained through the issue, as contemplated in the definition of tier 2 capital in section 1(1) of the Act, of-

- (a) cumulative preference shares may subject to paragraph (b) below rank as tier 2 capital to the extent of 100 per cent thereof;
- (b) cumulative preference shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of specified assets may, subject to any relevant condition or requirement specified in this regulation 38, rank as tier 2 capital to the extent of 100 per cent thereof;
- (c) preference shares other than cumulative preference shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of specified assets may, subject to any relevant condition or requirement specified in this regulation 38, rank as tier 2 capital to the extent of 100 per cent thereof; and
- (d) debt instruments such as debentures, hybrid-debt instruments or any interest-bearing written acknowledgement of debt, issued in accordance with the conditions set forth in subregulation (14) below, may rank as tier 2 capital to the extent of 100 per cent thereof.

(13) *Conditions for issue of instruments or shares of which the proceeds rank as common equity tier 1 capital and/or additional tier 1 capital*

- (a) The proceeds of any instrument or share that as a minimum meets or complies with all the conditions specified below, may rank as common equity tier 1 capital:
- (i) The instrument or share-
- (A) shall be issued directly by the relevant bank or controlling company and paid in full by the relevant investor, and the bank or controlling company shall not directly or indirectly fund the purchase of the instrument;
- (B) shall entitle the holder to a claim on the residual assets of the relevant bank or controlling company that is proportionate to the holder's share of issued capital, after all senior claims have been repaid in liquidation, that is, the holder of the share shall have an unlimited and variable claim, not a fixed or capped claim;
- (C) shall be issued only with the approval of the relevant owners of the issuing bank or controlling company, either given directly by the owners or the Board of Directors or other person(s) duly authorised thereto;
- (D) shall be clearly and separately disclosed in the balance sheet of the relevant bank or controlling company.
- (ii) The principal amount shall be perpetual and never repaid or repayable outside of liquidation.
- (iii) Neither the bank nor the statutory or contractual terms of the instrument or share shall create an expectation at issuance that the instrument may be bought back, redeemed or cancelled.
- (iv) Any distribution in respect of the instrument or share shall be paid out of distributable reserves, such as retained earnings, provided that the level of distribution shall not be tied or linked to the amount paid at issuance and shall not be subject to a contractual cap except to the extent that a bank or controlling company may be unable to pay distributions that exceed the level of distributable items.
- (v) Distribution in respect of the instrument or share shall not be obligatory, that is, non payment of a distribution shall not constitute an event of default.

- (vi) Any distribution in respect of the instrument or share shall be paid only after all legal and contractual obligations have been met and all relevant payments on more senior capital instruments have been made, that is, there shall be no preferential distribution, including in respect of other instruments or elements that may be classified as the highest quality issued capital.
  - (vii) The paid amount-
    - (A) shall be recognised and disclosed as equity capital and not as a liability when determining the relevant bank or controlling company's balance sheet solvency or insolvency;
    - (B) shall be classified as equity in terms of the relevant Financial Reporting Standards issued from time to time;
    - (C) shall be neither secured nor covered by any guarantee of the issuer or related or associated entity or subject to any other arrangement that legally or economically enhances the seniority of the claim;
  - (b) Subject to the provisions of paragraphs (c) and (d) below, the relevant proceeds of any instrument or share that as a minimum meets or complies with all the conditions specified below may rank as additional tier 1 capital:
    - (i) The terms and conditions of the instrument shall contain a provision that requires such instrument, at the option of the Registrar, to either be written off or converted into the most subordinated form of equity upon the occurrence of the trigger event specified in writing by the Registrar, unless duly enforceable legislation is in place-
      - (A) that requires the instrument to be written off upon the occurrence of the aforesaid event; or
      - (B) that otherwise requires the instrument to fully absorb loss before tax payers or ordinary depositors are exposed to loss,
- and the bank or controlling company complies with such further requirements as may be directed by the Registrar in writing.

Provided that-

- (i) any compensation paid to the instrument holders as a result of the aforesaid write-off shall be paid immediately and in the form of the most subordinated form of equity of the relevant bank or its controlling company, and the bank or controlling company, as the case may be, shall at all times maintain all prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur;
- (ii) the issuance of any new shares as a result of the trigger event shall occur prior to any public sector injection of capital so that the capital provided by the public sector shall not be diluted;
- (iii) as a minimum, the aforesaid trigger event shall be the earlier of:
  - (aa) a decision that a write-off, without which the bank or controlling company would become non-viable, is necessary, as determined by the Registrar; or
  - (bb) the decision to make a public sector injection of capital, or equivalent support, without which the bank or controlling company would have become non-viable, as determined by the Registrar.
- (ii) The bank or controlling company, as the case may be, shall obtain the prior written approval of the Registrar before the instrument or share is issued;
- (iii) The key features of the relevant instruments or shares shall be duly disclosed in the annual financial statements and other relevant disclosures to the general public;
- (iv) The instrument or share-
  - (A) shall be issued by the relevant bank or controlling company and shall be paid in full by the relevant investor;
  - (B) shall be neither secured nor covered by a guarantee of the issuer or any related entity, or another arrangement that legally or economically enhances the seniority of the claim;
  - (C) shall be perpetual, that is, the instrument or share shall have no maturity date, and there shall be no provision for step-up or other incentive to redeem the instrument or share;

- (D) may be callable at the sole initiative of the issuer only after a minimum period of five years, provided that-
  - (i) the relevant bank or controlling company, as the case may be, shall obtain the prior written approval of the Registrar before exercising the said call;
  - (ii) neither the bank nor the controlling company shall create any expectation that such call will be exercised;
  - (iii) the bank or controlling company shall not exercise the call unless the bank or controlling company-
    - (aa) concurrently replaces the called instrument with capital of similar or better quality and the replacement of capital is done at conditions that are sustainable for the income capacity of that bank or controlling company; or
    - (bb) demonstrates to the satisfaction of the Registrar that its capital position shall be well above the relevant specified minimum capital requirements after the call option is exercised;
- (E) shall not be held or acquired by the bank or any person related to or associated with the bank, or over which the bank exercises or may exercise control or significant influence;
- (F) shall not be funded directly or indirectly by the relevant bank or controlling company;
- (G) shall not contain any feature that may hinder any potential future recapitalisation, such as, for example, a provision that requires the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame;
- (H) shall under no circumstances constitute a liability of the bank or controlling company in terms of, for example, any insolvency law or insolvency proceedings, provided that any instrument classified as a liability in terms of a Financial Reporting Standard shall have principal loss absorption through either-
  - (i) conversion to common or ordinary shares at an objective pre-specified trigger point; or

- (ii) a write-down mechanism that allocates losses to the instrument at a pre-specified trigger point, which write-down mechanism, as a minimum-
  - (aa) shall reduce the claim of the instrument in liquidation;
  - (bb) shall reduce the amount re-paid when a relevant related call is exercised; and
  - (cc) shall partially or fully reduce any relevant coupon or dividend payments on the instrument.
- (v) The relevant bank or controlling company shall obtain the prior written approval of the Registrar before any repayment of principal is considered by way of, for example, repurchase or redemption, provided that the bank or controlling company shall not assume or create market expectation that the Registrar will grant approval.
- (vi) The relevant bank or controlling company shall at all times have full discretion regarding any relevant distribution or payment of dividend, provided that-
  - (A) a cancellation of a discretionary payment shall not constitute an event of default;
  - (B) the relevant bank or controlling company shall have full access to cancelled payments to meet any relevant obligation as it falls due;
  - (C) any cancellation of a distribution or payment of dividend shall not impose any restriction on the bank or controlling company, except in relation to a distribution to holders of more deeply subordinated shares or instruments;
  - (D) any dividend or coupon payment shall be paid out of distributable reserves, such as retained earnings;
  - (E) the relevant underlying instrument shall not have any credit sensitive dividend feature, that is, a dividend or coupon that is periodically reset based in whole or in part on the bank or controlling company's credit standing or rating;

- (vii) When the instrument or share is issued by a special purpose vehicle or institution, instead of by an operating entity, that is, an entity established to conduct business with clients with the intention of earning a profit in its own right, or the relevant controlling company in the consolidated group, the proceeds shall be immediately available without limitation to an operating entity or the controlling company in a form that meets or exceeds all the relevant criteria for inclusion in additional tier 1 capital specified above.
- (c) Without derogating from the provisions of subregulation (9) above relating to the phasing-out of specified hybrid-debt instruments qualifying as tier 1 capital, when an instrument or a share-
  - (i) was issued prior to 12 September 2010 and that instrument or share does not comply with the relevant criteria and conditions specified in paragraphs (b)(ii) to (b)(vii) above, which criteria and conditions shall for purposes of these Regulations be referred to as the entry criteria and conditions, the proceeds obtained through the issue of that instrument or share shall be phased out from 1 January 2013 in accordance with the relevant requirements specified in paragraph (d) below;
  - (ii) was issued on or after 12 September 2010 but before 1 January 2013, and that instrument or share does not comply with the relevant criteria and conditions specified in paragraph (b)(i) above, but the instrument or share meets or complies with all the relevant entry criteria and conditions specified in paragraphs (b)(ii) to (b)(vii), the proceeds obtained through the issue of that instrument or share shall be phased out from 1 January 2013 in accordance with the relevant requirements specified in paragraph (d) below;
  - (iii) is issued on or after 1 January 2013, that instrument or share shall comply with all the relevant conditions specified in paragraph (b) above in order for the proceeds obtained through the issue of that instrument or share to qualify as additional tier 1 capital;
- (d) Based on the relevant requirements specified in paragraph (c) above, a bank or controlling company-
  - (i) shall on 1 January 2013 determine the base amount in respect of all relevant instruments that do not meet or comply with the relevant specified criteria or requirements in paragraph (b), the proceeds of which shall be phased out in accordance with the relevant requirements specified in subparagraph (ii) below;
  - (ii) shall manage its business in such a manner that during the periods specified in table 3 below, the relevant aggregate amount of the said instruments included in the bank or controlling company's relevant amount of qualifying additional tier 1 capital shall not exceed the percentage of the base amount specified in table 3 below:

**Table 3**

<b>Specified period</b>	<b>Specified percentage of the relevant base amount</b>
1 January 2013 to 31 December 2013	90
1 January 2014 to 31 December 2014	80
1 January 2015 to 31 December 2015	70
1 January 2016 to 31 December 2016	60
1 January 2017 to 31 December 2017	50
1 January 2018 to 31 December 2018	40
1 January 2019 to 31 December 2019	30
1 January 2020 to 31 December 2020	20
1 January 2021 to 31 December 2021	10

Provided that from 1 January 2022 only instruments that fully comply with all the criteria and requirements specified in paragraph (b) shall be included in the bank or controlling company's relevant amount of qualifying additional tier 1 capital.

(14) *Conditions for the issue of instruments or shares of which the proceeds rank as tier 2 capital*

The proceeds of issued instruments or shares contemplated in section 1(1) of the Act that comply with all the conditions specified below shall rank as tier 2 capital:

- (a) Subject to the provisions of paragraphs (b) and (c) below, in the case of any instrument or share that is subordinated to depositors and general creditors-
  - (i) the terms and conditions of the instrument shall contain a provision that requires such instrument, at the option of the Registrar, to either be written off or converted into the most subordinated form of equity upon the occurrence of the trigger event specified in writing by the Registrar, unless duly enforceable legislation is in place that-
    - (A) requires the instrument to be written off upon the occurrence of the aforesaid event; or
    - (B) otherwise requires the instrument to fully absorb loss before tax payers or ordinary depositors are exposed to loss,

and the bank or controlling company complies with such further requirements as may be directed by the Registrar in writing.

Provided that-

- (i) any compensation paid to the instrument holders as a result of the aforesaid write-off shall be paid immediately and in the form of the most subordinated form of equity of the relevant bank or its controlling company, and the bank or controlling company, as the case may be, shall at all times maintain all prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur;
- (ii) the issuance of any new shares as a result of the trigger event shall occur prior to any public sector injection of capital so that the capital provided by the public sector shall not be diluted;
- (iii) as a minimum, the aforesaid trigger event shall be the earlier of:-
  - (aa) a decision that a write-off, without which the bank or controlling company would become non-viable, is necessary, as determined by the Registrar; or
  - (bb) the decision to make a public sector injection of capital, or equivalent support, without which the bank or controlling company would have become non-viable, as determined by the Registrar.
- (ii) the bank or controlling company, as the case may be, shall obtain the prior written approval of the Registrar before the instrument or share is issued;
- (iii) the key features of the relevant instruments or shares shall be duly disclosed in the annual financial statements or other relevant disclosures to the general public;
- (iv) the instrument or share-
  - (A) shall be issued and fully paid;
  - (B) shall be neither secured nor covered by any guarantee of the issuer or related or associated entity, or be subject to any other arrangement that legally or economically enhances the seniority of the claim;
  - (C) shall have a minimum original maturity of more than five years, provided that during the fifth year preceding the maturity of the relevant instrument the amount qualifying as tier 2 capital shall be reduced by an amount equal to 20 per cent of the amount so obtained and, annually thereafter, by an amount that in each successive year is increased by 20 per cent of the amount so obtained;

- (D) shall not contain any provision for step-up or other incentive to redeem;
- (E) shall not have any credit sensitive dividend feature, that is, a dividend or coupon that is periodically reset based in whole or in part on the bank's credit standing or rating;
- (F) shall not be held or acquired by the bank or any person related to or associated with the bank or over which the bank exercises or may exercise control or significant influence;
- (G) shall not be funded directly or indirectly by the relevant bank or controlling company;
- (H) may be callable at the sole initiative of the issuer only after a minimum period of five years, provided that-
  - (i) the bank shall obtain the prior written approval of the Registrar before exercising the said call;
  - (ii) the bank shall not create any expectation that such call will be exercised;
  - (iii) the bank shall not exercise the call unless the bank-
    - (aa) concurrently replaces the called instrument with capital of similar or better quality and the replacement of capital is done at conditions that are sustainable for/with the income capacity of the bank; or
    - (bb) demonstrates to the satisfaction of the Registrar that its capital position shall be well above the relevant specified minimum capital requirements after the call option is exercised;
- (v) the investor shall not have any right to accelerate the repayment of future scheduled payments, such as coupon or principal, except in the case of bankruptcy and/or liquidation;
- (vi) when the instrument or share is issued by a special purpose vehicle or institution, instead of by an operating entity, that is, an entity established to conduct business with clients with the intention of earning a profit in its own right, or the relevant controlling company in the consolidated group, the proceeds shall be immediately available without limitation to an operating entity or the controlling company in a form that meets or exceeds all the relevant criteria for inclusion in tier 2 capital specified above;

(b) When-

- (i) an instrument or share was issued prior to 12 September 2010 and that instrument or share does not comply with the relevant criteria and conditions specified in paragraphs (a)(ii) to (a)(vi) above, which criteria and conditions shall for purposes of these Regulations be referred to as the entry criteria and conditions, the proceeds obtained through the issue of that instrument or share shall be phased out from 1 January 2013 in accordance with the relevant requirements specified in paragraph (c) below;
- (ii) an instrument or share was issued on or after 12 September 2010 but before 1 January 2013, and that instrument or share does not comply with the relevant criteria and conditions specified in paragraph (a)(i) above, but the instrument or share meets or complies with all the relevant entry criteria and conditions specified in paragraphs (a)(ii) to (a)(vi), the proceeds obtained through the issue of that instrument or share shall be phased out from 1 January 2013 in accordance with the relevant requirements specified in paragraph (c) below;
- (iii) a hybrid-debt instrument issued prior to 12 September 2010 contains a call or step-up or any other incentive to be redeemed
  - (A) between 12 September 2010 and 31 December 2012, and the instrument is not called and redeemed during that period, and on or after 1 January 2013 the instrument does not comply with the criteria for inclusion in tier 2 capital specified in this subregulation (14), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of tier 2 capital from 1 January 2013;
  - (B) on or after 1 January 2013, and the instrument is not so called and redeemed on that date, and following that date the instrument does not comply with the criteria for inclusion in tier 2 capital specified in this subregulation (14), the proceeds from that instrument shall be fully disqualified for inclusion in the total amount of tier 2 capital from the date that the incentive to redeem was not exercised;
- (iv) an instrument or share is issued on or after 1 January 2013, that instrument or share shall comply with all the relevant conditions specified in paragraph (a) above in order for the proceeds obtained through the issue of that instrument or share to qualify as tier 2 capital.

- (c) Based on the relevant requirements specified in paragraph (b) above, a bank or controlling company-
- (i) shall on 1 January 2013 determine the base amount in respect of all relevant instruments that do not meet or comply with the relevant specified criteria or requirements in paragraph (a), the proceeds of which shall be phased out in accordance with the relevant requirements specified in subparagraph (ii) below;
  - (ii) shall manage its business in such a manner that during the periods specified in table 4 below, the relevant aggregate amount of the said instruments included in the bank or controlling company's relevant amount of qualifying tier 2 capital shall not exceed the percentage of the base amount specified in table 4 below:

**Table 4**

<b>Specified period</b>	<b>Specified percentage of the relevant base amount</b>
1 January 2013 to 31 December 2013	90
1 January 2014 to 31 December 2014	80
1 January 2015 to 31 December 2015	70
1 January 2016 to 31 December 2016	60
1 January 2017 to 31 December 2017	50
1 January 2018 to 31 December 2018	40
1 January 2019 to 31 December 2019	30
1 January 2020 to 31 December 2020	20
1 January 2021 to 31 December 2021	10

Provided that from 1 January 2022 only instruments that fully comply with all the criteria and requirements specified in paragraph (a) shall be included in the bank or controlling company's relevant amount of qualifying tier 2 capital.

**(15) Tier 2 unimpaired reserve funds**

- (a) Any share premium that is not eligible for inclusion in common equity tier 1 unimpaired reserve funds or additional tier 1 unimpaired reserve funds shall be permitted to be included in tier 2 unimpaired reserve funds only if the shares or instruments giving rise to the surplus are permitted to be included in tier 2 capital.

(16) *Matters related to specified minority interests, that is, non-controlling interests, in shares and/ or instruments qualifying as capital*

In the case of-

- (a) any minority interest arising from the issue of shares or instruments by a fully consolidated subsidiary of the reporting bank or controlling company, the relevant proceeds may be included in the bank or controlling company's common equity tier 1 capital only when-
- (i) the share or instrument giving rise to the minority interest would, if issued by the relevant bank or controlling company, comply with all the relevant criteria and requirements specified in subregulation (13)(a); and
  - (ii) the subsidiary that issued the share or instrument is itself a bank or, subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a non-bank institution that is subject to the same minimum prudential standards and level of supervision as a bank, that is, when capital has been issued to third parties out of a special-purpose vehicle or entity, none of that capital shall be included in the bank or controlling company's common equity tier 1 capital,

Provided that the amount of minority interest that complies with the specified criteria or requirements and that may be included in the relevant consolidated amount of common equity tier 1 capital shall be calculated as total minority interest meeting the specified criteria minus the amount of the surplus common equity tier 1 capital of the subsidiary attributable to the minority shareholders, provided that-

- (A) the surplus amount of common equity tier 1 capital of the subsidiary shall be calculated as the common equity tier 1 capital of the subsidiary minus the lower of
  - (i) the relevant minimum requirement of common equity tier 1 capital of the subsidiary plus the relevant specified required capital conservation buffer, that is, for example, 7 per cent of risk weighted exposure; and
  - (ii) the portion of the consolidated minimum common equity tier 1 capital requirement plus the relevant specified capital conservation buffer, that is, for example, 7 per cent of the consolidated risk weighted exposure, that relates to the subsidiary;

- (B) the surplus amount of common equity tier 1 capital attributable to the minority shareholders shall be calculated by multiplying the surplus common equity tier 1 capital with the relevant percentage of common equity tier 1 capital that is held by minority shareholders.
- (b) shares or instruments issued by a fully consolidated subsidiary of the reporting bank or controlling company to third party investors, including any relevant amount envisaged in paragraph (a) above, the relevant proceeds may be included in the total amount of tier 1 capital only when the relevant instruments would, if issued by the bank or controlling company, comply with all the relevant criteria or requirements specified in subregulation (13)(a) or (13)(b), provided that the amount of capital that may be included in tier 1 capital shall be the total amount of tier 1 capital of the subsidiary issued to third parties minus the surplus amount of tier 1 capital of the subsidiary attributable to the third party investors, provided that-
- (i) the surplus amount of tier 1 capital of the subsidiary shall be calculated as the tier 1 capital amount of the subsidiary minus the lower of:
    - (A) the minimum tier 1 capital requirement of the relevant subsidiary plus the relevant capital conservation buffer, that is, for example, 8,5 per cent of risk weighted exposure; and
    - (B) the portion of the minimum consolidated requirement of tier 1 capital plus the relevant capital conservation buffer, that is, for example, 8,5 per cent of the consolidated amount of risk weighted exposure that relates to the subsidiary;
  - (ii) the surplus amount of tier 1 capital attributable to the third party investors shall be calculated by multiplying the surplus amount of tier 1 capital with the relevant percentage of tier 1 capital held by the relevant third party investors;
  - (iii) the amount that may be recognised as additional tier 1 capital shall be the total amount calculated in terms of the provisions of this paragraph (b) minus the relevant amount calculated and recognised in terms of the provisions of paragraph (a) above;
  - (iv) when the capital has been issued to third parties out of a special-purpose vehicle or entity, such capital may be included in consolidated additional tier 1 capital, and treated as if the bank or controlling company itself had issued the capital directly to the third parties, only if it meets all the relevant specified entry criteria or requirements and the only asset of the special-purpose vehicle or entity is its investment in the capital of the relevant bank or controlling company in a form that as a minimum complies with all the relevant entry criteria specified in subregulations (13)(b)(ii) to (13)(b)(vii), provided that when the capital has been issued to third parties through a special-purpose vehicle or entity via a fully consolidated subsidiary of the bank or controlling company, such capital may, subject to the relevant requirements specified above, and such further conditions or requirements

as may be specified in writing by the Registrar, be treated as if the subsidiary itself had issued it directly to the third parties, and may be included in the relevant consolidated amount of additional tier 1 capital in accordance with the relevant requirements specified in this subregulation (16);

- (c) shares or instruments issued by a fully consolidated subsidiary of the reporting bank or controlling company to third party investors, including any relevant amount envisaged in paragraph (a) or (b) above, the relevant proceeds may be included in the total amount of qualifying tier 1 and tier 2 capital and reserve funds only when the relevant shares or instruments would, when issued by the relevant bank or controlling company, comply with all of the relevant criteria or requirements specified in these Regulations for common equity tier 1 capital, additional tier 1 capital or tier 2 capital, provided that the amount that may be included in the total consolidated amount of capital and reserve funds shall be the relevant total amount of capital of the relevant subsidiary issued to third parties minus the surplus amount of total capital of the subsidiary attributable to the third party investors, provided that-
- (i) the surplus amount of total capital of the subsidiary shall be calculated as the total capital of the subsidiary minus the lower of:
    - (A) the relevant minimum total capital requirement of the subsidiary plus the relevant capital conservation buffer, that is, for example, 10,5 per cent of risk weighted exposure; and
    - (B) the portion of the consolidated minimum total capital requirement plus the capital conservation buffer, that is, for example, 10,5 per cent of consolidated risk weighted exposure that relates to the subsidiary;
  - (ii) the surplus amount of total capital attributable to the third party investors shall be calculated by multiplying the surplus total capital with the relevant percentage of total capital held by third party investors;
  - (iii) the relevant amount that may be included in tier 2 capital shall be the total amount calculated in terms of the provisions of this paragraph (c) minus the relevant amounts calculated and recognised in terms of the provisions of paragraphs (a) and (b) above;
  - (iv) when the capital has been issued to third parties out of a special-purpose vehicle or entity, such capital may be included in consolidated additional tier 1 capital or tier 2 capital, and treated as if the bank or controlling company itself had issued the capital directly to the third parties, only if it meets all the relevant specified entry criteria or requirements and the only asset of the special purpose vehicle or entity is its investment in the capital of the relevant bank or controlling company in a form that as a minimum complies with all the relevant entry criteria specified in subregulation (13) or (14), provided that when the capital has been issued to third parties through a special-purpose vehicle or entity via a fully consolidated subsidiary of the bank or controlling company, such capital may, subject to

the relevant requirements specified above, and such further conditions or requirements as may be specified in writing by the Registrar, be treated as if the subsidiary itself had issued it directly to the third parties, and may be included in the relevant consolidated amount of additional tier 1 capital or tier 2 capital in accordance with the relevant requirements specified in this subregulation (16).

(17) *Matters related to leverage*

- (a) In order to-
- (i) prevent the build-up of excessive on-balance-sheet and off-balance-sheet leverage in banks and banking groups; and
  - (ii) mitigate the risks associated with deleveraging that may occur during a period of market uncertainty, such as the amplification of downward pressure on asset prices, material declines in bank capital and contraction in credit availability that may damage the broader financial system and the economy,
- every bank and every controlling company shall calculate a non risk-based leverage ratio in accordance with the relevant requirements specified in this subregulation (17), to supplement the bank or controlling company's risk-based capital requirements.
- (b) For purposes of this subregulation (17) and the calculation of a bank or controlling company's relevant leverage ratio-
- (i) qualifying capital and reserve funds means the sum of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds as reported in item 77, column 1, of the form BA 700;
  - (ii) non-risk-sensitive exposure-
    - (A) shall in the case of on-balance-sheet exposures include all relevant-
      - (i) on-balance-sheet non-derivative exposures included in the form BA 100, net of specific provision and/ or other credit valuation adjustment;

- (ii) gross exposure amounts, that is, unless expressly otherwise provided in this subregulation (17), no netting of loans and deposits shall be allowed for purposes of calculating the bank's relevant leverage ratio;
  - (iii) securities financing transactions (SFT), that is, transactions such as repurchase agreements, reverse repurchase or resale agreements, security lending and borrowing, and margin lending transactions-
    - (aa) which transactions are often subject to margin agreements;
    - (bb) the value of which transactions-
      - (i) essentially depends on market valuations;
      - (ii) shall be determined in accordance with the relevant Financial Reporting Standards issued from time to time read with the relevant directives for netting, other than cross-product netting, specified in these Regulations;
  - (iv) derivative instruments, including relevant transactions in terms of which the bank sold protection using a credit derivative instrument, the value of which instruments shall be determined in accordance with the relevant Financial Reporting Standards issued from time to time plus an add-on for potential future exposure calculated in accordance with the relevant requirements for the Current Exposure Method specified in regulation 23(17) of these Regulations, read with the relevant directives for netting, other than cross-product netting, specified in these Regulations;
- (B) shall in the case of all relevant on-balance-sheet exposures exclude any physical or financial collateral, guarantees or other credit risk mitigation instruments, that is, the respective on-balance-sheet exposure amounts shall not be reduced by any amount related to a risk mitigation instrument;
- (C) shall in the case of off-balance-sheet exposures include all relevant amounts related to-
  - (i) commitments, including all relevant liquidity facilities;
  - (ii) revocable undrawn commitments;

- (iii) direct credit substitutes;
- (iv) acceptances;
- (v) standby letters of credit;
- (vi) trade letters of credit;
- (vii) failed transactions;
- (viii) unsettled securities;
- (ix) repurchase agreements, securities financing transactions and derivative instruments in accordance with the applicable requirements specified in item (A) above,

in respect of which off-balance-sheet exposures the bank shall in all relevant cases apply a uniform 100 per cent credit conversion factor, provided that in the case of revocable undrawn commitments the bank may apply a credit conversion factor of 10 per cent.

- (iii) a bank or controlling company shall calculate its leverage ratio in accordance with the formula specified below:

$$\text{Leverage} = \frac{\text{Qualifying capital and reserve funds}}{\text{Non risk-sensitive exposure}} \times 100$$

Provided that-

- (A) since items that are deducted in full from capital do not contribute to leverage, a bank or controlling company shall also appropriately deduct the said items from its relevant amount of non risk-sensitive exposure;
- (B) in order to ensure that qualifying capital and reserve funds, and non risk-sensitive exposure, are measured consistently for purposes of calculating the bank or controlling company's leverage ratio, a bank shall exclude from its relevant amount of exposure the amount of assets related to institutions of which the investment in capital is excluded from regulatory consolidation, in accordance with the relevant requirements specified in subregulation (5), that is, assets and/ or exposure of relevant entities shall be excluded in proportion to the capital that is excluded in terms of the provisions of subregulation (5);

- (C) between 1 January 2013 and 31 December 2017 banks, controlling companies and the Registrar shall apply the relevant requirements specified in this subregulation (17) to monitor the readiness of relevant institutions to implement and fully comply with the said requirements and any subsequent amendments thereto as a minimum standard from 1 January 2018;
- (iv) during the aforesaid monitoring period of 1 January 2013 to 31 December 2017, a bank or controlling company, as the case may be, shall manage its business in such a manner that its leverage ratio is at no time less than 4 per cent, that is, the bank's leverage multiple, which is the inverse of the bank's leverage ratio, shall at no time exceed 25, or such leverage ratio and multiple as may be determined by the Registrar in consultation with the Governor of the Reserve Bank, which leverage ratio shall in no case be less than 3 per cent.

(18) *Repayment of capital*

- (a) A bank shall not without the prior written approval of the Registrar or otherwise than in accordance with conditions approved by the Registrar in writing repay any of its common equity tier 1 capital or additional tier 1 capital or, before the maturity thereof, redeem any of the instruments issued that qualify as tier 2 capital.
- (b) A written application by a bank under paragraph (a) for the permission of the Registrar-
- (i) to repay any of its common equity tier 1 capital or additional tier 1 capital shall contain written confirmation by the board of directors of the bank that-
- (A) the relevant capital adequacy ratios of the bank concerned shall be at least one percentage point higher than the relevant percentages determined in terms of subregulations (8) and (9), after the repayment of the said common equity tier 1 capital or additional tier 1 capital, without relying on any new capital issues;
- (B) the remaining common equity tier 1 capital and additional tier 1 capital shall be sufficient to ensure continued compliance by the relevant bank with the relevant requirements specified in subregulation (9), including, among others, that the bank's common equity tier 1 capital adequacy ratio shall exceed the relevant specified percentage;

- (C) the repayment of tier 1 capital is consistent with the bank's strategic and operating plans;
  - (D) the repayment of tier 1 capital takes into account any possible acquisitions, increased capital requirements of subsidiary companies or branches of the said bank and the possibility of exceptional losses;
  - (E) the repayment of tier 1 capital is included in the bank's ALCO process regarding the management of liquidity risk;
  - (F) all shares acquired back by the bank from the repayment of capital shall immediately be cancelled;
- (ii) to repay any of its tier 2 capital before the maturity thereof shall contain written confirmation by the board of directors of the bank that-
- (A) the bank shall simultaneously with the redemption of instruments issue further tier 2 capital that shall be of a quantity and quality similar to or higher than the instruments to be redeemed when the period that lapsed since the issue date of the instruments to be redeemed is or will be less than or equal to five years;
  - (B) the capital adequacy ratio of the bank concerned shall be at least one percentage point higher than the relevant percentage determined in terms of subregulations (8) and (9), after the repayment of the said tier 2 capital, without relying on any new capital issues;
  - (C) the repayment of tier 2 capital is included in the bank's ALCO process regarding the management of liquidity risk;
- (c) The provisions of this subregulation (18), to the extent that they are relevant, shall *mutatis mutandis* apply to a controlling company.
- (19) Instructions relating to the completion of the form BA 700 are furnished with reference to the headings and item descriptions of certain columns and line item numbers appearing on the form BA 700, as follows:

***Line items relating to the summary information of capital adequacy***

Line item number	Description
2	<b>Risk equivalent amount in respect of concentration risk</b>  Based on the relevant requirements specified in section 73 of the Act and such further requirements as may be specified in writing by the Registrar, this item shall reflect the relevant risk equivalent amount related to any capital requirement in respect of concentration risk.
3	<b>Risk weighted exposure in respect of threshold items and other specified items</b>  When reporting on a solo basis, based on, among other things, the relevant requirements specified in subregulation (5)(b), this line item shall reflect the relevant amount reported in item 228 of the form BA 700, after applying the relevant risk weight of 250%, plus the relevant amount reported in item 229 of the form BA 700, after applying the relevant risk weight of 1250%.
5	<b>Risk weighted exposure equivalent amounts specified by the Registrar, such as capital floors or add-ons</b>  This item shall reflect the relevant risk exposure equivalent amount related to any additional requirement specified in writing by the Registrar that relates to items such as capital floors or other specified add-ons.

***Columns relating to the summary information of capital adequacy, items 1 to 8***

Column number	Description
1 of item 1	This item shall reflect the relevant required aggregate amount of risk weighted credit exposure respectively reported in the specified items of the forms specified below:  Item 34, column 16, of the form BA 200; <b>plus</b> Item 156, column 10, of the form BA 200; <b>plus</b> Item 1, column 1, of the form BA 500; <b>less</b> Item 33, column 16, of the form BA 200; <b>less</b> Item 155, column 10, of the form BA 200 <b>less</b> Item 80 column 28, of the form BA 200 <b>less</b> Item 280, column 28, of the form BA 200
2 of item 1	This item shall reflect the relevant required aggregate amount of risk weighted counterparty credit exposure reported in the items of the form BA 200 specified below:  Item 80 column 28, of the form BA 200 <b>plus</b> Item 280, column 28, of the form BA 200

***Columns relating to the summary information of capital adequacy, items 1 to 8***

Column number	Description
3 of item 1	This item shall reflect the relevant required risk weighted exposure equivalent amount related to operational risk reported in item 28, column 9, of the form BA 400.
4 of item 1	This item shall reflect the relevant required risk weighted exposure amount related to market risk calculated in the manner specified below.  Item 32, column 3, of the form BA 320, <b>multiplied by 12,5 or such imputed variable as may be applicable from time to time.</b>
5 of item 1	This item shall reflect the relevant required aggregate amount of risk weighted credit exposure related to equity instruments held in the bank's banking book, as reported in the relevant items of the form BA 340 specified below:  Item 1, column 3, of the form BA 340; <b>plus</b> Item 2, column 3, of the form BA 340; <b>plus</b> Item 3, column 3, of the form BA 340; <b>plus</b> Item 6, column 4, of the form BA 340; <b>plus</b> Item 36, column 6, of the form BA 340.
6 of item 1	This item shall reflect the relevant required risk weighted exposure equivalent amount in respect of assets or risks other than credit risk, counterparty credit risk, operational risk, market risk, risk related to equity instruments held in the bank's banking book, or the relevant risk weighted exposure amount related to threshold items including any relevant amount of risk weighted exposure related to items reported in-  Item 79, column 3, of the form BA 200; Item 176, column 3, of the form BA 200; and  any other relevant amount of risk weighted exposure related to an asset or exposure specified in writing by the Registrar.

***Line items relating to required capital adequacy ratios and amounts***

Line item number	Description
12	<b>Additional idiosyncratic capital requirement specified by the Registrar</b> <p>This item shall reflect any relevant additional capital requirement in respect of idiosyncratic risk specified in writing by the Registrar as envisaged in subregulation (8)(e)(iii), which capital add-on shall be allocated to the respective specified categories of required capital in accordance with such requirements as may be specified in writing by the Registrar from time to time.</p>
19	<b>Specified floors or add-ons</b> <p>This item shall reflect any additional capital requirement specified in writing by the Registrar related to items such as capital floors or other specified add-ons to risk-weighted exposure.</p>

***Line items relating to Common Equity Tier 1 capital and reserve funds***

Line item number	Description
28	<b>Paid in capital</b> <p>This item shall reflect the relevant aggregate amount of any issued common stock, including any related premium, and other instruments that comply with the relevant criteria specified in these Regulations, net of any shares or instruments derecognised in terms of relevant Financial Reporting Standards issued from time to time, but shall exclude any relevant amount related to minority interests.</p>
29	<b>Retained earnings</b> <p>This item shall reflect the relevant aggregate amount of retained earnings prior to the application of any regulatory adjustment, provided that any negative amount due to accumulated losses shall be reported in line item 231, as part of regulatory adjustments or deductions, and not in this line item 29.</p>
40	<b>Minority interest</b> <p>This item shall reflect the relevant aggregate amount of minority interests in shares or instruments qualifying as Common Equity Tier 1 capital, which shall be the same amount as the amount included in the form BA 600 in respect of subsidiaries that issued capital to third parties.</p>

***Line items relating to Common Equity Tier 1 capital and reserve funds***

Line item number	Description
45	<p><b>Deferred tax assets (excluding temporary differences)</b></p> <p>This item shall reflect the relevant aggregate amount of deferred tax assets that rely on the future profitability of the bank to be realised, provided that-</p> <ul style="list-style-type: none"> <li>the relevant amount may be netted with any associated deferred tax liabilities if such amount relates to taxes levied by the same taxation authority and offsetting is permitted by that authority;</li> <li>any relevant amount related to an overinstalment of tax, giving rise to a claim or receivable amount from the government or local tax authority, which amount is typically classified as part of current tax assets, shall be reported in the form BA 200, and assigned the relevant risk weight.</li> </ul>
52	<p><b>Securitisation gain on sale (expected future margin income)</b></p> <p>This item shall reflect the relevant aggregate amount related to any relevant securitisation gain on sale, which amount shall be equal to line item 39 column 1 plus line item 39 column 2 of the form BA 500.</p>

***Line items relating to additional Tier 1 capital and reserve funds***

Line item number	Description
66	<p><b>Additional Tier 1 instruments issued</b></p> <p>This item shall reflect the relevant aggregate amount related to instruments issued that comply with the criteria specified in these Regulations to qualify as additional Tier 1 capital, including any relevant amount related to an instrument that is subject to the specified phase-out arrangements, provided that the bank shall report any relevant premium received in line item 72.</p>
69 and 71	<p><b>Capital subject to phase-out</b></p> <p>Based on the relevant requirements specified in subregulation (13)(d) of these Regulations, this item shall reflect the relevant aggregate amount related to capital instruments that are subject to phase-out, and shall be the relevant amount before the application of the relevant phased-out percentage on the base amount of the relevant qualifying instrument and minority interest.</p>

***Line items relating to additional Tier 1 capital and reserve funds***

Line item number	Description
70	<p><b>Minority interest</b></p> <p>This item shall reflect the relevant aggregate amount of minority interests in shares or instruments qualifying as additional Tier 1 capital, which shall be the same amount as the amount included in the form BA 600 in respect of subsidiaries that issued capital instruments to third parties.</p>

***Line items relating to Tier 2 capital and reserve funds***

Line item number	Description
79	<p><b>Tier 2 instruments issued</b></p> <p>This item shall reflect the relevant aggregate amount related to instruments issued that comply with the criteria specified in these Regulations to qualify as Tier 2 capital, including any relevant amount related to an instrument that is subject to the specified phase-out arrangements, provided that the bank shall report any relevant premium received in line item 83.</p>
80 and 82	<p><b>Capital subject to phase-out</b></p> <p>Based on the relevant requirements specified in subregulation (14)(c) of these Regulations, this item shall reflect the relevant aggregate amount related to capital instruments that are subject to phase-out, and shall be the relevant amount before the application of the relevant phased-out percentage on the base amount of the relevant qualifying instrument and minority interest.</p>
81	<p><b>Minority interest</b></p> <p>This item shall reflect the relevant aggregate amount of minority interests in shares or instruments qualifying as Tier 2 capital, which shall be the same amount as the amount included in the form BA 600 in respect of subsidiaries that issued capital instruments to third parties.</p>

***Line items relating to reconciliation in respect of unappropriated profits***

Line item number	Description
96	<p><b>Unappropriated profits</b></p> <p>This item shall reflect the relevant aggregate amount in respect of unappropriated profits, provided that any negative amount due to accumulated losses shall be reported in line item 231, as part of regulatory adjustments or deductions.</p>

***Line items relating to specified regulatory adjustments and deductions***

<b>Line item number</b>	<b>Description</b>
193 to 195	<p><b>Risk weighted assets of amounts below the threshold, not deducted</b></p> <p>These items shall reflect the relevant aggregate amounts in respect of assets or instruments held in the bank's banking book or trading book respectively, and which assets or instruments-</p> <ul style="list-style-type: none"> <li>• are risk weighted and reported in accordance with the relevant requirements respectively specified in regulations 23 and 28 of these Regulations;</li> <li>• shall not be included in line item 3, column 6, of the form BA 700.</li> </ul>
217	<p><b>Net deferred tax assets due to temporary differences</b></p> <p>This item shall reflect the relevant aggregate amount of deferred tax assets relating to temporary differences such as allowance for credit impairment, provided that the relevant amount may be netted with any associated deferred tax liabilities if such amount relates to taxes levied by the same taxation authority and offsetting is permitted by that authority.</p>

***Line items relating to capital distribution and income***

<b>Line item number</b>	<b>Description</b>
241 to 250	<p><b>Income and distributions</b></p> <p>These items shall only be completed by banks that have utilised part of their specified capital buffers and that have reported a percentage lower than 100 per cent in line item 257 of the form BA 700, provided that, when required to be completed, the items shall be completed based on six-month rolling balances.</p>
243 to 249	<p><b>Distributions</b></p> <p>All relevant specified distributions shall be reported in the period in which they are recognised in the relevant accounting records of the bank in accordance with the relevant Financial Reporting Standards, provided that the bank shall reverse or derecognise any relevant tax implication or impact of making such payments.</p>

***Columns relating to the reconciliation between qualifying capital and reserve funds and accounting equity and reserves, items 98 to 132***

Column number	Description
2	Based on the relevant amounts reported in column 1, this column 2 shall reflect the relevant required amount duly adjusted in accordance with the relevant requirements specified in these Regulations.

## CHAPTER III

### CORPORATE GOVERNANCE

#### **39. Process of corporate governance**

(1) The board of directors of a bank is ultimately responsible for ensuring that an adequate and effective process of corporate governance, which is consistent with the nature, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities and that responds to changes in the bank's environment and conditions, is established and maintained, provided that the board of directors may appoint supporting committees to assist it with its responsibilities.

(2) The process of corporate governance referred to in subregulation (1) includes the maintenance of effective risk management and capital management by a bank.

(3) The conduct of the business of a bank entails the ongoing management of risks, which may arise from the bank's on-balance sheet or off-balance sheet activities and which may include, among others, the following types of risk:

- (a) capital risk;
- (b) compliance risk;
- (c) concentration risk;
- (d) counterparty risk;
- (e) country risk and transfer risk;
- (f) credit risk, and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves;
- (g) currency risk;
- (h) detection and prevention of criminal activities;
- (i) equity risk arising from positions held in the bank's banking book;
- (j) interest-rate risk;
- (k) liquidity risk;
- (l) market risk (position risk) in respect of positions held in the bank's trading book;
- (m) operational risk;
- (n) reputational risk;

- (o) risk arising from exposure to a related person;
- (p) risk arising from the outsourcing of material tasks or functions;
- (q) risk arising from all relevant payment and settlement services, processes or systems;
- (r) risk relating to procyclicality;
- (s) risks arising from or related to inappropriate compensation practices for directors and executive officers;
- (t) risks related to securitisation or resecuritisation structures;
- (u) risks related to stress testing;
- (v) risks related to the inappropriate valuation of instruments, assets or liabilities;
- (w) solvency risk;
- (x) strategic risk;
- (y) technological risk;
- (z) translation risk;
- (aa) any other risk regarded as material by the bank.

(4) In order to achieve the objective relating to the maintenance of effective risk management and capital management envisaged in subregulation (2), every bank shall have in place comprehensive risk-management processes, practices and procedures, and board-approved policies-

- (a) to identify;
- (b) to measure;
- (c) to monitor;
- (d) to control;
- (e) to appropriately price;
- (f) to appropriately mitigate; and
- (g) to appropriately communicate or report,

among other things, the risks referred to in subregulation (3).

(5) As a minimum, the risk management processes, practices, procedures and policies referred to in subregulation (4)-

- (a) shall be adequate for the size and nature of the activities of the bank, including the bank's activities relating to risk mitigation, trading and exposure to counterparty credit risk, and shall periodically be adjusted in the light of the changing risk profile or financial strength of the bank, financial innovation or external market developments;
- (b) shall be duly aligned with, and, where appropriate, provide specific guidance for the successful implementation of and the continued adherence to, the business strategy, goals and objectives, and the risk appetite or tolerance for risk, of the bank;
- (c) shall duly specify relevant limits and allocated capital relating to the bank's various risk exposures;
- (d) shall be sufficiently robust-
  - (i) to determine and monitor the total indebtedness of any person to whom the bank granted credit;
  - (ii) to ensure that the bank raises appropriate and timely credit impairments and maintains adequate allowances or reserves for potential losses in respect of its loans or advances;
  - (iii) to identify and manage material interrelationships between the bank's relevant risk exposures;
  - (iv) to ensure the bank's continued compliance with the relevant documented set of internal policies, controls and procedures;
  - (v) to ensure that the bank captures the economic substance and not merely the legal form of the bank's various exposures to risk;
  - (vi) to ensure that the bank conducts sufficiently robust and independent due diligence in respect of the bank's respective investment in or exposure to instruments, products or markets, and that the bank, for example, does not merely or solely rely on an external credit rating when investing in a particular product or instrument;
  - (vii) to ensure that the bank regularly conducts appropriate stress-testing or scenario analysis;
  - (viii) to ensure that the bank maintains sufficient liquidity and capital adequacy buffers to remain solvent during prolonged periods of financial market stress and illiquidity;

- (ix) to clearly delineate accountability and all relevant lines of authority across the bank's various business units, lines or activities, and ensure that a clear separation exists between all relevant business units, lines or activities, and any relevant risk or control function;
  - (x) to ensure that, prior to its initiation, all relevant risk management, control and business units or lines appropriately review and assess proposed new activities, investment in new instruments or the introduction of new products, to ensure that the bank will be able to continuously manage and control the relevant activity, investment or product;
  - (xi) to ensure that the bank is able to appropriately aggregate or consolidate all relevant risks or exposure to risk;
  - (xii) to ensure ongoing, accurate, appropriate and timely communication or reporting of the bank's relevant risk exposures and any material deviation from approved policies, processes or procedures to the senior management and the board of directors;
  - (xiii) to ensure that the bank's board of directors and senior management receive timely and appropriate information regarding the condition of the bank's respective asset portfolios, including matters related to the relevant classification of credit exposure, the level of impairment or provisioning, and major problem assets;
  - (xiv) to enable the proactive management of all relevant risks;
  - (xv) to ensure that any breach of an internal limit is duly escalated and addressed;
  - (xvi) to timeously detect potential criminal activities and prevent undue exposure to criminal activities;
  - (xvii) to ensure proper oversight of any relevant outsourced function.
- (e) shall in the case of the bank's exposure to counterparty credit risk-
- (i) duly take into account the market risk, liquidity risk, legal risk and operational risk normally associated with counterparty credit risk;
  - (ii) ensure that the bank-
    - (A) duly takes into account the creditworthiness of all relevant counterparties;
    - (B) duly takes into account any relevant settlement and pre-settlement risk;

- (C) continuously monitors the utilisation of credit lines;
  - (D) measures its current exposure gross and net of collateral in all relevant cases, including in the case of margin lending;
  - (E) manages all relevant risk exposures at a counterparty and bank-wide level;
- (f) shall in the case of risk mitigation, including matters related to collateral and margin agreements with counterparties, be sufficiently robust to ensure that the bank continuously-
- (i) devotes sufficient resources to the orderly operation of margin agreements with OTC derivative and securities financing counterparties, as measured by, among other things, the timeliness and accuracy of the bank's outgoing calls and response time to incoming calls;
  - (ii) controls, monitors and reports-
    - (A) all relevant risk exposures related to margin agreements, such as the volatility and liquidity of the securities exchanged as collateral;
    - (B) any potential concentration risk to particular counterparties or types of collateral;
    - (C) the reuse of both cash and non-cash collateral, including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties, and
    - (D) all relevant matters related to the surrendering of rights on collateral posted to counterparties;
- (g) shall be sufficiently robust to timely identify material concentrations in any one of the risk exposures specified in subregulation (3), including concentrations relating to or arising from-
- (i) an individual or single counterparty, borrower or person;
  - (ii) a group of related or connected counterparties, borrowers or persons;
  - (iii) credit exposures in respect of counterparties or persons in the same industry, economic sector or geographic region;
  - (iv) credit exposures to counterparties or persons, the financial performance of which is dependent on the same activity or commodity;
  - (v) indirect credit exposures arising from the bank's risk mitigation activities such as exposure to a single collateral type or a single credit protection provider;

- (vi) interest-rate risk in the bank's banking book;
  - (vii) liquidity risk;
  - (viii) funding sources;
  - (ix) trading exposure or risk, including interest-rate risk and price risk;
  - (x) equity positions held in the bank's banking book;
  - (xi) specific assets or instruments held in either the banking book or trading book, including structured products;
  - (xii) off-balance-sheet exposures, including guarantees, liquidity lines or other commitments;
  - (xiii) correlation between any of the aforesaid risks, counterparties, instruments, assets, liabilities or commitments.
- (h) shall in the case of country risk and transfer risk be sufficiently robust-
- (i) to identify and monitor exposures on an individual country basis in addition to an end-borrower or end-counterparty basis;
  - (ii) to ensure that country exposures are accurately monitored and reported in the bank's information systems, risk management systems and internal control systems;
  - (iii) to continuously ensure adherence to the bank's established country exposure limits, and any other relevant limit that may be specified by the bank or Registrar;
  - (iv) to monitor and evaluate developments in country risk and in transfer risk, and apply appropriate countermeasures;
  - (v) to raise appropriate provision for loss against country risk and transfer risk in addition to any relevant required loan-specific provision or impairment;
- (i) shall in the case of liquidity risk be sufficiently robust to ensure that-
- (i) the bank conducts comprehensive cash flow forecasting;
  - (ii) the bank duly specifies, implements and maintains appropriate limits in respect of its respective funding sources, including all relevant products, counterparties and markets;
  - (iii) the bank conducts robust liquidity scenario stress testing, including stress tests in respect of such bank specific or sector specific scenarios as may be specified in writing by the Registrar;

- (iv) the bank develops and maintains robust and multifaceted contingency funding plans;
- (v) the bank maintains a sufficient cushion of liquid assets to meet contingent liquidity needs;
- (j) shall in relevant cases include prudent contingency plans specifying, for example, how the bank will respond to funding, capital and other pressures that may arise when access to securitisation markets is reduced, including matters related to the valuation of all relevant instruments or positions held;
- (k) shall include sound compensation processes, practices and procedures, and board-approved compensation policies, which compensation processes, practices, procedures and policies-
  - (i) shall be linked to longer-term capital preservation, and the financial strength of the bank.

This means, *inter alia*-

- (A) that variable compensation payments, for example, shall be appropriately deferred and payment shall not be finalised over short periods whilst risks are realised over long periods; and
- (B) that the mix of cash, equity and other forms of compensation shall be duly aligned with the bank's exposure to risk.
- (ii) shall incorporate and promote appropriate risk-adjusted performance measures, that is, compensation shall acknowledge all relevant risks so that remuneration is balanced between the profit earned and the degree of risk assumed in order to generate the profit;
- (iii) shall not be unduly linked, for example, to short-term accounting profit generation;
- (iv) shall ensure that staff engaged in the relevant financial and risk control areas have appropriate authority and are compensated in a manner that is independent of the business areas they oversee, and commensurate with their function in the bank;
- (v) shall promote adequate disclosure to stakeholders, that is, the bank shall disclose clear, comprehensive and timely information regarding the bank's compensation practices-
  - (A) to facilitate constructive engagement with all relevant stakeholders, including shareholders;
  - (B) to enable stakeholders to evaluate the quality of support for the bank's strategy, objectives and risk appetite;

- (l) shall be subject to adequate internal controls and appropriate internal audit coverage;
  - (m) shall ensure appropriate board and senior management oversight and involvement;
  - (n) shall include adequate internal controls to produce any data or information which might be required on a consolidated basis;
  - (o) shall be duly documented;
  - (p) shall be subject to regular monitoring and review, and relevant testing, to ensure that they remain relevant and current.
- (6) As a minimum-
- (a) the board of directors and senior management of a bank-
    - (i) shall possess sufficiently detailed knowledge of all the major business lines of the bank to ensure that the policies, processes, procedures, controls and risk monitoring systems envisaged in subregulations (4) and (5) are appropriate and effective;
    - (ii) shall have sufficient expertise to understand the various instruments, markets and activities in which the bank conducts business, including capital market activities such as securitisation and the related off-balance sheet-activities, and the associated risks;
    - (iii) shall ensure that the bank has in place management information systems-
      - (A) that facilitate the proactive management of risk;
      - (B) that enable the senior management of the bank to duly manage and appropriately mitigate the bank's relevant risk exposures, including the various risk exposures arising from any securitisation or resecuritisation structure;
      - (C) able to provide regular, accurate and timely information regarding matters such as the bank's aggregate risk profile, as well as the main assumptions used for risk aggregation;
      - (D) adaptable and responsive to changes in the bank's underlying risk assumptions;
      - (E) sufficiently flexible to generate relevant forward-looking scenario analyses that capture the board and senior management's interpretation of evolving market conditions and stressed conditions;

- (F) capable of capturing and bringing to the attention of senior management and the board of directors any breach in a specified internal, regulatory or other statutory limit;
  - (G) that make provision for any relevant initial and ongoing validation;
- (iv) shall ensure that the monitoring and the reporting of individual and aggregate exposure(s) to related persons are subject to an independent credit review process;
  - (v) shall remain informed about the aforesaid risks and changes thereto as financial markets, risk management practices and the bank's activities evolve;
  - (vi) shall ensure that accountability and lines of authority are clearly delineated;
  - (vii) shall ensure adequate segregation of duties to promote sound governance and effective risk management in the bank, and avoid conflict of interests;
  - (viii) shall ensure that, before embarking on new activities, investing in new instruments or introducing products new to the bank-
    - (A) the potential changes in the bank's exposure to risk arising from the aforesaid new instruments, products or activities have been duly identified, considered and reviewed; and
    - (B) the bank's infrastructure, policies, processes, procedures and internal controls necessary to manage the related risks are duly updated and in place;
  - (ix) shall duly consider the possible difficulty related to the valuation of new products, and how the products might perform in a stressed economic environment;
- (b) the senior management of a bank-
    - (i) shall ensure that the risks to which the bank is exposed are appropriately managed;
    - (ii) shall set capital targets commensurate with the bank's risk profile and control environment;
    - (iii) shall implement robust and effective risk management and internal control processes;
    - (iv) shall develop and maintain-

- (A) an appropriate strategy that ensures that the bank maintains adequate capital based on the nature, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities, including the bank's activities relating to risk mitigation;
- (B) an internal capital adequacy assessment process that responds to changes in the business cycle within which the bank conducts business;
- (v) shall, with respect to new or complex products or activities, understand the underlying assumptions regarding business models, valuation and risk management practices, and shall duly evaluate the bank's potential risk exposure should the aforesaid assumptions fail;
- (vi) shall, on a periodic basis, conduct relevant stress tests, particularly in respect of the bank's main risk exposures, in order to identify events or changes in market conditions that may have an adverse impact on the bank.

(7) When a bank wishes to adopt the IRB approach for the measurement of the bank's exposure to credit risk as envisaged in regulation 23(10), the board of directors or a designated committee thereof, that is, a subcommittee of the board of directors, and the relevant senior management of the bank, shall approve all material aspects of the bank's rating and risk estimation processes, provided that-

- (a) the board of directors and any board-appointed committee-
  - (i) shall possess-
    - (A) a general understanding of the bank's risk rating system;
    - (B) a detailed comprehension of the relevant risk-management reports submitted to the board or board-appointed committee;
  - (ii) shall ensure that the bank establishes and maintains an independent credit risk control unit, which credit risk control unit-
    - (A) shall be responsible for-
      - (i) the design or selection, implementation and performance of the bank's internal rating systems;
      - (ii) the testing and monitoring of internal risk grades;
      - (iii) the production and analysis of summary reports from the bank's rating system, which reports shall include-

- (aa) historical data in respect of exposures that defaulted, sorted according to the rating of the exposure at the time of default and one year prior to default;
  - (bb) migration analyses in respect of risk grades;
  - (cc) trends in respect of key rating criteria;
  - (iv) the implementation of procedures to verify that rating definitions are consistently applied across all relevant departments and geographical areas;
  - (v) the review and documentation of any changes to the rating process, criteria or rating parameters, including the reasons for such changes;
  - (vi) the review of the rating criteria in order to ensure that the criteria remain predictive of risk.
- (B) shall be functionally independent from the personnel and management functions or business units or lines responsible for the origination of credit exposures;
- (C) shall be headed by a person who reports directly to the chief executive officer and the bank's board of directors, provided that, subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, when a bank has appointed an independent Chief Risk Officer (CRO), as part of the bank's governance structure, who reports directly to the chief executive officer of the bank and the bank's board of directors, the head of the credit risk control unit may report directly to the said CRO;
- (D) shall bring to the attention of the senior management and the board of directors of the bank matters such as credit risk concentrations or any violations of specified risk or appetite limits;
- (E) shall actively participate in the development, selection, implementation and validation of the bank's rating models.
- (iii) shall ensure that the bank's rating systems and processes are subject to regular review, but no less frequently than once a year, by the internal audit department or an equally independent function, which independent review-
- (A) shall include-
- (i) the operations of the credit function;
  - (ii) the estimates of all relevant risk components such as PD ratios, LGD ratios and EAD amounts;

- (iii) the bank's compliance with all relevant minimum requirements;
- (B) shall be duly documented.
- (b) the relevant senior management of the bank-
- (i) shall possess-
  - (A) a detailed understanding of the rating system's design and operation;
  - (B) a detailed comprehension of the risk reports generated by the risk system, including information relating to-
    - (i) the relevant internal ratings;
    - (ii) the bank's risk profile based on risk grades;
    - (iii) risk migration across risk grades;
    - (iv) the relevant risk estimates of the relevant parameters per risk grade;
    - (v) a comparison between realised and expected PD ratios, LGD ratios and EAD amounts,
- provided that the frequency of reporting may vary based on the significance and type of information and the level of the recipient.
- (ii) shall provide notice to the board of directors or a committee appointed by the board of material changes or exceptions from the established policies;
  - (iii) shall approve material differences between established procedure and actual practice;
  - (iv) shall, on an ongoing basis, ensure that the rating system operates in an effective manner;
  - (v) shall meet regularly with the relevant staff in the credit risk control unit in order to discuss-
    - (A) the performance of the rating process;
    - (B) areas that may need improvement;
    - (C) the status of previously identified deficiencies.

(8) As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall obtain the prior written approval of the Registrar and shall in addition to the relevant requirements specified in these Regulations comply with such conditions as may be specified in writing by the Registrar;
- (b) shall have in place an independent risk control unit, which risk control unit-
  - (i) shall be responsible for the design and implementation of the bank's risk management system;
  - (ii) shall produce and analyse daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and counterparty and trading limits;
  - (iii) shall be independent from all relevant line business units;
  - (iv) shall report directly to the senior management of the bank;
  - (v) shall conduct regular backtesting, that is, an ex-post comparison of the risk measure generated by the bank's EPE model against the bank's actual exposure to counterparty credit risk;
  - (vi) shall conduct the initial and ongoing validation of the internal model;
  - (vii) shall control the integrity relating to input data;
  - (viii) shall validate prices supplied by business units;
  - (ix) shall be adequately staffed;
  - (x) shall be closely integrated into the day-to-day credit risk management process of the bank, that is, the work of the unit shall form an integral part of the process of planning, monitoring and controlling the bank's credit and overall risk profile.
- (c) shall have in place a collateral management unit, which collateral management unit-
  - (i) shall be responsible for calculating and making margin calls, managing margin call disputes and reporting levels of independent amounts, initial margins and variation margins accurately, on a daily basis;
  - (ii) shall control the integrity of the data used to make margin calls, and ensure that it is consistent and frequently reconciled with all relevant sources of data within the bank;

- (iii) shall continuously track and report-
    - (A) the extent and reuse of cash and non-cash collateral and the rights that the bank gives away to its respective counterparties for posted collateral;
    - (B) concentration to individual counterparties or collateral asset classes accepted by the bank;
  - (iv) shall have sufficient resources-
    - (A) to ensure that the unit effectively discharges its duties, as measured by matters such as the timeliness and accuracy of outgoing calls and response time to incoming calls;
    - (B) to process calls and disputes in a timely manner, even in the case of a severe market crisis;
    - (C) to enable the bank to limit its number of large disputes caused by trade volumes;
  - (v) shall produce and maintain appropriate collateral management information that is regularly reported to the senior management of the bank, which internal reports, as a minimum, shall include information regarding-
    - (A) the type of cash and non-cash collateral received and posted;
    - (B) the categories of collateral assets reused, and the terms of such reuse, including instrument, credit quality and maturity;
    - (C) the size, ageing and cause for margin call disputes; and
    - (D) any relevant trends in the aforesaid information;
- (d) shall-
- (i) ensure the active involvement and oversight of the bank's board of directors and senior management in the bank's risk control processes;
  - (ii) regard risk control, including credit and counterparty credit risk control, as an essential aspect of the bank's business;
  - (iii) devote adequate resources to the bank's risk control and collateral management units;
  - (iv) ensure that reports prepared by the independent risk control unit and the collateral management unit are reviewed by a level of senior management with sufficient authority to enforce both reductions of individual exposures to a particular counterparty and reductions in the bank's overall counterparty risk exposure;

- (v) ensure that the senior management of the bank is aware of the limitations and assumptions made in respect of the said internal model and the impact that such limitations and assumptions may have on the output of the model;
- (vi) ensure that the bank's model validation process and its review process are independent of the model developers;
- (vii) ensure that transactions are assigned to the appropriate netting set within the bank's model for the calculation or estimation of expected positive exposure relating to a particular counterparty;
- (viii) ensure that all relevant policies, processes and procedures, including all relevant policies, processes and procedures related to cash management, duly account for the liquidity risks associated with potential incoming margin calls in the context of exchanges of variation margin or other margin types, such as initial or independent margin, under adverse market shocks, potential incoming calls for the return of excess collateral posted by counterparties, and calls resulting from a potential downgrade of its own public rating;
- (ix) duly define-
  - (A) how representative counterparty portfolios are constructed for the purposes of validating its EPE model and its risk measures;
  - (B) criteria with which to assess the relevant EPE models and the models that input into the calculation of EPE;
- (x) ensure that the nature and horizon of collateral reuse is consistent with the bank's liquidity needs and does not jeopardise the bank's ability to post or return collateral in a timely manner;
- (xi) in the case of-
  - (A) exposures with a rising risk profile after one year, regularly compare the bank's estimate of EPE over one year with the EPE over the life of the said exposure;
  - (B) exposures with a maturity of less than one year, regularly compare the replacement cost or current exposure and the realised exposure profile;
- (xii) store sufficient data relating to the bank's counterparty exposure in order to conduct robust stress-testing and backtesting;
- (xiii) ensure that the bank has in place robust internal policies and procedures to verify that in respect of each exposure in respect of which-

- (A) the bank wishes to apply netting, prior to including the relevant transaction in a netting set, the transaction is covered by a legally enforceable netting contract that complies with the relevant requirements specified in these Regulations;
  - (B) the bank wishes to make use of collateral to mitigate the bank's exposure to counterparty credit risk, prior to recognising the effect of the said collateral in the calculation of the bank's exposure to counterparty credit risk, the collateral complies with the relevant requirements specified in these Regulations.
- (e) shall have in place a robust model for the estimation of expected positive exposure, that is, a robust EPE model, which model-
- (i) shall be closely integrated into the risk management processes of the bank and the output of which model shall be an integral part of the process of planning, monitoring and controlling the bank's exposure to counterparty credit risk;
  - (ii) shall be used in conjunction with internal trading and exposure limits in a manner that is consistent over time and that is well understood by the relevant traders, the credit function, the senior management and all relevant line and support functions of the bank;
  - (iii) shall for purposes of measuring counterparty exposure forecast over a sufficiently long time horizon interest rates, foreign exchange rates, equity prices, commodities, and other market risk factors, the performance of which forecasting model relating to market risk factors shall be validated over a sufficiently long time horizon;
  - (iv) shall capture and include transaction-specific information in order-
    - (A) to aggregate counterparty exposures at the level of a particular netting set;
    - (B) to duly capture the effect of margining, that is, the model shall take into account the current amount of margining and margining that will be exchanged between relevant counterparties in the future;
  - (v) shall in the case of exposures with a long-term maturity duly capture the potential rising risk profile of the said exposure;
  - (vi) shall duly account for-
    - (A) the nature of margin agreements, that is, unilateral or bilateral agreements;
    - (B) the frequency of margin calls;

- (C) the margin period of risk;
  - (D) the minimum threshold of unmargined exposure the bank is willing to accept;
  - (E) the minimum transfer amount.
- (vii) shall either model the mark-to-market change in the value of collateral posted or ensure the bank's continued compliance with the relevant requirements relating to collateral, specified in regulations 23(7)(b) and 23(12)(b);
  - (viii) shall comply with the relevant further operational requirements specified in subregulation (12) below.
- (f) shall have in place a robust process in respect of model validation, which model validation process-
    - (i) shall include appropriate backtesting in respect of representative counterparty portfolios and netting sets that complies with the relevant qualitative requirements specified in paragraph (g) below-
      - (A) which backtesting shall include a sufficient number of actual and hypothetical representative counterparty portfolios and netting sets;
      - (B) which representative portfolios and netting sets shall be selected based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
      - (C) during which process of backtesting-
        - (i) starting at a particular historical date, the bank shall use its internal model to forecast each portfolio's probability distribution of exposure at various time horizons;
        - (ii) using historical data on movements in market risk factors, the bank shall compute the exposures that would have occurred in respect of each portfolio at each time horizon assuming no change in the composition of the relevant portfolio;
        - (iii) the bank shall compare the realised exposures with the model's forecast distribution at the various relevant time horizons;
        - (iv) the bank shall repeat the process in respect of several historical dates that cover a wide range of market conditions such as rising rates, falling rates, quiet markets and volatile markets;
        - (v) the bank shall obtain and duly document the explanations for significant differences between the realised exposures and the model's forecast distribution.

- (ii) shall comply with the requirements regarding initial validation and on-going periodic review of the bank's internal model and the risk measures generated by it, as specified in paragraph (n) below,

Provided that, when validating its EPE models and its risk measures that produce forecast distributions, the bank's validation shall assess more than a single statistic of the model distribution.

- (g) shall have in place a robust process of backtesting, that is, an ex-post comparison of the relevant risk measures generated by the model against realised risk measures,
- (i) which backtesting-
    - (A) shall be conducted at regular intervals;
    - (B) shall include comparing hypothetical changes based on static positions with realised measures;
  - (ii) which process of backtesting shall comply with the relevant requirements specified in paragraph (n) below;
  - (iii) which risk measures shall not only relate to Effective EPE, the risk measure used to derive minimum required capital and reserve funds, but also to the other risk measures used in the calculation of Effective EPE, such as the exposure distribution at a series of future dates, the positive exposure distribution at a series of future dates, the market risk factors used to derive those exposures and the values of the constituent trades of a portfolio;
- (h) shall have in place a comprehensive and rigorous process or programme of stress-testing-
- (i) the results of which stress-testing-
    - (A) shall be integrated into regular reporting to the senior management of the bank;
    - (B) shall be used in the bank's internal assessment of capital adequacy;
    - (C) shall be compared against the bank's measure of expected positive exposure and the related impact on the bank's capital adequacy;
    - (D) shall be duly reflected in the bank's policies and counterparty limits set by management and the bank's board of directors;
  - (ii) which stress-testing process or programme-
    - (A) may form part of the bank's bank-wide stress testing process;

- (B) shall include the identification of possible events or future changes in economic conditions that may have an unfavourable effect on the bank's credit exposures, and an assessment of the bank's ability to withstand such changes, which events or economic conditions may include-
- (i) economic or industry downturns;
  - (ii) market-place events; or
  - (iii) decreased liquidity conditions.
- (C) shall include the stress testing of the bank's counterparty exposures, including a process of jointly stressing relevant market and credit risk factors;
- (iii) which stress-testing process or programme shall be sufficiently robust-
- (A) to ensure complete trade capture and exposure aggregation across all relevant forms of counterparty credit exposure, including counterparty risk arising from OTC derivative transactions, at the counterparty-specific level, in a sufficient time frame to conduct regular stress testing;
  - (B) to at least once a month, for all relevant counterparties, produce exposure stress testing of principal market risk factors, that is, for example, interest rates, foreign exchange, equities, credit spreads, and commodity prices, in order to proactively identify, and, when necessary, reduce undue concentrations to specific directional sensitivities;
  - (C) to at least once a quarter-
    - (i) apply multifactor stress testing scenarios and assess material non-directional risks, that is, for example, yield curve exposure and basis risks, which multiple-factor stress tests shall, as a minimum, aim to address scenarios in which-
      - (aa) severe economic or market events have occurred;
      - (bb) broad market liquidity has decreased significantly; and
      - (cc) the market impact of liquidating positions of a large financial intermediary;
    - (ii) conduct stress tests, applying stressed conditions to the joint movement of exposures and counterparty creditworthiness, since stressed market movements have an impact not only on counterparty exposures, but also on the credit quality of counterparties;

- (D) to perform exposure stress testing, including single factor, multifactor and material non-directional risks, and joint stressing of exposure and creditworthiness at the counterparty-specific level, counterparty group level, that is, for example, industry and regional level, and aggregate bank-wide counterparty credit exposure levels;
  - (E) to capture the largest counterparty-level impacts across the portfolio, material concentrations within segments of the portfolio, that is, for example, within the same industry or region, and relevant portfolio and counterparty specific trends;
  - (F) to ensure that the severity of factor shocks is consistent with the purpose of the stress test, that is, when the bank, for example, evaluates solvency under stress, factor shocks shall be severe enough to capture historical extreme market environments and/or extreme but plausible stressed market conditions;
  - (G) to ensure that the bank appropriately evaluates the impact of the aforesaid shocks on matters such as qualifying capital, capital requirements and earnings;
  - (H) to ensure that for the purpose of day-to-day portfolio monitoring, hedging, and management of concentrations, the bank also considers scenarios of lesser severity and higher probability;
  - (I) to ensure that the bank conducts relevant reverse stress tests to identify extreme, but plausible, scenarios that could result in significant adverse outcomes;
- (iv) during which process of stress-testing the bank shall consider-
- (A) concentration risk, including concentration risk in respect of a single counterparty or a group of related counterparties;
  - (B) any risk of correlation between market risk and credit risk, including situations in which a large movement in market prices, for example, may result in a particular counterparty exposure becoming a large exposure or cause a material deterioration in the credit quality of the said counterparty, or both;
  - (C) the risk that liquidating a counterparty position may have a material impact on the market;
  - (D) the impact on the bank's own positions of movements in market prices, which impact shall be integrated into the bank's assessment of counterparty risk.

Provided that when the bank's stress-tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (i) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (j) shall duly document-
  - (i) the process for initial and on-going validation of the bank's internal model to a level of detail that would enable a third party to recreate the relevant analysis;
  - (ii) the calculation of the respective risk measures generated by the models to a level of detail that would allow a third party to re-create the said risk measures;
  - (iii) the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure the bank's exposure to counterparty risk,
- which documentation, among other things, shall clearly set out the frequency with which backtesting analysis and any other on-going validation will be conducted, how the validation is conducted with respect to data flows and portfolios and the analyses that are used;
- (k) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
  - (i) shall include the activities of the relevant business units, the independent risk control unit and the bank's overall risk management process;
  - (ii) shall be conducted at regular intervals but not less frequently than once a year;
  - (iii) as a minimum, shall include-
    - (A) the adequacy of documentation relating to the bank's risk management policies, system and processes;
    - (B) the organisation of the risk control unit;
    - (C) the organisation of the collateral management unit;

- (D) the integration of risk measures into the bank's ongoing risk management processes and systems;
  - (E) the approval process relating to all relevant risk pricing models and valuation systems, including counterparty credit risk models used in the calculation of counterparty credit risk exposure used by front office and back office personnel;
  - (F) the validation of any significant changes made in respect of the bank's risk measurement process;
  - (G) the scope of counterparty credit risk and relevant market risk factors captured by the risk measurement model;
  - (H) the integrity of the management information system;
  - (I) the accuracy and completeness of relevant credit and market variables and data;
  - (J) the accurate reflection of relevant legal terms in collateral and netting agreements in the respective measurements of the bank's exposure to risk;
  - (K) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
  - (L) the accuracy and appropriateness of volatility and correlation assumptions;
  - (M) the accuracy of valuation and risk transformation calculations;
  - (N) the verification of the model's accuracy through frequent backtesting as set out in these Regulations;
- (l) shall have in place a written policy that clearly describes the process by which unacceptable performance of the bank's model will be determined and remedied;
- (m) shall ensure that on-going validation of counterparty credit risk models, including backtesting, is reviewed periodically by senior management with sufficient authority to decide the course of action that will be taken to duly address weaknesses in the bank's models;
- (n) shall ensure that, as part of the bank's initial and on-going validation of its internal model and the related risk measures-
- (i) the most recent performance of the bank's EPE model and the relevant risk measures are duly assessed;

- (ii) the bank conducts backtesting using historical data on movements in market risk factors prior to the bank's application to the Registrar for approval of the bank's internal model, which backtesting shall consider a number of distinct prediction time horizons out to at least one year, over a range of various start or initialisation dates, and covering a wide range of market conditions;
- (iii) the bank's backtesting includes the performance of the EPE model and the model's relevant risk measures as well as the market risk factor predictions that support EPE, provided that, for collateralised trades, the prediction time horizons considered shall include those reflecting typical margin periods of risk applied in collateralised or margined trading, and include time horizons of at least one year;
- (iv) pricing models used to calculate counterparty credit risk exposure for a given scenario of future shocks to market risk factors are appropriately tested, which pricing models-
  - (A) may be different from the pricing models used to calculate market risk over a short horizon;
  - (B) shall in the case of options duly account for the nonlinearity of option value with respect to market risk factors;
  - (C) shall be regularly tested against appropriate independent benchmarks;
- (v) the bank verifies that transactions are assigned to the appropriate netting set within the model;
- (vi) static, historical backtesting on representative counterparty portfolios forms part of the bank's validation process;
- (vii) the bank conducts, at such intervals as may be directed in writing by the Registrar, backtesting on a sufficient number of representative counterparty portfolios, provided that-
  - (A) the representative portfolios shall be chosen based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
  - (B) the backtesting conducted by the bank shall be designed to test the key assumptions of the bank's EPE model and the relevant risk measures, that is, for example, the modelled relationship between tenors of the same risk factor, and the modelled relationships between risk factors;
  - (C) the bank's backtesting programme shall be sufficiently robust to identify poor performance in the bank's EPE model's risk measures;

- (D) the bank shall report to the Registrar significant differences between realised exposures and the bank's forecast distribution;
- (viii) the bank validates its EPE model and all relevant risk measures out to time horizons commensurate with the maturity of trades for which exposure is calculated using the internal modelling method;
- (ix) the frequency with which the parameters of the bank's EPE model are updated is assessed;
- (x) in respect of a measure or metric for which the bank obtained prior approval of the Registrar to measure counterparty exposure, which measure shall be more conservative than the specified metric used to calculate EAD for every counterparty, that is, more conservative than alpha times Effective EPE, the bank shall regularly validate that the said measure or metric is sufficiently conservative;
- (xi) the bank includes all relevant counterparties for which the models are used;
- (xii) the bank assesses whether or not the bank level and netting set exposure calculations of EPE are appropriate;
- (o) shall comply with the relevant further operational requirements specified in subregulations (9) to (12) below.
- (9) *Counterparty credit risk: operational requirements relating to the use test*
- As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-
- (a) shall demonstrate to the satisfaction of the Registrar that the distribution of exposures generated by the bank's internal model and used by the bank to calculate its effective expected positive exposure is closely integrated into the day-to-day counterparty credit risk management process of the bank, that is-
- (i) the output of the internal model shall play an essential role in the credit approval, counterparty credit risk management, internal capital allocations and governance processes of the bank;
- (ii) the internal model used by the bank to generate the distribution of exposures shall form part of a counterparty risk management framework that includes the identification, measurement, management, approval and internal reporting of counterparty risk, which framework shall include the aggregation of credit exposures to the same counterparty and the allocation of economic capital;
- (iii) peak exposure from the distribution is used by the bank, for example, to determine counterparty credit limits;

- (iv) expected positive exposure is used by the bank, for example, for internal allocation of capital.
- (b) shall have a credible track record in the use of an internal model that generate a distribution of exposures to counterparty credit risk, that is, the bank shall demonstrate to the satisfaction of the Registrar that for at least one year prior to the bank's application for approval to use the internal model method the bank has implemented a model-
  - (i) that calculates the distributions of exposures upon which the bank's EPE calculation is based;
  - (ii) that broadly meets the minimum requirements specified in subregulation (8) above.
- (c) shall have in place an independent risk control unit that complies with the relevant requirements specified in subregulation (8)(b) above;
- (d) shall have in place a collateral management unit that complies with the relevant requirements specified in subregulation (8)(c) above;
- (e) shall demonstrate to the satisfaction of the Registrar-
  - (i) that in addition to EPE which is a measure of future exposure, the bank measures and manages current exposure, gross and net of collateral held;
  - (ii) that the bank is able to measure counterparty exposure out to the life of all relevant contracts in a netting set and not just to a one year horizon, that is, the bank, for example, has procedures in place to identify and control the risks relating to counterparties in respect of which exposure rises beyond the one-year horizon;
  - (iii) that the bank is able to monitor and control the bank's exposure to counterparty credit risk;
  - (iv) that any forecasted increase in exposure beyond a one-year horizon constitutes an input into the bank's internal economic capital model.
- (f) shall implement a time profile of forecasting horizons that duly reflects the time structure of future cash flows and the maturity of the contracts that expose the bank to counterparty credit risk, provided that-
  - (i) although the bank may not be required to estimate or report expected exposure on a daily basis, the bank shall have the system capability to estimate expected exposure or EE daily when necessary;
  - (ii) based on materiality and the composition of the bank's exposure, the bank, for example, may compute EE on a daily basis for the first ten days, once a week out to one month, once a month out to eighteen months or once a quarter out to five years and beyond five years.

*(10) Counterparty credit risk: operational requirements relating to stress testing*

As a minimum, the senior management of a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall ensure that the bank has in place a robust stress-testing process, which stress-testing process, amongst other things, shall comply with the relevant minimum requirements specified in subregulation (8)(h) above;
- (b) shall take a lead role in the integration of stress testing into the risk management framework and risk culture of the bank;
- (c) shall ensure that the results of-
  - (i) the stress testing process are meaningful and proactively used to manage counterparty credit risk;
  - (ii) stress testing for significant exposures are compared to board-approved standards that express the bank's risk appetite and elevated for discussion and action when excessive or material concentrated risks are present.

*(11) Counterparty credit risk: operational requirements relating to the identification of wrong-way risk*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk shall have in place policies, processes and procedures to identify, monitor and control exposure to or cases of material-

- (a) general wrong-way risk, that is, when the probability of default of a counterparty is positively correlated with general market risk factors, provided that, as a minimum, the bank shall-
  - (i) identify all relevant exposures that give rise to a greater degree of general wrong-way risk;
  - (ii) develop and conduct relevant stress testing and scenario analyses to identify risk factors that are positively correlated with counterparty credit worthiness, which testing shall include and duly address the possibility of severe shocks occurring when relationships between risk factors have changed;
  - (iii) continuously monitor general wrong-way risk-
    - (A) by product;
    - (B) by region;
    - (C) by industry, or

- (D) by such other categories that may be relevant to the bank's business;
- (iv) regularly report to senior management and the appropriate committee of the Board relevant information related to wrong-way risks, and the steps taken to duly manage the related risk;

and

- (b) specific wrong-way risk, that is, when future exposure relating to a specific counterparty is highly correlated with the counterparty's probability of default, which situation may arise when a company, for example, write put options in respect of its own stock,

which policies, processes and procedures shall be adequate to monitor and control the relevant risk from the inception of the transaction as well as during the life of the said contract.

**(12) Counterparty credit risk: further operational requirements relating to internal controls and the integrity of the bank's modelling process**

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall have in place a robust internal model that calculates, amongst other things, expected positive exposure or EPE-
- (i) which model shall reflect transaction terms and specifications in a timely, complete and conservative manner-
- (A) which terms may include-
- (i) the notional amounts of contracts;
- (ii) the maturity of transactions, contracts or agreements;
- (iii) any relevant reference asset;
- (iv) any collateral threshold amount;
- (v) any relevant margining arrangement or agreement;
- (vi) any relevant netting arrangement or agreement;
- (B) which terms and specifications shall reside in a secure database that is subject to formal and periodic audit;
- (C) the transmission of which transaction terms and specifications to the bank's internal model shall be subject to internal audit;

- (ii) which EPE model and any modifications made to the model shall be subject to a robust internal model validation process, which model validation process-
    - (A) shall be duly articulated in the bank's policies and procedures;
    - (B) shall specify the type of testing required in order to ensure model integrity;
    - (C) shall identify conditions under which assumptions made may be violated, resulting in an understatement of EPE;
    - (D) shall include a review of the comprehensiveness of the bank's EPE model, including whether or not the EPE model sufficiently covers all products that may have a material impact on the bank's exposure to counterparty risk;
    - (E) shall comply with the additional requirements specified in subregulation (8)(e).
  - (b) shall ensure that-
    - (i) when the model that is used to calculate, among other things, Effective EPE is calibrated using historic market data, the bank uses current market data to calculate current exposures, and at least three years of historical data is used to estimate parameters of the model, provided that-
      - (A) the bank may use market implied data to estimate parameters of the model; and
      - (B) in all cases, relevant data shall be updated quarterly or more frequently if warranted by market conditions;
    - (ii) when calculating the Effective EPE using a stress calibration, the bank also calibrates Effective EPE using-
      - (A) three years of data that include a period of stress to the credit default spreads of the bank's counterparties; or
      - (B) market implied data from a suitable period of stress,
- Provided that, in order to assess the adequacy and effectiveness of the aforesaid stress calibration,
- (i) the bank shall demonstrate to the satisfaction of and in a manner and time interval determined in writing by the Registrar, which shall be no less frequently than quarterly, that the stress period coincides with a period of increased CDS or other credit spreads, such as loan or corporate bond spreads, for a representative selection of the bank's counterparties with traded credit spreads, provided that when the bank does not have adequate credit spread data for a counterparty, the bank shall map each relevant counterparty to specific credit spread

- data based on relevant region, internal rating and business types;
- (ii) the exposure model for all relevant counterparties shall use data, either historic or implied, that includes the data from the stressed credit period, and the bank shall use such data in a manner consistent with the method used for the calibration of the Effective EPE model for/ to current data;
- (iii) the bank shall create several benchmark portfolios that are vulnerable to the same main risk factors to which the bank is exposed, provided that the exposure to the said benchmark portfolios shall be calculated using-
- (aa) current positions at current market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period; and
- (bb) current positions at end of stress period market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period,
- (iv) the Registrar may request the bank to adjust the stress calibration if the exposures of the said benchmark portfolios deviate substantially;
- (c) shall have in place a robust process for the recognition of any netting arrangement or agreement, which netting arrangement or agreement-
- (i) shall be subject to signoff by legal staff of the bank in order to verify the legal enforceability of the relevant netting arrangement or agreement;
- (ii) shall be captured into the relevant database by an independent unit.
- (d) shall have in place a formal reconciliation process between the bank's internal model and its source data systems in order to verify on an ongoing basis that transaction terms and specifications are duly reflected in the bank's calculation of EPE.
- (13) As a minimum, and without derogating from the relevant requirements specified in regulations 3 and 14 of these Regulations, a bank that invests or trades in instruments, contracts or positions that are measured at fair value shall implement robust governance structures and control processes as part of its risk-management framework for the prudent valuation of the said instruments, contracts or positions, which structures, control processes and risk-management framework shall include the key elements specified below:

(a) *Structures, processes, systems and controls*

A bank shall establish and maintain adequate structures, processes, systems and controls in respect of instruments, contracts or positions measured at fair value, which structures, processes, systems and controls-

- (i) shall explicitly cover the role of the board of directors and the senior management of the bank;
  - (ii) shall ensure that the board receives regular reports from senior management regarding matters related to the valuation oversight and valuation model performance that were brought to the attention of the senior management for resolution, and all significant changes to valuation policies;
  - (iii) shall ensure the robust production, assignment and verification of all relevant valuations;
  - (iv) shall be sufficiently robust-
- (A) to ensure and promote the quality, integrity and reliability of all relevant input that affects the valuation of instruments, contracts or positions, in respect of which input the bank shall duly consider-
- (i) the frequency and availability of the relevant prices or quotes;
  - (ii) whether or not the relevant prices represent actual regularly occurring transactions on an arm's length basis;
  - (iii) the breadth of the distribution of the data and whether it is generally available to all relevant participants in the market;
  - (iv) the timeliness of the information relative to the frequency of valuations;
  - (v) the number of independent sources that produce the relevant quotes or prices;
  - (vi) whether or not the relevant quotes or prices are supported by actual transactions;
  - (vii) the maturity of the market; and
  - (viii) the similarity between the instrument, contract or position sold in a transaction and the instrument, contract or position held by the bank;

- (B) to appropriately consider and apply all relevant international standards or guidance that may affect the valuation of instruments, contracts or positions, including all relevant financial or accounting standards or statements;
  - (C) to ultimately ensure that the bank's valuation estimates are prudent and reliable;
- (v) shall ensure that all relevant new product approval processes include all internal stakeholders relevant to risk measurement, risk control, and the assignment and verification of valuations;
- (vi) shall ensure that the bank's control processes for the measurement and reporting of valuations are consistently applied-
- (A) across the bank;
  - (B) across similar instruments or risks; and
  - (C) across all relevant business lines;
- (vii) shall be duly integrated with other risk management structures, policies, procedures, processes and systems, such as credit analysis, within the bank;
- (viii) shall be based on duly documented policies and procedures for the process of valuation, which documented policies and procedures, among other things-
- (A) shall ensure that all relevant approvals of valuation methodologies are duly documented;
  - (B) shall duly specify the range of acceptable practices for the initial pricing, marking-to-market or model, valuation adjustments and periodic independent revaluation;
  - (C) shall include duly defined responsibilities of the various areas involved in the determination of valuations;
  - (D) shall include the sources of market information to be used and the review of their appropriateness;
  - (E) shall include appropriate guidelines for the use of unobservable inputs, reflecting the bank's assumptions of what market participants may use when pricing the relevant position;
  - (F) shall include the frequency of independent valuation;
  - (G) shall include the timing of closing prices;

- (H) shall include all relevant matters related to verification.
- (ix) shall ensure that the performance of the bank's relevant models is subject to robust testing and review, particularly under stressed conditions, in order to ensure that the board of directors and senior management of the bank understand any potential limitations of the models;
- (x) shall ensure that the bank has in place-
  - (A) adequate capacity to determine or establish and verify all relevant valuations, particularly during periods of stress;
  - (B) a board-approved external reporting or disclosure policy-
    - (i) that complies with the relevant requirements specified in regulation 43;
    - (ii) that ensures that the bank provides timely, relevant and reliable information;
    - (iii) that ensures that the bank provides meaningful information relating to-
      - (aa) the bank's respective modelling techniques and the instruments to which they apply;
      - (bb) the sensitivity of fair values to modelling inputs and assumptions;
      - (cc) the impact of stress scenarios on valuations;
    - (iv) that promotes transparency;
    - (v) that is subject to regular review to ensure that the information disclosed continues to be relevant and current;
  - (xi) shall be subject to clear and independent reporting lines, that is, independent from the front office, which reporting line ultimately shall be to an executive director of the bank;
  - (xii) shall be subject to internal audit.

(b) *Valuation methodologies*

(i) *Marking to market*

Based on readily available close out prices, which close out prices shall be sourced independently, a bank shall mark to market all positions accounted for at fair value as often as possible, but not less frequently than at the close of business of every day or when the closing price of a particular position or market is published, provided that-

- (A) unless the bank is a significant market maker in a particular instrument or position, and the bank is in a position to close positions out at mid-market prices, the bank shall use the more prudent side of bid/offer prices;
- (B) when estimating fair value the bank shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs;
- (C) when observable inputs or transactions are deemed by the bank not to be relevant, such as in a forced liquidation or distressed sale situation, or transactions may not be observable, such as when markets are inactive, the bank shall duly consider any observable data in accordance with its board-approved policies, in order to determine the extent to which such inputs should be regarded as determinative.

(ii) *Marking to model*

Only when a bank is unable to mark to market positions accounted for at fair value, the bank may use a mark-to-model approach, that is, valuations that are benchmarked, extrapolated or otherwise calculated from a market input, provided that-

- (A) the senior management of the bank shall be aware of the elements of the trading book or other instruments, contracts or positions that are accounted for at fair value and that are subject to mark-to-model valuations, and shall understand the uncertainty that may exist in the reporting of the risk or performance of the bank;
- (B) the bank-
  - (i) shall demonstrate to the satisfaction of the Registrar that its mark-to-model approach is prudent;
  - (ii) shall source market input as frequently as possible;
  - (iii) shall use generally accepted valuation methodologies relating to particular products as frequently as possible;

(iv) shall have in place formal change control procedures and a secure copy of the model, which copy of the model shall be maintained and periodically used to check all relevant valuations;

(C) when the model was developed internally by the bank, the model-

(i) shall be based on appropriate assumptions, which assumptions shall be assessed by duly qualified persons who shall be independent from the development process;

(ii) shall be approved independently from the front office;

(iii) shall be independently tested.

(D) the model shall be subject to periodic review to determine the accuracy of its performance, including an analysis of profit and loss against the risk factors and a comparison of actual close out values to model outputs.

*(iii) Independent price verification*

By way of independent price verification, a bank shall regularly but not less frequently than once a month, verify market prices and model inputs for accuracy, which independent price verification in respect of market prices or model inputs-

(A) shall be performed by a unit independent from the dealing room;

(B) shall be used-

(i) to identify any errors or biases in pricing;

(ii) to eliminate any inaccurate adjustments to valuations.

*(c) Valuation adjustment*

Due to, for example, the uncertainty associated with liquidity in markets, instruments or products accounted for at fair value, that may result in a bank being unable to sell or hedge the said instruments, products or positions in a desired short period of time, as part of a bank's risk management framework and mark-to-market or mark-to-model procedure, a bank shall establish and maintain procedures for considering relevant valuation adjustments, provided that-

(i) as a minimum, the bank shall duly consider-

(A) valuation adjustments to instruments, products or positions that may be subject to reduced liquidity;

- (B) relevant close-out prices for concentrated positions and/or stale positions;
- (C) all relevant factors when determining the appropriateness of valuation adjustments or reserves for less liquid positions, including, for example-
  - (i) the time required to hedge out the position or risks associated with the position;
  - (ii) the average volatility of bid/offer spreads;
  - (iii) the availability of independent market quotes;
  - (iv) the number and identity of market makers;
  - (v) the average and volatility of trading volumes, including trading volumes during periods of market stress;
  - (vi) market concentrations;
  - (vii) the aging of positions;
  - (viii) the extent to which valuation relies on marking-to-model, and the impact of model risk;
- (ii) for complex products, including securitization or resecuritisation exposures and n-th-to-default credit derivative instruments, the bank shall explicitly and continuously assess the need for any relevant valuation adjustment to reflect at least two forms of model risk, namely
  - (A) the model risk associated with using a possibly incorrect valuation methodology; and
  - (B) the risk associated with using unobservable and possibly incorrect calibration parameters in the bank's valuation model.

(14) A bank that wishes-

- (a) to adopt the internal model market-based approach for the measurement of the bank's exposure arising from equity instruments held in the bank's banking book-
  - (i) shall have in place board approved policies, procedures and controls in order to ensure the integrity of the model and the modelling process used to measure the bank's exposure to risk, which board approved policies, procedures and controls shall be adequate-
  - (A) to ensure a complete integration of the internal model into the bank's overall management information systems, particularly in respect of the ongoing management of the bank's banking book equity portfolio, including a complete integration in order-
    - (i) to determine investment hurdle rates;
    - (ii) to evaluate alternative investments;
    - (iii) to measure and assess the performance of the bank's equity portfolio, including the risk-adjusted performance;
    - (iv) to allocate economic capital to equity positions;
    - (v) to evaluate the bank's capital adequacy,

provided that the bank shall by way of, for example, investment committee minutes, demonstrate to the satisfaction of the Registrar that output from the internal model plays an essential role in the bank's investment management process.

- (B) to ensure that the bank's internal model has good predictive power and will not produce materially incorrect capital requirements;
- (C) to establish a rigorous statistical process, including out-of-time and out-of-sample performance tests, in order to validate the bank's selection of explanatory variables;
- (D) to ensure that all elements of the internal modelling process, including systems, procedures and control functions, are subject to adequate periodic independent review, which independent review, as a minimum-
  - (i) shall assess the approval process relating to any revision of the model;
  - (ii) shall validate any proxies and mapping techniques used by the bank;

- (iii) shall assess the accuracy, completeness and appropriateness of model input and output;
  - (iv) shall ensure that the model remains relevant based on the bank's equity portfolio and external conditions;
  - (v) shall be adequate to detect and limit potential model weaknesses;
  - (vi) shall be based on well established model review standards;
  - (vii) may be conducted as part of the bank's internal or external audit programmes by an independent risk control unit or an external third party;
- (E) to monitor investment limits and risk exposures;
- (F) to ensure that the unit(s) responsible for the design and application of the model is functionally independent from the unit(s) responsible for the management of individual investments;
- (G) to ensure that the persons responsible for any aspect of the modelling process are adequately qualified;
- (ii) shall have in place a robust system in order to validate the accuracy and the consistency of the bank's internal model and the modelling process, including the input and the output of the model, which robust system and validation process-
- (A) shall be adequate-
- (i) to assess the performance of the bank's internal model and modelling processes in a consistent and meaningful manner;
  - (ii) by way of backtesting, to regularly compare actual realised and unrealised gains and losses with modelled estimates;
  - (iii) to demonstrate that the bank's actual returns are within the expected range for the portfolio and individual holdings;
  - (iv) to backtest volatility estimates and the appropriateness of proxies used in the model;
- (B) shall make use of external data sources, which external data sources-
- (i) shall be appropriate for the bank's equity portfolio;
  - (ii) shall be updated on a regular basis;

- (iii) shall cover a relevant observation period;
- (C) shall be based on-
  - (i) sufficiently long data histories, which data histories-
    - (aa) shall include a range of economic conditions;
    - (bb) shall preferably include one or more complete business cycles;
  - (ii) appropriate databases of actual returns and modelled estimates;
  - (iii) methods and data that are consistent through time.
- (iii) shall duly document all material elements of the bank's internal model and modelling process, which documentation-
  - (A) shall include matters relating to the design and the operational details of the internal model;
  - (B) shall provide a detailed outline of the theory, assumptions and/or mathematical and empirical basis of the parameters, variables, and data source(s) used;
  - (C) shall clearly indicate the circumstances under which the model does not work effectively;
  - (D) shall include the methods and data used in any comparison between actual realised and unrealised gains and losses, and modelled estimates;
  - (E) shall clearly indicate the use of explicit and assumptions relating to implicit correlations, which correlations shall be supported by empirical analysis;
  - (F) shall be updated on a regular basis, but not less frequently than once a year;
  - (G) shall comprehensively deal with any changes in respect of the internal model, the estimation method, data, data sources and periods covered;
  - (H) shall be adequate to demonstrate the bank's compliance with the prescribed minimum quantitative and qualitative requirements envisaged in regulation 23(11)(b)(vii);

- (I) shall duly address matters relating to-
- (i) the application of the model to different segments of the portfolio;
  - (ii) estimation methodologies;
  - (iii) the responsibilities of persons involved in the modelling process;
  - (iv) the model approval and model review processes;
  - (v) the rationale for the bank's choice of a particular methodology;
  - (vi) the history of major changes in the model over time;
  - (vii) any changes made to the modelling process subsequent to supervisory review;
  - (viii) proxies, mapping techniques or processes used by the bank during the modelling process, including all relevant and material factors relating to-
    - (aa) business lines;
    - (bb) balance sheet characteristics;
    - (cc) geographic location;
    - (dd) company age;
    - (ee) industry sector and subsector;
    - (ff) operating characteristics;
- (iv) shall in all cases in which the bank maps individual positions to proxies, market indices or risk factors-
- (A) ensure that the said mapping is plausible, intuitive, appropriate and conceptually sound;
  - (B) perform rigorous analysis in order to demonstrate to the satisfaction of the Registrar that the said proxies and mappings are relevant based on historical economic and market conditions and the bank's underlying portfolio;
  - (C) demonstrate that the said proxies are robust estimates of the potential risk of the bank's underlying exposure.

- (v) shall have in place a rigorous and comprehensive stress-testing programme in respect of the bank's internal model and estimation procedures, which stress-testing process-
  - (A) shall include hypothetical or historical scenarios in order to reflect worst-case losses in respect of the bank's equity positions;
  - (B) shall provide comprehensive information relating to the effect of tail events beyond the level of confidence specified in respect of the internal model approach.
- (b) to adopt the internal models approach for the measurement of the bank's exposure to market risk arising, *inter alia*, from positions held in the bank's trading book-
  - (i) shall have in place an independent risk control unit, which risk control unit-
    - (A) shall be responsible for the design and implementation of the bank's risk management system;
    - (B) shall produce and analyse daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits;
    - (C) shall be functionally independent from all relevant business trading units;
    - (D) shall report directly to the senior management of the bank;
    - (E) shall conduct regular backtesting, that is, an ex-post comparison of the risk measure generated by the bank's model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions;
    - (F) shall conduct the initial and ongoing validation of the internal model, which validation process shall be conducted in accordance with the relevant requirements specified in subparagraph (ix) below;
    - (G) shall control the integrity relating to input data;
    - (H) shall validate prices supplied by business units;
    - (I) shall be adequately staffed;
  - (ii) shall ensure the active involvement and oversight of the bank's board of directors and senior management in the bank's risk control processes;
  - (iii) shall regard risk control as an essential aspect of the bank's business;

- (iv) shall devote adequate resources to the bank's risk control unit and risk control processes;
- (v) shall ensure that the daily reports prepared by the independent risk control unit are reviewed by a level of senior management with sufficient authority to enforce both reductions of positions taken by individual traders and reductions in the bank's overall risk exposure;
- (vi) shall ensure that the senior management of the bank is aware of the limitations and assumptions made in respect of the said internal model and the impact that such limitations and assumptions may have on the output of the model;
- (vii) shall have in place a robust risk measurement model, which model-
  - (A) shall be closely integrated into the day-to-day risk management processes of the reporting bank and the output of which model shall form an integral part of the process of planning, monitoring and controlling the bank's exposure to market risk;
  - (B) shall be used in conjunction with internal trading and exposure limits in a manner that is consistent over time and that is well understood by traders and the senior management and relevant line functions of the reporting bank;
- (viii) shall have in place a routine and rigorous process or programme of stress testing, the results of which stress testing-
  - (A) shall be duly documented;
  - (B) shall periodically be reviewed by the senior management of the bank;
  - (C) shall be used in the bank's internal assessment of capital adequacy;
  - (D) shall be duly reflected in the bank's policies and limits set by management and the bank's board of directors,

Provided that when the bank's stress tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (ix) shall have in place robust processes in order to ensure adequate validation of the bank's relevant models by suitably qualified persons independent from the development process, which validation
  - (A) shall ensure that all relevant and material risks are duly captured;
  - (B) as a minimum, shall be conducted-
    - (i) when the model is initially developed;
    - (ii) when any significant changes are made to the model;
    - (iii) on a periodic basis but especially when significant structural changes in the market or in the composition of the bank's portfolio took place, which changes might result in the model no longer being adequate;
  - (C) shall in appropriate cases ensure compliance with the relevant requirements relating to specific risk, specified in regulation 28(8);
  - (D) shall not be limited to backtesting;
  - (E) as a minimum, shall include-
    - (i) tests to demonstrate that any assumptions made within the internal model are appropriate and do not underestimate risk, including relevant tests relating to-
      - (aa) the assumption of a normal distribution;
      - (bb) the use of the square root of time to scale from a one day holding period to a ten day holding period;
      - (cc) the use of extrapolation or interpolation techniques;
      - (dd) the bank's pricing models;
    - (ii) tests during which hypothetical changes in portfolio value is used when end-of-day positions remain unchanged, which tests therefore shall exclude fees, commissions, bid-ask spreads, net interest income and intra-day trading;
    - (iii) tests conducted for periods longer than what is otherwise required in the bank's process of backtesting, which longer time period may improve the power of the backtesting process, provided that a longer time period may not be desirable when the bank's VaR model or market conditions have changed to an extent that makes historical data irrelevant or less relevant;

- (iv) tests based on confidence intervals other than the 99 per cent interval required in respect of quantitative standards specified in regulation 28(8)(e);
- (v) the use of hypothetical portfolios in order to ensure that the bank's model is able to account for particular structural features that may arise such as-
  - (aa) when data histories for a particular instrument do not meet the quantitative standards specified in regulation 28(8) and the bank has to map positions to proxies, in which case the bank shall ensure that the proxies produce conservative results under relevant market scenarios;
  - (bb) ensuring that material basis risks are duly captured, which may include mismatches between long and short positions by maturity or by issuer;
  - (cc) ensuring that the model captures concentration risk that may arise from an undiversified portfolio.
- (x) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (xi) shall duly document the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and provides an explanation of the empirical techniques used to measure the bank's exposure to market risk;
- (xii) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
  - (A) shall include the activities of the relevant business trading units, the independent risk control unit and the bank's overall risk management process;
  - (B) shall be conducted at regular intervals but not less frequently than once a year;

(C) as a minimum, shall include-

- (i) the adequacy of documentation relating to the bank's risk management policies, system and processes;
- (ii) the organisation of the risk control unit;
- (iii) the integration of market risk measures into daily risk management;
- (iv) the approval process relating to all relevant risk pricing models and valuation systems used by front and back-office personnel;
- (v) the validation of any significant changes made in respect of the bank's risk measurement process;
- (vi) the scope of market risk and market risk factors captured by the risk measurement model;
- (vii) the integrity of the bank's management information system;
- (viii) the accuracy and completeness of relevant market variables and position data;
- (ix) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
- (x) the accuracy and appropriateness of volatility and correlation assumptions;
- (xi) the accuracy of valuation and risk transformation calculations;
- (xii) the verification of the model's accuracy through frequent backtesting.

- (c) to adopt an internal approach and incremental risk capital (IRC) model for the measurement of the bank's exposure to incremental default and migration risks arising from instruments or positions subject to specific interest rate risk, other than securitisation or resecuritisation exposures and n-th-to-default credit derivative instruments, held in the bank's trading book, shall have in place a robust validation process, which validation process-
- (i) shall apply the validation principles specified in regulations 39(8), 39(14)(a) and 39(14)(b) when designing, testing and maintaining the bank's IRC models, including-
- (A) the evaluation of conceptual soundness;
- (B) ongoing monitoring that includes process verification and benchmarking; and
- (C) outcomes analysis;
- (ii) shall ensure that-
- (A) liquidity horizons reflect actual practice and experience during periods of both systematic and idiosyncratic stresses;
- (B) the bank's IRC model for measuring default and migration risks over the liquidity horizon takes into account objective data over the relevant horizon and includes a comparison of risk estimates for a rebalanced portfolio with that of a portfolio with fixed positions;
- (C) correlation assumptions are supported by analysis of objective data in a conceptually sound framework.

When a bank uses a multi-period model to compute incremental risk, the bank shall evaluate the implied annual correlations to ensure they are reasonable and in line with observed annual correlations.

- (D) the bank's modelling approach for correlations is appropriate for the bank's portfolio, including the choice and weights of systematic risk factors;
- (iii) shall include relevant stress tests, sensitivity analyses and scenario analyses, to assess its qualitative and quantitative reasonableness, particularly with regard to the model's treatment of concentrations;
- (iv) shall be an ongoing process that makes provision for the Registrar and the bank to jointly determine the exact set of validation procedures to be employed, that is, tests, for example, shall not be limited to the range of events experienced historically.

Provided that the bank shall duly document its modelling approach in order to ensure that the correlation and other modelling assumptions, for example, are available and transparent.

(15) As a minimum, a bank that wishes to adopt the advanced measurement approach for the calculation of the bank's capital requirement relating to operational risk-

- (a) shall have in place an independent operational risk management function, which operational risk management function shall be responsible for-
  - (i) the development of-
    - (A) policies and procedures relating to operational risk management and control, including policies to address areas of non-compliance, which policies ultimately shall be approved by the bank's board of directors;
    - (B) strategies to identify, measure, monitor and control or mitigate the bank's exposure to operational risk.
  - (ii) the design and implementation of-
    - (A) a methodology for the measurement of the bank's exposure to operational risk;
    - (B) the bank's operational risk management framework;
    - (C) a risk-reporting system relating to operational risk;
- (b) shall have in place an internal operational risk measurement system-
  - (i) which operational risk measurement system-
    - (A) shall be closely integrated into the day-to-day risk management processes of the bank;
    - (B) shall be subject to regular validation and independent review, which validation and independent review shall include verification that the internal validation processes are operating in a satisfactory manner and that data flows and processes associated with the risk measurement system are transparent and accessible;
  - (ii) the output of which system shall form an integral part of the process to monitor and control the bank's exposure to operational risk, including internal capital allocation and risk analysis;

- (c) shall have in place techniques-
  - (i) to allocate capital to major business units, which allocation shall be based on operational risk;
  - (ii) to create incentives to improve the management of operational risk throughout the bank;
- (d) shall on a regular basis report its exposure to operational risk, including material losses suffered in respect of operational risk, to the management of the bank's business units, the senior management of the bank and the bank's board of directors;
- (e) shall have in place adequate measures to take appropriate action, including in cases of non-compliance with internal policies, controls and procedures;
- (f) shall duly document the bank's operational risk management system;
- (g) shall have in place a process to ensure compliance with the bank's documented set of internal policies, controls and procedures concerning the operational risk management system;
- (h) shall have in place a robust operational risk management process, which operational risk management process shall be subject to regular review by the bank's internal and/or external auditors, which review shall include the activities of-
  - (i) the relevant business units;
  - (ii) the independent operational risk management function.

(16) Based on and without derogating from the requirements specified in subregulations (1) to (15) above, a bank's policies, processes and procedures relating to governance, effective risk management, adequate capital and internal controls shall contain the key features specified below:

(a) *Board and senior management oversight*

Since a sound governance and risk management process provides the basis for ensuring, among other things, that a bank continuously maintains adequate capital and liquidity, the board of directors of a bank-

- (i) shall set the bank's tolerance for risk, that is, the board of directors shall, among other things, duly define and approve the bank's risk appetite;

- (ii) shall ensure that effective governance is in place in respect of the bank's compensation or remuneration policies, processes, practices and procedures, and in particular the board of directors-
  - (A) shall actively oversee the design and operation of the bank's compensation or remuneration policies, processes, practices and procedures;
  - (B) shall duly monitor and review the bank's policies, processes, practices and procedures in order to ensure that the said policies, processes, practices and procedures operate as intended;
  - (C) shall ensure that staff engaged in financial and risk control-
    - (i) are independent;
    - (ii) have appropriate authority; and
    - (iii) are compensated in a manner that is independent of the relevant business areas they oversee, and commensurate with the key function that they fulfil;
- (iii) shall ensure that the bank's compensation or remuneration policies, processes, practices and procedures are duly aligned with the board approved tolerance for risk or risk appetite, and in particular the board of directors shall ensure that-
  - (A) compensation in the bank is duly adjusted for all relevant and material types of risk;
  - (B) all compensation outcomes are symmetric with the relevant and related risk outcome;
  - (C) all relevant compensation payout schedules are duly sensitive to the relevant and related time horizon of risk;
  - (D) the relevant mix or composition of cash payment, equity or other form of compensation is consistent with the relevant and related risk exposure;
  - (E) the aforesaid policies, processes, practices, procedures and compensation outcomes duly consider the risk and reward related to all relevant transactions concluded by executive directors or executive officers;
  - (F) the aforesaid policies, processes, practices and procedures support and promote the bank's other policies, processes, practices and procedures related to sound corporate governance and effective risk management;

- (G) the aforesaid policies, processes, practices and procedures protect and promote the long-term safety and soundness of the bank;
  - (H) the aforesaid policies, processes, practices and procedures include adequate controls and are subject to appropriate audit;
  - (I) the bank's policies, processes, practices and procedures comply with such further requirements as may be specified in writing by the Registrar;
- (iv) shall ensure that, based on, among other things, the bank's capital needs, the bank's anticipated capital expenditure and the bank's desired level of capital, the annually approved variable component of compensation does not unduly limit or restrict the ability of the bank to appropriately strengthen the capital base;
- (v) shall ensure that the senior management of the bank-
- (A) establishes a risk framework in order to assess and appropriately manage the various risk exposures of the bank;
  - (B) develops a system to relate the bank's risk exposures to the bank's capital and reserve funds, that is, every bank shall have in place a robust internal capital adequacy assessment process (ICAAP), as part of the bank's overall risk management framework and processes, which ICAAP-
- (i) shall in addition to the relevant requirements specified in this sub-item (B), continuously comply with the requirements specified in paragraph (b) below;
  - (ii) shall ensure that the bank maintains qualifying capital and reserve funds adequate to continuously support the nature and extent of the bank's relevant risk exposures;
  - (iii) shall incorporate sufficiently robust stress-testing to complement and validate the bank's quantitative and qualitative measures related to its risk management framework, policies, processes or practices, and shall provide the board of directors and senior management with sufficiently robust information to better understand the bank's various exposures to risk and the potential interrelatedness of the said risks under stressed conditions, including the potential interrelatedness between liquidity risk and capital adequacy;
  - (iv) shall incorporate measures to ensure that the bank builds and maintains sufficient capital buffers during benign periods to ensure that the bank will be able to subsequently withstand severe and prolonged market downturns;

- (v) shall be sufficiently robust-
    - (aa) to examine future capital resources and capital requirements under adverse scenarios;
    - (bb) to ensure that the bank maintains an appropriate amount of capital for concentration risk;
    - (cc) to continuously analyse the bank's issued capital instruments and their potential performance during periods of stress, including their ability to absorb losses and support the bank's ongoing business operations;
    - (dd) to accommodate changes in the bank's strategy or risk appetite, and volatility in market conditions over time;
  - (vi) shall incorporate such further requirements as may be specified in writing by the Registrar;
- (C) establishes a method to monitor the bank's compliance with internal policies;
  - (D) effectively communicates all relevant policies and procedures throughout the bank;
  - (E) duly defines the bank's stress testing objectives and scenarios-
    - (i) the results of which stress tests shall be duly considered during the bank's strategic decision making process and when the board of directors specifies the bank's risk tolerance or appetite levels;
    - (ii) which stress testing shall in relevant cases duly consider-
      - (aa) the potential risks and exposures associated with pipeline and warehoused exposures that may emerge when the bank is unable to access the securitisation market due to either bank specific or market stresses;
      - (bb) reputational risk scenarios;
      - (cc) scenarios in respect of which the bank, for example, assesses the size and the soundness of securitisation vehicles relative to the bank's own financial, liquidity and capital positions, including an assessment of all relevant covenants and triggers;

- (F) duly discusses and understands the results of the bank's stress tests and scenario analysis;
- (vi) shall adopt and support strong internal controls;
- (vii) shall ensure that the bank has in place appropriate written policies and procedures;
- (viii) shall ensure that the bank has in place an appropriate strategic plan, which strategic plan, as a minimum, shall duly outline-
- (A) the bank's capital needs;
- (B) the bank's anticipated capital expenditure;
- (C) the bank's desired level of capital.
- (ix) shall ensure that the bank has in place an appropriate policy relating to public disclosure, which policy, as a minimum, shall ensure the bank's continued compliance with the requirements specified in regulation 43.
- (b) *Sound capital assessment*
- Without derogating from the relevant requirements specified in paragraph (a) above, as a minimum, a bank shall have in place a sound capital assessment process, which capital assessment process-
- (i) shall include board approved policies and procedures designed to ensure that the bank identifies, measures, and reports all material risk exposures;
- (ii) shall include all material risk exposures incurred by the bank, including the risks specifically referred to in subregulation (3);
- Although a bank may not be able to accurately measure all risk exposures, the bank shall develop and implement an appropriate framework and process to estimate the key elements of the bank's material risk exposures.
- (iii) shall relate the bank's capital and reserve funds to the level of risk incurred by the bank;
- (iv) based on the bank's strategic focus and business plan, shall clearly state the bank's objectives in respect of capital adequacy and risk exposure;
- (v) shall incorporate rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank, the results of which stress testing shall be considered when the bank evaluates the adequacy of its capital buffer;

- (vi) shall promote the integrity of the bank's overall risk-management process by way of internal controls and appropriate internal and external reviews and audit.

*(c) Monitoring and reporting*

- (i) As a minimum, a bank shall establish and maintain an adequate system-
  - (A) to monitor, communicate and report the bank's exposures to risk in a timely manner and at an appropriate level;
  - (B) to assess the impact of the bank's changing risk profile on the bank's capital position.
- (ii) The board of directors of a bank or a board-appointed committee shall receive regular reports, which reports shall be sufficiently detailed to allow the said board of directors or board-appointed committee-
  - (A) to evaluate and understand the level and trend of material risk exposures and the impact of the risk exposures on the bank's capital adequacy;
  - (B) to determine whether the bank maintains sufficient capital against the various risk exposures and complies with the bank's established objectives relating to capital adequacy;
  - (C) to make timely adjustments to the bank's strategic plan.
- (iii) The senior management of a bank shall receive regular reports, which reports shall be sufficiently detailed to allow the senior management of the bank-
  - (A) to consider the matters specified in subparagraph (ii) above;
  - (B) to evaluate and understand the sensitivity and reasonableness of key assumptions used in the capital measurement system;
  - (C) to assess the bank's future capital requirements based on the bank's reported risk profile.

*(d) Internal control review*

- (i) A bank shall establish and maintain an appropriate internal control structure in order to monitor the bank's continued compliance with internal policies and procedures.

- (ii) As a minimum, a bank shall conduct periodic reviews of its risk management processes, which periodic reviews-
- (A) shall be adequate to ensure-
- (i) the integrity, accuracy, and reasonableness of the processes;
  - (ii) the appropriateness of the bank's capital assessment process based on the nature, scope and complexity of the bank's activities;
  - (iii) the timely identification of any concentration risk;
  - (iv) the accuracy and completeness of any data inputs into the bank's capital assessment process;
  - (v) the reasonableness and validity of any scenarios used in the capital assessment process;
  - (vi) that the bank conducts appropriate stress testing;
- (B) shall ensure the appropriate involvement of internal and external audit.

(17) On an ongoing basis, the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy shall be monitored, amongst other things, by the bank's board of directors.

(18) The board of directors of a bank or a committee appointed by the board for such purpose-

- (a) shall at least once a year assess and document whether the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy implemented by the bank successfully achieve the objectives specified by the board;
- (b) shall at the request of the Registrar provide the Registrar with a copy of the report compiled by the board of directors or committee in respect of the adequacy of the processes relating to corporate governance, risk management, capital management and capital adequacy.

(19) In addition to the reports referred to in regulations 40(4) and 46, the external auditors of a bank shall annually review the process followed by the board of directors in assessing the corporate governance arrangements, including the management of risk and capital, and the assessment of capital adequacy, and report to the Registrar whether any matters have come to their attention to suggest that they do not concur with the findings reported by the board of directors, provided that when the auditors do not concur with the findings of the board of directors, they shall provide reasons therefor.

(20) The provisions of subregulations (1) to (19), insofar as they are relevant, shall *mutatis mutandis* apply to any controlling company.

**40. Guidelines relating to conduct of directors**

(1) Every director of a bank or controlling company shall acquire a basic knowledge and understanding of the conduct of the business of a bank and of the laws and customs that govern the activities of such institutions. Although not every member of the board of directors of a bank or controlling company is required to be fully conversant with all aspects of the conduct of the business of a bank, the competence of every director of a bank shall be commensurable with the nature and scale of the business conducted by that bank and, in the case of a director of a controlling company, as a minimum, shall be commensurable with the nature and scale of the business conducted by the banks in the group.

(2) All directors and executive officers of a bank or controlling company shall perform their functions with diligence and care and with such a degree of competence as can reasonably be expected from persons holding similar appointment and carrying out similar functions as are carried out by the relevant director or executive officer, provided that none of the provisions or requirements contained or specified in these Regulations, including this regulation 40, shall be construed as derogating from any other relevant provision or requirement relating to directors and executive officers that may be contained or specified in any other relevant law or code of conduct.

(3) In view of the fact that the primary source of funds administered and utilised by a bank in the conduct of its business is deposits loaned to it by the general public, it shall be the duty of every director and executive officer of a bank to ensure that risks that are of necessity taken by such a bank in the conduct of its business are prudently managed.

(4) The-

(a) directors of a bank shall annually report to the Registrar whether or not:

- (i) the bank's internal controls-
  - (A) provide reasonable assurance as to the integrity and reliability of the bank's financial statements; and
  - (B) safeguard, verify and maintain accountability of the bank's assets;
- (ii) the internal controls are based on established policies and procedures and are implemented by trained, skilled personnel, whose duties are duly segregated;
- (iii) adherence to the implemented internal controls is continuously monitored by the bank;
- (iv) all bank employees are required to maintain high ethical standards, thereby ensuring that the bank's business practices are conducted in a manner that is above reproach;

- (v) the bank implemented and continuously maintained compensation policies, processes and practices that, as a minimum, comply with the requirements specified in regulation 39(16)(a);
  - (vi) anything came to their attention to indicate that any material malfunction, as defined and documented by the board of directors, which definition shall be submitted to the Registrar, in the functioning of the aforementioned controls, procedures and systems has occurred during the period under review.
- (b) directors of a bank shall annually report to the Registrar that there is no reason to believe that the bank will not be a going concern in the year ahead, and should there be reason to believe so, such reason shall be disclosed and explained.
- (c) directors of a bank shall submit the reports on the internal controls and going-concern aspect of the bank within 120 days after the financial year-end of the bank.
- (d) external auditors of a bank shall annually report to the Registrar whether or not they concur with the reports mentioned in paragraphs (a) and (b) above, provided that when the external auditors do not concur with such reports, they shall provide reasons therefor.
- (5) The provisions of subregulation (4) shall *mutatis mutandis* apply to any controlling company.
- (6) For the purposes of this regulation, "director" includes an alternate director.
- 41. Composition of the board of directors of a bank or controlling company**
- (1) The chairperson of the board of directors of a bank shall not be an employee of-
- (a) the bank;
  - (b) any of the subsidiaries of the bank;
  - (c) the controlling company of the bank; or
  - (d) any subsidiary of the controlling company.
- (2) The chairperson of the board of directors of a bank shall not be a member of the audit committee of-
- (a) the bank; or
  - (b) the controlling company of the bank.

- (3) The chairperson of the board of directors of a controlling company shall not be an employee of-
  - (a) the controlling company; or
  - (b) any bank in respect of which that company is registered as a controlling company.
- (4) The chairperson of the board of directors of a controlling company shall not be a member of the audit committee of-
  - (a) the controlling company; or
  - (b) any bank in respect of which that company is registered as a controlling company.
- (5) Except when the Registrar, in view of special circumstances pertaining to a particular bank, grants consent to a deviation from the provisions of this regulation in respect of that particular bank, at least two of the members of the board of directors of a bank shall be persons who are employees of that bank.

**42. Statement relating to attributes of serving or prospective directors or executive officers**

- (1) A duly completed statement and declaration in the form of a form BA 020, as prescribed in regulation 53, shall be submitted to the Registrar by the chairperson of the board, or the chairperson's duly appointed representative, or, in the case of a new bank, by the auditor, in respect of-
  - (a) every person who for the first time accepts an appointment as a director or an executive officer of a bank or a controlling company at least 30 days prior to the appointment becoming effective; and
  - (b) every person who previously served as a director or executive officer of a bank or controlling company but subsequently resigned as such and is being reappointed as a director or executive officer of a bank or controlling company after a period of more than twelve months since the date of resignation at least 30 days prior to the appointment becoming effective; and
  - (c) any serving director or executive officer of a bank or controlling company, at the request of the Registrar, in terms of section 1(1A)(c) of the Act.
- (2) For the purposes of this regulation, "related party" means any person (whether natural or juristic) over the business of which the director or executive officer can exercise a significant influence and which business undertakes business with the relevant bank or controlling company to an extent that could materially influence the asset base, profitability or risk profile of the said bank or controlling company.

**BA 020**

When insufficient space is provided, please attach a separate sheet.

**STATEMENT BY INDIVIDUALS WHO ARE HOLDING, OR ARE PROPOSING TO HOLD,  
THE OFFICE OF A DIRECTOR OR EXECUTIVE OFFICER OF A BANK OR CONTROLLING  
COMPANY**

(Confidential and not available for inspection by the public)

1. Name of institution in connection with which this questionnaire is being completed ("the institution"):

.....

2. Your surname:

.....

3. Your full forename(s):

.....

4. Former surname(s) and or forename(s) by which you may have been known:

.....

5. Please state in which capacity you are completing this questionnaire, that is, as a current or prospective director, an executive officer or combination of these.

.....

6. Please state your full title, and describe the particular duties and responsibilities attaching to the position(s) that you hold or will hold. If you are completing this form in the capacity of director, indicate whether, in your position as director, you have or will have executive responsibility for the management of the institution's business. In addition, please provide a copy of your *curriculum vitae*, unless it has already been provided:

.....

.....

7. Residential address:

.....

8. Any previous residential address(es) during the past 10 years:

.....

9. Date and place of your birth (including town or city):  
.....

10. Your nationality and how it was acquired (birth, naturalisation or marriage):  
.....

11. Name(s) and address(es) of your bankers during the past 10 years:  
.....

12. Your professional qualifications and year in which they were obtained:  
.....

13. Your occupation and employment now and during the past 10 years, including the name of your employer in each case, the nature of the business, the position held and relevant dates:  
.....

14. Of which bodies corporate (other than the institution) are you a director or an executive officer and since when?  
.....

15. Do you have any direct or indirect interest representing 15 per cent or more of the issued capital of any body corporate (other than the institution) that is now registered, or that has applied for authorisation, under the Act? If so, give particulars:  
.....

16. Of which bodies corporate other than the institution and those listed in reply to question 13 above have you been a director or an executive officer at any time during the past 10 years? Give relevant dates:  
.....

17. Do any of the bodies corporate listed in reply to questions 13, 14, 15 and 16 above maintain a business relationship with the institution? If so, give particulars:  
.....

18. Do you hold or have you ever held or applied for a licence or equivalent authorisation to conduct any business activity in the Republic of South Africa ("the Republic") or elsewhere? If so, give particulars. If any such application was refused or withdrawn after it was made or if any authorisation was revoked, give particulars:  
.....

19. Does any institution with which you are, or have been, associated as a director or executive officer hold, or has it ever held or applied for, a licence or equivalent authorisation to conduct any business activity? If so, give particulars. If any such application was refused, or was withdrawn after it was made or if an authorisation was revoked, give particulars:
- .....

20. Have you at any time been convicted of any offence, excluding -
- (i) any offence committed when you were under 18 years, unless the same offence was committed within the last 10 years;
  - (ii) any road traffic offence; or
  - (iii) any political offence?

If so, give particulars of the court by which you were convicted, the offence, the penalty imposed and the date of conviction:

.....

21. Have you, in the Republic or elsewhere, been censured, disciplined, warned as to future conduct, or made the subject of a court order at the instigation of any regulatory authority or any professional body to which you belong or belonged, or have you ever held a practising certificate subject to conditions? If so, give particulars:
- .....
22. Have you, or has any body corporate, partnership or unincorporated institution with which you are, or have been, associated as a director or executive officer, been the subject of an investigation, in the Republic or elsewhere, by or at the instigation of a government department or agency, professional association or other regulatory body? If so, give particulars:
- .....
23. Have you, in the Republic or elsewhere, been dismissed from any office or employment, or been subject to disciplinary proceedings by your employer or been barred from entry to any profession or occupation? If so, give particulars:
- .....
24. Have you failed to satisfy any debt adjudged due and payable by you, as a judgement-debtor under an order of a court in the Republic or elsewhere, or made any compromise arrangement with your creditors within the past 10 years? If so, give particulars:
- .....

25. Have you ever been declared insolvent (either provisionally or finally) by a court in the Republic or elsewhere, or has a bankruptcy petition ever been served on you? If so, give particulars:

.....

26. Have you, in connection with the formation or management of any body corporate, partnership or unincorporated institution, been adjudged by a court in the Republic or elsewhere civilly liable for any fraud, misfeasance or other misconduct by you towards such a body or company or towards any members thereof? If so, give particulars:

.....

27. Has any body corporate, partnership or unincorporated institution with which you were associated as a director or executive officer, in the Republic or elsewhere, been wound up, made subject to an administration order, otherwise made any compromise or arrangement with its creditors or ceased trading, either while you were associated therewith or within one year after you ceased to be associated therewith, or has anything analogous to any of these events occurred under the laws of any other jurisdiction? If so, give particulars:

.....

28. Have you been concerned with the management or conduct of the affairs of any institution that, by reason of any matter relating to a time when you were so concerned, has been censured, warned as to future conduct, disciplined or made the subject of a court order at the instigation of any regulatory authority in the Republic or elsewhere? If so, give particulars:

.....

29. In carrying out your duties will you be acting on the directions or instructions of any other individual or institution? If so, give particulars:

.....

30. Do you, or does any related party of whom you are aware, undertake business with this institution? If so, give particulars:

.....

31. How many shares in the institution are registered in your name or the name of a related party? If applicable, give name(s) in which such shares are registered and the class of shares:

.....

32. In how many shares in the institution (not being registered in your name or that of a related party) are related parties beneficially interested?

.....

33. Do you, or does any related party, hold any shares in the institution as trustee or nominee? If so, give particulars:

.....

34. Are any of the shares in the institution mentioned in reply to questions 31, 32 and 33 above equitably or legally charged or pledged to any party? If so, give particulars:

.....

35. In respect of which proportion of the voting power at any general meeting of the institution (or of another body corporate of which it is a subsidiary) are you or any related party entitled to exercise control?

.....

36. If the exercise of the voting power at any general meeting of the institution, or of another body corporate of which it is a subsidiary, is or may be controlled by one or more of your associates or any related party, give the proportion of the voting power so controlled in each case and the identity of each associate:

.....

37. Are you currently, or do you, other than in a professional capacity, expect to be, engaged in any litigation in the Republic or elsewhere? If so, give particulars:

.....

38. Do you have a basic knowledge and understanding of the risks to which banks are exposed? (Refer to Chapter III, regulation 39 of the Regulations relating to Banks, in this regard.)

.....

39. Do you, at all times while acting in your capacity as a director or executive officer of the institution, undertake-

(i) to act in good faith towards the bank/banks in the group;

(ii) to avoid conflict between your other interests and the interests of the bank/banks in the group; and

(iii) to place the interest of the bank/banks in the group and the depositors above all other interests?

.....

- 40.** Have you acquainted yourself with, and do you understand, the extent of the rights and powers, as well as your responsibilities and duties as a director of the institution, as contained in the applicable law? (To be completed only by directors or prospective directors.)

.....  
.....

Please attach to the form BA 020 a matrix that clearly sets out the details specified below:

- (i) The number of other directorships or memberships held by the proposed appointee.
- (ii) The name of the other entity(ies) in respect of which the proposed appointee already serves as a director or member.
- (iii) The particular duties and responsibilities attached to each of the aforesaid positions held.
- (iv) The number of meetings each of the aforesaid entities holds or is expected to hold per annum, that the proposed appointee is required to attend.
- (v) The expected average number of hours that is required for the proposed appointee to duly prepare for each of the aforesaid meetings.

**DECLARATION**

I, ..... hereby declare the following:  
This statement consists of ..... pages, each signed by me. The content of this declaration is true to the best of my knowledge and belief. I am aware that should it be submitted as evidence and I know that something appears therein that I know to be false or believe not to be true, I may be liable to prosecution.

I undertake that, as long as I continue to be a director or executive officer of the institution, I will notify the Registrar of any material changes to, or affecting the completeness or accuracy of, the information supplied by me in items 1 to 40 as soon as possible, but in no event later than 21 days from the day that the changes come to my attention.

Taking into account the commitments set out in question 40, I confirm that I have sufficient time available to duly discharge my duties and responsibilities as a director of this institution.\*

I know and understand the content of this declaration. I have\*/do not have\* objections to taking the prescribed oath\*/ affirmation\*.

I consider the prescribed oath\*/ affirmation\* to be binding\*/not binding\* on my conscience.

.....**SIGNATURE OF DEPONENT**

I certify that the above statement was taken by me and that the deponent has acknowledged that he\*/she\* knows and understands the content of this statement. This statement was sworn to\*/affirmed\* before me and the deponent's signature was placed thereon in my presence at ..... on this ..... day of .....(yyy-mm).

.....**COMMISSIONER OF OATHS**

FULL NAMES: .....

*EX OFFICIO:* .....

AREA: .....

ADDRESS: .....

\* Delete whichever is not applicable

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

**DECLARATION BY CHAIRPERSON OF INSTITUTION\***

I, the undersigned, ..... , being chairperson of the board of directors of ....., confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent ..... and all other members of the board, and after having taken into account any other information at my disposal or that has come to my attention, am of the opinion that the deponent ..... is fit and proper to take up office in this institution, with effect from ..... In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

**DECLARATION BY AUDITOR IN CASE OF NEW BANK\***

I, the undersigned, ..... , being the auditor of ....., confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent ..... and all other members of the board, and after having taken into account any other information at my disposal confirm that nothing has come to my attention that causes me to believe that the deponent ..... is not fit and proper to take up office in this institution, with effect from ..... In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

NAME .....

SIGNED .....

DATE .....

\* *Delete whichever is not applicable*

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

**43. Public disclosure**

(1) Subject to the provisions of subregulation (3), a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enable users of that information, among other things, to make an accurate assessment of the bank's financial condition, including its capital adequacy position, and financial performance, business activities, risk profile and risk-management practices, provided that-

- (a) the bank shall have in place a formal board approved policy relating to disclosure, which policy, as a minimum-
  - (i) shall specify the approach that the bank adopted in order to determine the materiality, nature and extent of information that will be disclosed to the public;
  - (ii) shall be sufficiently robust to ensure that the bank-
    - (A) establishes and maintains appropriate internal control processes and procedures relating to the qualitative and quantitative information disclosed to the public;
    - (B) assesses on a regular basis the appropriateness of information disclosed to the public;
    - (C) establishes and maintains an appropriate process to validate the information disclosed to the public;
    - (D) regularly assesses the frequency and materiality of information disclosed to the public;
    - (E) is able to continuously determine the extent to which the required information may already be included in the bank's accounting disclosure requirements and to what extent the bank has to disclose information in addition to the bank's accounting disclosure requirements;
- (b) when compliance with the minimum required information specified in subregulation (2) below is not sufficient to provide a true and fair presentation of the bank's financial condition, including its capital-adequacy position, and financial performance, business activities, risk profile and risk-management practices, the bank shall disclose relevant additional information;
- (c) the bank's annual financial statements and other disclosures to the public shall present or disclose each material item separately. Information is material if its omission or misstatement could change or influence the judgement or decision of a user relying on that information to take, amongst other things, economic or investment decisions;

- (d) the minimum required publicly disclosed information, amongst other things, shall be consistent with the manner in which the board of directors and the senior management of the bank assess and manage the bank's risk exposures;
- (e) the bank shall on a regular basis, but not less frequently than-
  - (i) once a year disclose to the public qualitative information in respect of the bank's risk management objectives and policies, reporting system and general definitions;
  - (ii) once a year disclose to the public the relevant required qualitative and quantitative information related to remuneration, specified in subregulation (2)(f) below;
  - (iii) on a quarterly basis, disclose to the public quantitative information in respect of-
    - (A) the bank's tier 1 capital, including the bank's tier 1 capital adequacy ratio;
    - (B) the bank's total capital, including the bank's total capital adequacy ratio;
    - (C) the components of capital;
    - (D) the total required amount of capital and reserve funds;
    - (E) the bank's relevant countercyclical buffer requirement, which buffer requirement shall be based on the latest relevant jurisdictional countercyclical buffers available at the date that the bank calculates its minimum capital requirement, provided that the bank shall also disclose to the public the relevant geographic distribution of its private sector credit exposures used in the calculation of the said buffer requirement;
    - (F) any risk exposure or other item that is subject to rapid or material change,
  - (iv) on a semi-annual basis, disclose to the public the qualitative and quantitative information, other than the information referred to in subparagraphs (i) to (iii) above, envisaged in subregulation (2) below,

provided that, in all cases, the bank shall publish material information that are subject to rapid or material change as soon as possible;

- (f) at the discretion of the management of the bank, the bank shall determine appropriate additional mediums and locations to disclose the required information to the public;

- (g) the bank's disclosure to the public in terms of the provisions of this regulation 43-
  - (i) shall be consistent with the bank's audited financial statements;
  - (ii) shall be subject to appropriate internal control and verification;
- (h) when the information required to be disclosed in terms of the provisions of this regulation 43 differs from any prescribed listing requirements or disclosure requirements in terms of Financial Reporting Standards, the bank shall in an appropriate manner explain any material differences between the said disclosure requirements;
- (i) on prior written application by the bank and/or subject to such conditions as may be specified in writing by the Registrar, the requirements of this regulation 43 place no duty on the bank to disclose to the public proprietary or confidential information, that is-
  - (i) information in respect of, for example, products or systems that, if shared with competitors, is likely to render the bank's investment in the said products or systems less valuable or undermine the bank's competitive position; or
  - (ii) information that is provided in terms of a legal agreement, which information is classified as confidential information;
- (j) except for information that forms part of a bank's audited financial statements as a result of requirements relating to Financial Reporting Standards, unless otherwise specified in writing by the Registrar, the required additional information that has to be disclosed by the bank to the public in terms of the provisions of this regulation 43 may be, but is not required to be, subject to external audit.

(2) Without derogating from the provisions of subregulation (1), in accordance with the provisions of the framework for the preparation and presentation of financial statements, read with the relevant requirements of Financial Reporting Standards that may be issued from time to time, a bank shall, as a minimum, disclose in its financial statements appropriate qualitative and quantitative information in respect of the broad categories of information specified below:

- (a) Scope of application

A bank shall in respect of the required-

- (i) qualitative information, disclose to the public-
  - (A) the name(s) of the controlling company/ public company in the group structure to which the requirements of the Regulations also apply;

- (B) any differences between the manner in which entities are consolidated for accounting and regulatory purposes, with a brief description of the entities within the group-
- (i) that are fully consolidated;
  - (ii) that are pro-rata consolidated;
  - (iii) that are subject to a deduction approach;
  - (iv) from which surplus capital is recognised as qualifying capital and reserve funds;
  - (v) that are neither consolidated nor deducted, that is, the bank's investment in the entity is risk-weighted,

which entities shall include subsidiaries and significant minority equity investments in entities involved in-

- (aa) securities trading;
- (bb) insurance;
- (cc) other financial activities;
- (dd) commercial activities;

- (C) sufficiently detailed information in respect of any restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group;
- (ii) quantitative information, disclose to the public-
- (A) in the case of a subsidiary that conducts insurance business, the aggregate amount of surplus capital recognised in the capital and reserve funds of the consolidated banking group, that is, for example, the difference between the amount invested in the insurance entity and the entity's regulatory capital requirement;
  - (B) in the case of a subsidiary in respect of which the invested amount is deducted from capital and reserve funds instead of being consolidated
    - (i) the aggregate amount relating to capital deficiencies, that is, the amount by which the subsidiary's capital requirement exceeds the invested amount;
    - (ii) the name(s) of the said subsidiaries,

provided that any capital deficiency that has been deducted on a group level in addition to the investment in the said subsidiary shall not be included in the aggregate amount relating to a capital deficiency;

- (C) in the case of an investment in an entity that conducts insurance business, which investment is risk-weighted instead of being deducted from capital and reserve funds or subject to an alternate method of consolidation in accordance with the provisions of regulation 36-
- (i) the aggregate amount, that is, the book value of the said investment;
  - (ii) the name of the relevant entity;
  - (iii) the country of incorporation or residence;
  - (iv) the proportion of ownership interest and, when different, the proportion of voting rights in the said entity;
  - (v) the quantitative impact in respect of qualifying capital and reserve funds as a result of the investment being risk weighted instead of being deducted from capital and reserve funds.

(b) Financial performance

(c) Financial position, including-

- (i) capital adequacy;

A bank shall in respect of the required-

- (A) qualitative information, disclose to the public sufficiently detailed information in respect of the bank's approach to assess the adequacy of the bank's capital in order to support the bank's current and future activities;
- (B) quantitative information, disclose to the public-
  - (i) the bank's capital requirement in respect of credit risk, including sufficiently detailed information in respect of-
    - (aa) portfolios subject to the standardised or simplified standardised approach, which disclosure shall be made in respect of each relevant credit portfolio;

- (bb) portfolios subject to the IRB approaches, that is, portfolios subject to the foundation IRB approach and portfolios subject to the advanced IRB approach, which disclosure shall be made in respect of each relevant credit portfolio, including:
    - (i) exposures relating to corporate institutions, including exposures in respect of specialised lending not subject to the standardised risk grades, sovereigns and banks;
    - (ii) residential mortgage exposure;
    - (iii) qualifying revolving retail exposure;
    - (iv) other retail exposure;
  - (cc) the bank's securitisation exposures;
- (ii) the bank's capital requirement in respect of equity exposures subject to the IRB approach, that is-
- (aa) equity portfolios subject to the market-based approach, including-
    - (i) equity portfolios subject to the simple risk-weight method; and
    - (ii) equities held in the banking book, which equity positions are subject to the internal model approach;
  - (bb) equity portfolios subject to the PD/LGD approach;
- (iii) in respect of positions held in the bank's trading book, the bank's capital requirement in respect of market risk, with separate disclosure in respect of exposures subject to-
- (aa) the standardised approach;
  - (bb) the internal models approach;
- (iv) the bank's capital requirement in respect of operational risk, with separate disclosure in respect of-
- (aa) the basic indicator approach;
  - (bb) the standardised approach;
  - (cc) the advanced measurement approach;

(v) sufficiently detailed information in respect of the bank's total capital adequacy ratio and its common equity tier 1 and additional tier 1 capital adequacy ratios, including the component relating to innovative capital instruments that is subject to phase-out arrangements and a comprehensive explanation of how the respective aforesaid ratios were calculated, in respect of-

- (aa) the controlling company;
- (bb) significant bank subsidiaries, either based on a stand-alone basis or sub-consolidated basis depending on the required manner of reporting in respect of the said subsidiaries.

(ii) capital structure;

A bank shall in respect of the required-

(A) qualitative information, disclose to the public sufficiently detailed information relating to-

- (i) the main features, terms and conditions of all relevant capital instruments issued by the bank, particularly in respect of innovative, complex or hybrid capital instruments;
- (ii) all limits and minima, identifying the positive and negative elements of capital to which such limits and minima apply;

(B) quantitative information, disclose to the public -

- (i) the amount relating to common equity tier 1 capital and reserve funds, including information in respect of:
  - (aa) paid-up share capital, including ordinary shares;
  - (bb) reserve funds;
  - (cc) any relevant minority interests in the equity of fully consolidated subsidiaries in relation to instruments issued to third parties;
  - (dd) other instruments qualifying as common equity tier 1 capital;
  - (ee) any relevant surplus amount of capital from insurance companies, calculated in accordance with the provisions of regulation 36(10);

- (ff) amounts deducted from common equity tier 1 capital in respect of expected losses that exceed the eligible provisions of a bank that adopted the IRB approach for the calculation of the bank's exposure to credit risk;
  - (gg) other amounts deducted from common equity tier 1 capital, including goodwill and specified investments;
- (ii) the amount relating to additional tier 1 capital and reserve funds, including information in respect of:
- (aa) paid-up capital;
  - (bb) relevant reserve funds;
  - (cc) relevant minority interests in the equity of fully consolidated subsidiaries in relation to instruments issued to third parties;
  - (dd) other instruments qualifying as additional tier 1 capital;
  - (ee) any relevant amount of surplus capital from insurance companies, calculated in accordance with the provisions of regulation 36(10);
  - (ff) amounts deducted from additional tier 1 capital;
- (iii) the relevant amounts relating to tier 2 capital;
- (iv) the relevant amounts relating to deductions from the bank's tier 2 capital and reserve funds;
- (v) the relevant amount relating to total qualifying capital and reserve funds;
- (vi) a full reconciliation between all instruments and reserves qualifying as capital and reserve funds in terms of the provisions of these Regulations and the balance sheet in the audited financial statements;
- (vii) all adjustments to qualifying capital and reserve funds other than the relevant items or deductions specified above, including any relevant amount related to limited recognition as envisaged in regulation 38(5)(b);
- (iii) liquidity.

(d) Types of risk to which the bank is exposed

In respect of each type of risk envisaged in regulation 39(3), that is, for example, credit risk, market risk, operational risk, interest-rate risk in the bank's banking book or currency risk, a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies, including information in respect of-

- (i) the bank's strategies and processes;
- (ii) the structure and organisation of the relevant risk management functions;
- (iii) the scope and nature of the bank's risk reporting and/or risk-measurement systems;
- (iv) the bank's policies relating to hedging and/or risk mitigation and the bank's strategies and processes in order to monitor the continued effectiveness of hedges or risk-mitigation instruments.

(e) Nature and extent of risk exposures, including-

- (i) credit risk;

A bank shall in the case of-

- (A) credit risk exposures, excluding credit risk arising from positions held in equity instruments, disclose to the public the qualitative and quantitative information specified below:

- (i) Qualitative information

A bank-

- (aa) shall in addition to the information specified in paragraph (d) above, disclose to the public sufficiently detailed information in respect of-

- (i) the bank's accounting definitions in respect of past due and impaired exposure;
    - (ii) the approaches adopted by the bank in respect of credit impairment, including specific and portfolio impairment, and general allowance, as well as relevant information in respect of the statistical methods applied by the bank;
    - (iii) the bank's credit risk management policy;

(bb) that partially adopted either the foundation IRB or advanced IRB approach shall provide a description of the nature of exposures within each relevant portfolio that are subject to-

- (i) the standardised approach;
- (ii) the foundation IRB approach;
- (iii) the advanced IRB approach,

and by which date the bank expects to adopt a particular IRB approach in respect of all its credit exposures.

(ii) Quantitative information

A bank-

(aa) shall in respect of its major types of credit exposure disclose to the public sufficiently detailed information relating to-

- (i) the aggregate amount of gross credit exposure after the effect of set-off in accordance with the requirements of Financial Reporting Standards have been taken into consideration but before the effects of credit risk-mitigation techniques such as collateral or netting have been taken into account;
- (ii) the bank's average amount of gross exposure during the reporting period, which average gross exposure amount shall be calculated on a daily average basis, unless the exposure at the end of a particular reporting period in all material respects represents the average credit exposure amount during the said reporting period in which case the bank need not disclose the said average exposure amount, provided that when the bank is unable to calculate an average exposure amount on a daily average basis the bank shall disclose to the public the basis on which it calculated such average exposure amounts;
- (iii) the geographical distribution of its credit exposures, which distribution shall be based on the relevant requirements specified in the form BA 210 and in regulation 24;

- (iv) the distribution of exposures based on industry or counterparty type;
  - (v) the maturity breakdown of the bank's credit portfolio, which maturity breakdown shall be based on the residual contractual maturity of the said exposures;
- (bb) shall in respect of each major industry, counterparty type or geographical area disclose to the public sufficiently detailed information in respect of the aggregate amount relating to -
- (i) impaired loans and past due loans, including an analysis of the ageing of past-due loans;
  - (ii) any credit impairment, including any specific or portfolio impairment;
  - (iii) any specific or portfolio impairment raised and amounts written off during the current reporting period,
- provided that the bank shall separately disclose the unallocated portion of general allowances, that is, the portion of general allowances not allocated to a specific industry, counterparty or geographical area;
- (cc) shall provide a reconciliation of changes in specific impairment or portfolio impairment, or general allowance, which reconciliations shall include-
- (i) a description of the type of impairment or allowance;
  - (ii) the relevant opening balance;
  - (iii) amounts written off against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;
  - (iv) amounts transferred to or reversed against the relevant specific impairment or portfolio impairment, or allowance, during the reporting period;
  - (v) any other adjustments such as exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, including transfers between the relevant specific impairment or portfolio impairment, or allowances;

(vi) the relevant closing balance,

provided that the bank shall separately disclose any amounts written off or recoveries that have been recorded directly in the income statement;

(dd) shall in respect of each relevant credit portfolio disclose to the public the relevant amounts of exposure that are subject to-

(i) the standardised approach;

(ii) the foundation IRB approach;

(iii) the advanced IRB approach.

(B) portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii), disclose to the public the qualitative and quantitative information specified below:

(i) Qualitative information

A bank shall in the case of credit portfolios subject to the standardised approach or the standardised risk grades relating to specialised lending in terms of the IRB approach specified in regulation 23(11)(d)(iii) disclose to the public sufficiently detailed information in respect of-

(aa) the names of the external credit assessment institutions or export credit agency used by the bank, and in the case of any changes made by the bank in respect of external credit assessment institutions or export credit agencies, the reasons for such change;

(bb) the types of exposure for which the bank uses a particular agency;

(cc) the process followed by the bank to assign publicly issued ratings to comparable assets in the bank's banking book;

(dd) any mapping of exposures, that is, the alignment between the alphanumerical rating scale of each relevant rating agency used by the bank and the bank's relevant risk categories, unless the bank conducts its mapping of credit exposures in accordance with the mapping procedures specified by the Registrar from time to time;

(ee) the risk weights associated with a particular rating grade or risk category.

(ii) Quantitative information

A bank shall in the case of-

- (aa) exposure subject to the standardised approach, separately disclose to the public-
    - (i) the outstanding amounts after risk mitigation in respect of rated and unrated exposures relating to each relevant risk category;
    - (ii) any exposure amount that is deducted from the bank's capital and reserve funds;
  - (bb) exposures subject to the standardised risk weights in terms of the IRB approach specified in regulation 23(11)(d)(iii) and equity exposures subject to the simple risk weight method, disclose to the public the aggregate outstanding amount in respect of each relevant risk category;
- (C) portfolios subject to one or both of the IRB approaches, that is, the foundation or advanced IRB approach, disclose to the public the qualitative and quantitative information specified below:
- (i) Qualitative information
    - A bank-
      - (aa) shall disclose to the public relevant information in respect of the approval granted by the Registrar for the bank to apply a particular IRB approach for the measurement of the bank's exposure to credit risk, including relevant details when the Registrar granted approval for a transition period to implement a particular IRB approach;
      - (bb) shall provide sufficiently detailed information, that is, as a minimum, an explanation and review of-
        - (i) the structure of the bank's internal rating systems and the relationship between internal and external ratings;
        - (ii) the use by the bank of internal risk estimates other than for the calculation of the bank's capital requirement in terms of the IRB approach;
        - (iii) the bank's process in order to manage and recognise credit risk mitigation instruments;

- (iv) the bank's control mechanisms in respect of its rating system, including information relating to matters such as independence, accountability and the review of the rating systems;
- (cc) shall provide separate descriptions in respect of the bank's internal rating processes relating to-
  - (i) corporate exposure, including exposures to SMEs, specialised lending and purchased corporate receivables, and sovereign and bank exposure;
  - (ii) equity exposure when the bank adopted the PD/LGD approach in respect of equity instruments held in the bank's banking book;
  - (iii) residential mortgage exposure;
  - (iv) qualifying revolving retail exposure;
  - (v) other retail exposure;

which description shall in the case of each portfolio include sufficiently detailed information in respect of-

- (a) the types of exposure included in the portfolio;
- (b) the definitions, methods and data used to estimate and validate the bank's PD ratios and in the case of portfolios subject to the advanced IRB approach, the LGD ratios and/or EAD amounts, including any assumptions made by the bank in respect of the relevant risk components, provided that the bank is not required to provide a detailed description of the model used by the bank;
- (c) any approval obtained from the Registrar to deviate from the definition of default specified in regulation 67, including information relating to the broad segments of the portfolio(s) affected by such a deviation(s).

- (ii) Quantitative information relating to the bank's assessment of risk

A bank-

- (aa) shall in respect of each relevant portfolio other than retail exposure specified in sub-item (i)(cc) above, disclose to the public the information specified below, which information shall be provided across a sufficient number of PD grades, including exposures that are in default, to provide a meaningful distribution of risk, provided that the information relating to PD ratios, LGD ratios and EAD amounts shall reflect the effects of eligible risk mitigation instruments and each PD grade shall include the exposure weighted average PD for a particular risk grade.

- (i) The total outstanding amount, that is, in the case of-

- (a) corporate, sovereign and bank exposure, the total outstanding amount plus the relevant EAD amount in respect of undrawn commitments;

- (b) equity exposure, the outstanding amount;

- (ii) In the case of a bank that adopted the advanced IRB approach, the exposure-weighted average LGD ratio, which LGD ratio shall be expressed as a percentage;

- (iii) The exposure weighted average risk weight.

- (bb) that adopted the advanced IRB approach, shall disclose to the public-

- (i) the amount in respect of undrawn commitments; and

- (ii) in respect of each relevant portfolio, the exposure-weighted average EAD amounts,

provided that the bank may provide only one estimate of the EAD amount in respect of a particular portfolio or, when the bank is of the opinion that more detailed disclosure will ensure a better assessment of risk, disclose EAD estimates across a number of EAD categories;

- (cc) shall in the case of each retail portfolio specified in sub-item (i)(cc) above, on a pool basis, either disclose-

- (i) the information specified in sub-item (ii)(aa) above, that is, the same information relating to PD ratios, LGD ratios and EAD amounts as for non-retail exposure; or

- (ii) an analysis of outstanding loans and EAD amounts in respect of commitments, against a sufficient number of expected loss risk grades in order to

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