



DOMESTIC BANKS AND FINANCIAL INSTITUTIONS ACT
DBFIA Practice Direction No. 10

Consolidated Basel II/III Capital Framework

Authority

This Practice Direction is made in exercise of the powers conferred on the Central Bank of Belize (Central Bank) by section 9 of the Domestic Banks and Financial Institutions Act (DBFIA), Revised Edition 2020 and shall come into effect on 31 August 2025.

This Practice Direction supersedes the previously issued Pillar 1 Guideline (January 2020) and ICAAP Guideline (March 2022).

Summary

Capital is the cornerstone of a bank's strength. It provides a buffer to absorb unanticipated losses incurred by a bank as a result of its activities and, in the event of shocks, enables the bank to continue operating while those problems are addressed or resolved. The maintenance of adequate capital reserves by a bank can instil confidence in the financial soundness and stability of the bank by providing assurance that the bank will continue to honour its obligations to depositors and creditors.

This Practice Direction consolidates the requirements established by the Central Bank in its adoption of the three pillars of the Basel Committee of Banking Supervision's (BCBS) Basel II/III framework. This includes:

1. *Pillar 1: Minimum Capital Requirements* which applied the standardized approach for measuring credit, market, and operational risks and came into effect on 1 January 2020;
2. *Pillar 2: Supervisory Review Process*, encompassing the Internal Capital Adequacy Assessment Process (ICAAP) through which banks assess the adequacy of its capital in relation to its overall risk profile, including risk not fully captured in Pillar 1, as well as the risk management principles introduced in a phased manner between August 2021 and March 2022 for immediate adoption; and
3. *Pillar 3: Disclosure Requirements* which aims to promote market discipline through regulatory disclosures and shall come into effect on 31 August 2025 with first publications in the year 2026.

Scope of Application

The framework's scope of application includes, on a consolidated basis, domestic and international banks incorporated in Belize and regulated by the Central Bank under the DBFIA and International Banking Act (IBA). In addition, the framework will include, on a fully consolidated basis, any financial holding company

that is the parent entity within a banking group to ensure that the risk of the whole banking group is fully captured. A banking group, through consolidation, includes all majority-owned or controlled banking entities, and other relevant financial activities (both regulated and unregulated but excluding insurance activities) (see section 2 of the DBFIA). Any reference to a bank also includes reference to a financial holding company in respect of all the entities in the banking group on a consolidated basis.

In the case where banks have investments in majority-owned or controlled financial entities that are not consolidated for capital purposes, the equity and other regulatory capital instruments in those entities attributable to the group must be deducted, and the assets, liabilities, and third-party capital investments in the entity must be removed from the group's balance sheet. However, the Central Bank will assess by other means the adequacy of capital of the entity not included in the consolidation.

i. Treatment of Significant Minority Investments

Banks should exclude equity and other regulatory investments, significant minority investments in banking, securities and other financial entities from the consolidated banking group's capital where control does not exist. However, banks may apply pro rata consolidation for joint ventures that are treated as pro-rata for accounting purposes. For purposes of determining significant investments, the pro-rata inclusion will be equity interest between 20% and 50%.

ii. Treatment of Insurance Institutions

Banks that own an insurance subsidiary involved in carrying on insurance business in principle, bear the full entrepreneurial risks of the subsidiary and should recognize on a group-wide basis, the risks included in the whole group. Banks should exclude from the consolidated group's capital, any equity and other regulatory capital investments in insurance subsidiaries and significant minority investments in insurance entities. Under the deduction approach, banks should exclude from their balance sheets relevant assets and liabilities, as well as any third-party capital investments in insurance subsidiaries. Banks should apply a 100% RW to investments in subsidiaries involved in insurance brokerage.

The Central Bank may consider alternative approaches that would include a group-wide perspective for determining capital adequacy and avoid double counting of capital, which is to apply a risk weight of 100% to investments in insurance subsidiaries.

The capital invested in a majority-owned or controlled insurance entity may exceed the amount of regulatory capital required for such an entity (leaving "surplus capital" within the insurance entity). Banks may recognize such surplus capital in calculating their capital adequacy, in limited circumstances where:

- a) Central Bank is satisfied that there is no legal, regulatory or other obstacle to the prompt transfer of the surplus capital out of the insurance subsidiary as required; and
- b) Such recognition would also have regard to the practical implications of a transfer e.g. in terms of exchange rate and taxation effects or the consequences for external credit assessment ratings.

Banks that are permitted to recognize surplus capital in insurance subsidiaries must publicly disclose the amount of such surplus capital recognized in its capital. Where banks have a majority ownership interest in an insurance entity (e.g. 50% or more but less than 100%), surplus capital recognized should be proportionate to the percentage interest owned. Banks will not be permitted to recognize surplus capital in

significant minority-owned insurance entities (less than 50% ownership), as it is unlikely that the bank would be able to direct the transfer of the capital in an entity that it does not control.

For any non-consolidated financial subsidiaries of banks, the Central Bank will ensure that majority owned or controlled insurance subsidiaries, which are not consolidated and for which capital investments are deducted or subject to an alternative group-wide approach, are themselves adequately capitalized in order to reduce the possibility of future potential losses to the bank. In the event of a capital shortfall emerging, the Central Bank will monitor any corrective action taken by the subsidiary, and where timely remediation is not possible; the shortfall will be deducted from the bank's capital.

iii. Significant Investments in Commercial Entities

Banks must fully deduct the amount in significant minority and majority investments in commercial entities that exceed:

- a) 15% of the bank's capital for individual investments; and
- b) 60% of the bank's capital for the aggregate of all investments in commercial entities.

Investments in significant minority and majority-owned commercial entities below the materiality levels should receive a risk weight of 100%.

iv. Deduction of Investments

Any deduction of investments that is made pursuant to the scope of application will be deducted as 50% from Tier 1 and 50% from Tier 2 capital, respectively.

Relationship to other Practice Directions

This Practice Direction should be read in conjunction with Practice Direction No. 9 - Liquidity Coverage Ratio and Net Stable Funding Ratio.

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ABBREVIATIONS

ABCP	Asset-backed commercial paper
BCBS	Basel Committee on Banking Supervision
CAR	Capital adequacy ratio
CCF	Credit conversion factor
CCR	Counterparty credit risk
CDR	Cumulative default rate
CEM	Current exposure method
CET1	Common Equity Tier 1
CRA	Credit Risk Agency
CRM	Credit risk mitigation
ECAI	External credit assessment institution
EL	Expected loss
FX	Foreign currency
MDB	Multilateral development bank
PD	Probability of default
PF	Project finance
PSE	Public sector entity
RW	Risk weights
RWA	Risk-weighted assets
TB	Trading Book

1. PILLAR 1- MINIMUM CAPITAL REQUIREMENTS

1.1 OVERVIEW

Pillar 1 establishes the minimum capital requirements and constituents of capital based on the Basel Framework developed by the BCBS. The approach used by the Central Bank for assessing a bank's capital adequacy under Pillar 1 focuses on the following elements:

- a) The components and quality of capital held by the bank to support these exposures¹;
- b) Minimum capital requirements for credit risk under the standardised approach², including CRM techniques³;
- c) Minimum capital requirements for operational risk under the Basel III standardised approach⁴; and
- d) Minimum capital requirements for market risk⁵ arising from changes in market prices of interest rate sensitive products and stocks in the Trading Book, as well as commodities and foreign exchange in both the Trading and Banking Books.

1.2 MINIMUM CAPITAL ADEQUACY REQUIREMENT

The Central Bank requires all banks to maintain a capital adequacy ratio (CAR), at all times, of at least 9%. The CAR is calculated by dividing a bank's eligible capital base by its total risk-weighted exposures.

$$CAR = \frac{\text{Total eligible capital}}{\text{Total RWA}} \geq 9\%$$

For the purpose of determining the CAR of a bank, the total eligible capital of the bank shall be the sum of Tier 1 and Tier 2 capital net of regulatory adjustments applied. Additionally, each bank must maintain a minimum ratio of eligible Tier 1 capital to total risk-weighted exposures of 7%, and the predominant form of Tier 1 capital must be met with Common Equity Tier 1 (CET 1), by maintaining a minimum of 5.5%. These relationships can be expressed by the following simple formulas:

$$\text{Tier 1 ratio} = \frac{\text{Tier 1 capital}}{\text{Total RWA}} \geq 7\%$$

$$\text{CET 1 ratio} = \frac{\text{CET 1 capital}}{\text{Total RWA}} \geq 5.5\%$$

¹ Based on BCBS's: "Basel III: A global regulatory framework for more resilient banks and banking systems" - Section I: Definition of Capital, December 2010 (rev June 2011)

² Based on BCBS's: "International Convergence of Capital Measurement and Capital Standards - A Revised Framework", 2004 (rev. June 2006)

³ Based on BCBS's: "Basel III: Finalizing post-crisis reforms", December 2017

⁴ Based on BCBS's: "Basel III: Finalizing post-crisis reforms", December 2017

⁵ Based on BCBS's: "International Convergence of Capital Measurement and Capital Standards - A Revised Framework", 2004 (rev. June 2006) and BCBSs "Minimum capital requirements for market risk", January 2016

The Central Bank has established the absolute minimum requirement to be 9% for banks licensed under the DBFIA. However, where it is deemed appropriate the Central Bank may require individual banks to increase this minimum based on several criteria, such as:

- a) The characteristics of the bank (size, risk profile, the volatility of its earnings);
- b) Exposure to risks not considered, such as Credit Concentration Risk, Interest Rate Risk in Banking Book, Liquidity Risk, Strategic Risk and Reputational Risk;
- c) Degree of diversification of activities and types of assets;
- d) The degree of concentration of counterparty exposure in a bank's portfolio;
- e) The experience and quality of management and other personnel;
- f) The adequacy of internal systems and controls; and/or
- g) Shareholder/controller support and control.

1.3 REGULATORY REPORTING REQUIREMENTS

All banks must provide the Central Bank with reports on the components of their capital adequacy calculations on the bank return on a monthly basis (or more frequently if required).

1.4 CAPITAL DEFINITION

This section provides a framework for the components of capital for banks. It outlines the characteristics that an instrument must have in order to qualify and the adjustments to be made in determining the regulatory capital of a bank.

The following terms are defined for the purpose of these standards:

- a) **Going-concern capital** refers to capital against which losses can be written off while the bank continues to operate.
- b) **Gone-concern capital** refers to capital that would not absorb losses until such time as a bank is wound up, or the capital is otherwise written off or converted to ordinary shares.
- c) **Intangible assets** include, but are not limited to, copyright, patents, intellectual property and capitalized information technology software costs.
- d) **Net long positions** are the gross long positions net of short positions in the same underlying exposures, where the maturity of the short positions either match the maturity of the long positions, or have residual maturities of at least one year. They include netting positions in physical instruments and derivatives over the same underlying exposure (including those associated with looking through holdings of index securities).
- e) **Operating entity** is an entity set up to conduct business with clients, with the intention of earning a profit in its own right.
- f) **Related entity** as defined under section 65 of the DBFIA⁶.

⁶ Any person described in subsections (2) to (7) of the DBFIA is a related party of a licensee.

1.4.1 COMPONENTS OF CAPITAL

Banks are required to hold sufficient capital to mitigate the risks that arise from their businesses. In order to be eligible for inclusion in regulatory capital, a bank's capital should have the following characteristics:

- a) Provide a permanent and unrestricted commitment of funds;
- b) Be freely available to absorb losses;
- c) Not impose any unavoidable servicing charges against earnings; and
- d) Rank behind the claims of depositors and other creditors in the event the bank is wound up.

Total regulatory capital shall consist of the sum of the following elements:

- a) Tier 1 Capital (going-concern capital), which will comprise:
 - i. Common Equity Tier 1 (CET1) capital; and
 - ii. Additional Tier 1 (AT1) capital.
- b) Tier 2 capital (gone-concern capital).

For each of the categories above, there is an individual set of criteria that the instruments are required to meet before they can be included in the relevant category. A bank must ensure that any component of capital included in its capital base satisfies, in both form and substance, all applicable requirements in this Direction for the particular category of capital in which it is included.

1.4.2 CAPITAL CONSOLIDATION

The Central Bank supervises the capital adequacy of locally incorporated banks (i.e. subsidiaries and stand-alone entities) on both a stand-alone ("solo") and consolidated ("group") basis, covering the global operations of the banks and its subsidiaries. Generally, a bank should consolidate the financial statements of all its subsidiaries in accordance with International Financial Reporting Standards for capital adequacy purposes. Exceptions should be approved by the Central Bank.

a. Ordinary shares issued by consolidated subsidiaries

Minority interest arising from the issue of ordinary shares by a fully consolidated subsidiary of a bank may receive recognition in Common Equity Tier 1 capital only if:

- i. The instrument giving rise to the minority interest would, if issued by the bank, meet all the criteria for classification as ordinary shares for regulatory capital purposes; and
- ii. The subsidiary that issued the instrument is itself a bank⁷.

The amount of minority interest recognized in CET1 capital will be calculated as follows:

⁷ Minority interest in a subsidiary that is a bank is strictly excluded from the parent bank's CET1 if the parent bank or affiliate has entered into any arrangements to fund directly minority investment in the subsidiary whether through a special purpose vehicle or through another vehicle or arrangement. The treatment outlined above, is strictly available where all minority investments in the bank subsidiary solely represent genuine third-party common equity contributions to the subsidiary.

- a) Total minority interest meeting the two criteria above minus the amount of the surplus CET1 of the subsidiary attributable to the minority shareholders.
- b) Surplus CET1 of the subsidiary is calculated as the CET1 of the subsidiary minus the lower of:
 - i. The minimum CET1 requirement of the subsidiary plus the capital conservation buffer; and
 - ii. The portion of the consolidated minimum CET1 requirements plus the capital conservation buffer that relates to the subsidiary.
- c) The amount of the surplus CET1 that is attributable to the minority shareholders is calculated by multiplying the surplus CET1 by the percentage of CET1 that is held by minority shareholders.

b. Tier 1 Qualifying Capital Issued by Consolidated Subsidiaries

Tier 1 capital instruments issued by a fully consolidated subsidiary of a bank to third party investors may receive recognition in Tier 1 capital only if the instruments would meet all the criteria for classification as Tier 1 capital. The amount of this Tier 1 capital that will be recognized in Additional Tier 1 capital will exclude amounts recognized in Common Equity Tier 1 capital.

The amount of capital that will be recognized in Tier 1 capital will be calculated as follows:’

- a) Total Tier 1 of the subsidiary issued to third parties minus the amount of the surplus Tier 1 of the subsidiary attributable to the third-party investors.
- b) Surplus Tier 1 of the subsidiary is calculated as the Tier 1 of the subsidiary minus the lower of:
 - i. The minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer; and
 - ii. The portion of the consolidated minimum Tier 1 requirement plus the capital conservation buffer that relates to the subsidiary.
- c) The amount of the surplus Tier 1 that is attributable to the third-party investors is calculated by multiplying the surplus Tier 1 by the percentage of Tier 1 that is held by third-party investors.

c. Tier 1 and Tier 2 Qualifying Capital Issued by Consolidated Subsidiaries

Total capital instruments (i.e. Tier 1 and Tier 2 capital instruments) issued by a fully consolidated subsidiary of a bank to third party investors may receive recognition in Total Capital only if the instruments would, if issued by the bank, meet all of the criteria for classification as Tier 1 or Tier 2 capital.

The amount of this Total Capital that will be recognized in Tier 2 will exclude amounts recognized in Common Equity Tier 1 capital and amounts recognized in Additional Tier 1 capital. The amount of this capital that will be recognized in consolidated Total Capital will be calculated as follows:

- a) Total capital instruments of the subsidiary issued to third parties minus the amount of the surplus Total Capital of the subsidiary attributable to the third-party investors.
- b) Surplus Total Capital of the subsidiary is calculated as the Total Capital of the subsidiary minus the lower of:

- i. The minimum Total Capital requirement of the subsidiary plus the capital conservation buffer; and
 - ii. The portion of the consolidated minimum Total Capital requirement plus the capital conservation buffer that relates to the subsidiary.
- c) The amount of the surplus Total Capital that is attributable to the third-party investors is calculated by multiplying the surplus Total Capital by the percentage of Total Capital that is held by third party investors.

All items that are deducted from total capital are also excluded from total assets in calculating a bank's total on-balance sheet risk-weighted assets.

1.4.3 COMMON EQUITY TIER 1

Common Equity Tier 1 (CET 1) capital consists of the sum of the following elements:

- a) Common shares issued by the bank that meet the criteria for classification as common shares for regulatory purposes;
- b) Stock surplus (share premium) resulting from the issue of instruments included in Common Equity Tier 1 capital;
- c) Statutory Reserve Fund maintained under section 38 of the DBFIA.
- d) Retained Earnings, after deducting any interim or final dividends which have been declared by the Board of the reporting bank or banking group entity on any class of shares and any interim losses incurred since the end of the last financial reporting period⁸;
- e) Accumulated other comprehensive income (including interim profit or loss) and other disclosed reserves⁹;
- f) Common shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET 1 capital; and
- g) Regulatory adjustments applied in the calculation of CET 1.

1.4.3.1 Criteria for Inclusion in Common Equity Tier 1 Capital:

For an instrument to be included in CET 1 capital it must meet all of the criteria that follow for classification as common shares issued by the bank directly:

- 1. Represents the most subordinated claim in liquidation of the bank.
- 2. The investor is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim).
- 3. The principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is

⁸ Any interim profits reported under this section must be audited.

⁹ There is no adjustment applied to remove unrealized gains or losses recognized on the balance sheet from CET 1.

allowable under relevant law).

4. The bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.
5. Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a bank is unable to pay distributions that exceed the level of distributable items).
6. There are no circumstances under which the distributions are obligatory. Nonpayment is therefore not an event of default.
7. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.
8. It is the form of issued capital that takes the first and proportionately greatest share of any losses as they occur¹⁰. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and *pari passu* with all the others.
9. The paid-in amount is recognized as equity capital (i.e. not recognized as a liability) for determining balance sheet insolvency.
10. The paid-in amount is classified as equity under the relevant accounting standards.
11. It is directly issued and paid-in¹¹ and the bank cannot directly or indirectly have funded the purchase of the instrument.
12. The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity¹² or subject to any other arrangement that legally or economically enhances the seniority of the claim.
13. It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorized by the owners.
14. It is clearly and separately disclosed as equity on the bank's balance sheet prepared in accordance with the relevant accounting standards.

1.4.3.2 Regulatory Adjustments in the Calculation of CET1 Capital:

A bank must make the following regulatory adjustments to determine CET1 capital at the solo or consolidated level, as the case may be. Assets deducted from CET1 capital should not be included in RWAs.

¹⁰ In cases where capital instruments have a permanent write-down feature, this criterion is still deemed to be met by common shares.

¹¹ Paid-in capital generally refers to capital that has been received with finality by the institution, is reliably valued, fully under the bank's control and does not directly or indirectly expose the bank to the credit risk of the investor.

¹² A related entity can include a parent company, a subsidiary or any other affiliates.

i) *Valuation Adjustments*

Valuation adjustment is the umbrella name for adjustments made to the fair value of a derivative's contract to take into account funding, credit risk and regulatory capital costs. Dealers typically incorporate the costs associated with valuation adjustments into the price of a new trade.

ii) *Goodwill and Other Intangibles*

Any goodwill included in the valuation of capital investments in unconsolidated majority stake companies, shall be deducted in the calculation of CET1 capital. The full amount shall be deducted, net of any associated deferred tax liability that would be extinguished if the goodwill becomes impaired or derecognized under the applicable accounting standards.

Intangible assets¹³ shall be deducted in the calculation of CET1 capital. The full amount shall be deducted, net of any associated deferred tax liability that would be extinguished if the intangible assets become impaired or derecognized under the applicable accounting standards.

Banks shall use the IFRS definition of intangible assets to determine which assets are classified as intangible and are thus required to be deducted.

iii) *Deferred Tax Assets*

Deferred tax assets (DTAs) that rely on future profitability of the bank to be realized are to be deducted in the calculation of CET1 capital. Deferred tax assets may be netted with associated deferred tax liabilities (DTLs) only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. Where these DTAs relate to temporary differences (e.g. allowance for credit losses) the amount to be deducted is set out in the "threshold deductions" section below. All other such assets, e.g. those relating to operating losses, such as the carry forward of unused tax losses, or unused tax credits, are to be deducted in full net of deferred tax liabilities as described above. The DTLs permitted to be netted against DTAs must exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets, and must be allocated on a pro rata basis between DTAs subject to the threshold deduction treatment¹⁴ and DTAs that are to be deducted in full.

DTAs arising from any other source will be required to be deducted from CET1 capital as a prudent measure. An over-installment of tax or, in some jurisdictions, current year tax losses carried back to prior years may give rise to a claim or receivable from the government or local tax authority. Such amounts are typically classified as current tax assets for accounting purposes. The recovery of such a claim or receivable would not rely on the future profitability of the bank and would be assigned the relevant sovereign risk weighting.

¹³ Intangible assets include but are not limited to copyright, patents, intellectual property and capitalized information technology software costs.

¹⁴ Instead of a full deduction, the following items may each receive limited recognition when calculating Common Equity Tier 1, with recognition capped at 10% of the bank's common: (1) significant investments in the common shares of unconsolidated financial institutions (banks, insurance and other financial entities) as referred to in section 1.4.3.2 paragraph xi; (2) mortgage servicing rights; and (3) DTAs that arise from temporary differences.

iv) Cash Flow Hedge Reserve

The amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) shall be derecognized in the calculation of CET1 capital. In this regard, positive amounts shall be deducted and negative amounts shall be added back. This treatment specifically identifies the element of the cash flow hedge reserve that is to be derecognized for prudential purposes.

v) Gain on Sale Related to Securitization Transactions

Increases in equity capital resulting from securitization transactions (e.g., capitalized future margin income, gains on sale) should be deducted in the calculation of CET 1 capital.

vi) Cumulative Gains and Losses Due to Changes in Own Credit Risk on Fair Valued Financial Liabilities

Derecognize in the calculation of CET1 capital, all unrealized gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk.

vii) Defined Benefit Pension Fund Assets and Liabilities

Any defined benefit pension fund liabilities, as included in the balance sheet, shall be fully recognized in the calculation of CET1 capital. That is, it cannot be increased through derecognizing these liabilities.

For each defined benefit pension fund that is an asset on the balance sheet, the asset shall be deducted in the calculation of CET1 capital net of any associated deferred tax liabilities which would be extinguished if the asset becomes impaired or derecognized under the applicable accounting standards. Assets in the fund to which the bank has unrestricted and unfettered access may, with the prior approval of the Central Bank, offset the deduction. Such offsetting assets shall be given the RW they would receive if they were owned directly by the bank.

viii) Investment in Own Shares (Treasury Stock)

All of a bank's investments in its own common shares (treasury stock), whether held directly or indirectly, will be deducted in the calculation of CET1 capital (unless already derecognized under IFRS). In addition, any own stock which the institution could be contractually obliged to purchase should be deducted in the calculation of CET1 capital. The treatment described will apply irrespective of the location of the exposure in the banking book or the trading book.

ix) Reciprocal Cross Holdings in the Capital of Banking, Financial and Insurance Entities

Reciprocal cross holdings in common share capital (e.g. bank A holds shares of bank B and bank B in return holds shares of bank A) that are designed to artificially inflate the capital position of the bank shall be fully deducted in the calculation of CET1 capital.

- x) *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 of the entity*

The regulatory adjustment described in this section applies to 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 of the entity. In addition:

- Investments include direct, indirect and synthetic holdings of capital instruments. For example, banks should look through holdings of index securities to determine their underlying holdings of capital.
- Holdings in both the banking book and trading book are to be included. Capital includes common stock and all other types of cash and synthetic capital instruments (e.g. subordinated debt). It is the net long position that is to be included (i.e. the gross long position net of short positions in the same underlying exposure 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); and
- Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included.

If the capital instrument of the entity in which the bank has invested does not meet the criteria for CET1, AT1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.

- The bank may, with the prior approval of the Central Bank, temporarily exclude certain investments where these have been made in the context of resolving or providing financial assistance to reorganize a distressed institution.
- If the total of all holdings listed in the paragraph above in aggregate exceed 10% of the bank's common equity (after applying all other regulatory adjustments in full) then the amount above 10% is required to be deducted, applying a corresponding deduction approach. This means the deduction should be applied to 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 is to be calculated as follows:
 - i. Aggregate all of the bank's holdings which in aggregate exceed 10% of the bank's common equity (as per above) multiplied by the common equity holdings as a percentage of the total capital holdings (i.e. CET 1 capital).
 - ii. The same approach is to be applied for a bank's non-significant capital investments in financial sector entities that are to be deducted from AT 1 capital and Tier 2 capital.
 - iii. If a bank is required to make a deduction from a particular tier of capital and it does not have sufficient capital to make that deduction, the shortfall will be deducted from the next higher tier of capital (for example, if an institution does not have sufficient AT 1 capital to satisfy the deduction, the shortfall will be deducted from CET 1 capital).
 - iv. The amounts of such capital investments that are below the threshold (i.e. do not exceed the 10%) and are not deducted shall continue to be risk weighted according to the banking and trading book rules.

xi) Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation

The regulatory adjustment described in this section applies to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate¹⁵ of the bank. In addition:

- Direct, indirect and synthetic holdings of capital instruments. For example, banks should look through holdings of index securities to determine their underlying holdings of capital.
- Holdings in both the banking book and trading book are to be included. Capital includes common stock and all other types of cash and synthetic capital instruments (e.g. subordinated debt). It is the net long position that is to be included (i.e. the gross long position net of short positions in the same underlying exposure 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).
- Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included.
- If the capital instrument of the entity in which the bank has invested does not meet the criteria for CET 1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.
- Banks may, with the prior approval of the Central Bank, temporarily exclude certain investments where these have been made in the context of resolving or providing financial assistance to reorganize a distressed institution.

All investments included above that are not common shares must be fully deducted from the corresponding tier of capital. This means the deduction should be applied to the same tier of capital for which the capital would qualify if it were issued by the institution itself (e.g. investments in the Additional Tier 1 capital of other entities must be deducted from the institution's Additional Tier 1 capital).

If a bank is required to make a deduction from a particular tier of capital and it does not have sufficient capital to make that deduction, the shortfall will be deducted from the next highest tier of capital (e.g. if an institution does not have sufficient Additional Tier 1 capital to satisfy the deduction, the shortfall will be deducted from CET 1 capital).

Investments included above that are common shares will be subject to the threshold deductions as described in the next section.

xii) Threshold deductions

- All of the bank's holdings in entities where the bank owns more than 10% of common equity (i.e. significant investments in the common shares of unconsolidated financial institutions) of the individual entity will each receive limited recognition when calculating CET 1. The

¹⁵ An affiliate of a bank is defined as a company that controls, or is controlled by, or is under common control with, the bank. Control of a company is defined as (1) ownership, control, or holding with power to vote 20% or more of a class of voting securities of the company; or (2) consolidation of the company for financial reporting purposes.

recognition will be capped at 10% of the bank's common equity;

- Mortgage servicing rights (MSRs), including those related to consolidated subsidiaries, subsidiaries deconsolidated for regulatory capital purposes, and the proportional share of MSRs in joint ventures subject to proportional consolidation or equity method accounting; and
- Deferred tax assets arising from temporary differences.

A bank must deduct the amount by which the aggregate of the three items above exceeds 15% of its CET1 capital (calculated prior to the deduction of these items but after application of all other regulatory adjustments applied in the calculation of CET 1 capital). The items included in the 15% aggregate limit are subject to full disclosure. As of 1 January 2020, regulatory adjustments (i.e. deductions and prudential filters) including the amounts above the 15% limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences will be fully deducted from Common Equity Tier 1 capital.¹⁶

The amount of the three items that are not deducted in the calculation of CET 1 capital will be risk weighted at 250%.

xiii) Other Adjustments

A bank shall make any other deductions required under any other guidelines and/or as may be required by the Central Bank.

1.4.4 ADDITIONAL TIER 1 CAPITAL

Additional Tier 1 (AT 1) capital consists of the sum of the following elements:

- a) Instruments issued by the bank that meet the criteria for inclusion in AT1 capital (and are not included in CET 1);
- b) Stock surplus (share premium) resulting from the issue of instruments included in AT1 capital;
- c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in AT1 capital and are not included in CET 1; and
- d) Regulatory adjustments applied in the calculation of AT1 Capital.

1.4.4.1 Criteria for Inclusion in Additional Tier 1 Capital:

An instrument must satisfy the following criteria to be included in Additional Tier 1 Capital:

1. The instrument is issued and fully paid-in in cash;
2. Subordinated to depositors, general creditors and subordinated debt of the bank;
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis the bank's depositors and/or creditors.

¹⁶ See Annex 2 of the BCBS "Basel III: A global regulatory framework for more resilient banks and banking systems" June 2011 document for an example.

4. Is perpetual, i.e. there is no maturity date and there are no other incentives to redeem.
5. May be callable at the initiative of the issuer only after a minimum of five years from the issue date, subject to the following requirements:
 - a) A call option can be exercised only with prior approval from the Central Bank;
 - b) The bank shall not create an expectation that the call option will be exercised; and
 - c) The bank must not exercise a call option unless:
 - i. The bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
 - ii. The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
6. Any repayment of principal (e.g. through repurchase or redemption) must be with prior approval of the Central Bank and banks should not assume or create market expectations that supervisory approval will be given;
7. With regard to dividend or coupon discretion;
 - a) the bank must have full discretion at all times to cancel distributions/payments;
 - b) cancellation of discretionary payments must not be an event of default;
 - c) the bank must have full access to cancelled payments to meet obligations as they fall due;
 - d) cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders;
8. Dividends/coupons on the instrument must be paid out of distributable items;
9. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the credit standing of the bank or the group or any related party;
10. The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law governing the provisions of the capital instrument;
11. Where the instrument is classified as a liability for accounting purposes, it must have principal loss absorption through either (i) conversion to common 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. The write-down will have the following effects:
 - a) Reduces the claim of the capital instrument in liquidation of the bank;
 - b) Reduces the amount to be repaid when a call option is exercised; and
 - c) Partially or fully reduces dividend or coupon payments on the capital instrument.
12. Neither the bank nor a related party over which the bank exercises control or significant influence can purchase the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
13. The instrument cannot have any features that hinder recapitalization, such as provisions that require

the issuer to compensate investors if a new instrument is issued at a lower price during a specified period.

14. If the instrument is not issued out of an operating entity or the financial holding company in the consolidated group, proceeds must be immediately available without limitation to an operating entity (an entity set up to conduct business with clients with the intention of earning a profit) in its own right or the financial holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.
15. The main features of the capital instruments are disclosed clearly and accurately.
16. The agreement governing the issuance of the capital instrument shall not be changed without the prior approval of the Central Bank where such proposed changes could impact its eligibility as AT1 capital.

1.4.4.2 Regulatory Adjustments in the Calculation of Additional Tier 1 Capital

A bank shall apply the following regulatory adjustments in the calculation of AT1 capital at the solo or consolidated level, as the case may be. Where the amount of AT1 capital is insufficient to cover the amount of deductions required to be made from this category of capital, the shortfall must be deducted from CET1 capital.

i) Investment in own Additional Tier 1 Capital

Investments in the bank's own AT1 capital instruments, whether held directly or indirectly by the bank or any of its banking group entities, shall be deducted in the calculation of AT1 capital. Any AT1 capital instruments, which the reporting bank or any of its banking group entities could be contractually obliged to purchase, shall also be included in the deduction. This adjustment shall apply to exposures in both the banking and trading books.

ii) Reciprocal cross-holdings in AT1 instruments

Reciprocal cross-holdings of capital that are designed to artificially inflate the capital position of banks will be deducted in full. Banks must apply a "corresponding deduction approach" to such investments in the capital of other banks, other financial institutions and insurance entities. This means that the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself.

iii) Investments (significant and non-significant investments) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation

These comprise of:

- a) Direct, indirect and synthetic holdings of AT1 capital instruments in banking, financial and insurance entities. This includes:
 - Holdings of AT1 capital instruments held in the banking book;

- Net long positions¹⁷ in AT1 capital instruments¹⁸ held in the trading book; and
 - Underwriting positions in AT1 capital instruments held for more than five working days.
- b) The amount of such capital investments to be deducted in the calculation of AT1 capital shall be in accordance with [section 1.4.3.2 paragraphs x and xi](#).

If the bank does not have sufficient Tier 2 capital needed to make the required deductions from Tier 2 capital, the shortfall must be deducted from Additional Tier 1 capital.

1.4.5 TIER 2 CAPITAL

Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank and its capacity to absorb losses. Tier 2 capital (prior to regulatory adjustments) consists of the sum of the following elements:

- a) Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital);
- b) Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
- c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital;
- d) Revaluation Reserves for long-term assets whose value fluctuate;
- e) Certain loan loss provisions such as general provisions/general loan-loss reserve; and
- f) Regulatory adjustments applied in the calculation of Tier 2 capital.

1.4.5.1 Criteria for inclusion in Tier 2 Capital:

The objective of Tier 2 capital is to provide loss absorption on a gone-concern basis. The following sets out the minimum set of criteria for an instrument to meet or exceed in order for it to be included in Tier 2 capital.

1. The instrument should be issued by the bank and fully paid-in in cash.
2. The instrument is subordinated to depositors and general creditors of the bank.
3. Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors.
4. The instrument must have a minimum original maturity of at least five years and there are no step-ups or other incentives to redeem.

¹⁷ 'Net long positions' are the gross long positions net of short positions in the same underlying exposures where the maturity of the short positions either match the maturity of the long positions or have residual maturities of at least one year. They include netting positions in physical instruments and derivatives over the same underlying exposure (including those associated with looking through holdings of index securities).

¹⁸

This includes investments in capital instruments resulting from the holdings of index securities. Financial institutions are permitted to net long short positions in the same index security subject to maturity matching provisions

5. The amount of the instrument that will be eligible for inclusion in Tier 2 capital shall be amortized on a straight-line basis as follows:

Table 1: Amortization of Tier 2 Instruments

Years to Maturity	Amount Eligible for Inclusion in Tier 2 Capital
5 years or more	100%
4 years and less than 5 years	80%
3 years and less than 4 years	60%
2 years and less than 3 years	40%
1 year and less than 2 years	20%
Less than 1 year	0%

6. The instrument may be callable at the initiative of the issuer only after a minimum of five years, subject to the following requirements:
- To exercise a call option a bank must receive approval of the Central Bank;
 - A bank must not do anything that creates an expectation that the call will be exercised; and
 - Banks must not exercise a call unless:
 - They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
 - The bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
7. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.
8. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the credit standing of the bank, or the group or any related party.
9. Neither the bank nor a related party over which the bank exercises control or significant influence can purchase the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
10. If the instrument is not issued out of an operating entity or the financial holding company in the consolidated group, proceeds must be immediately available without limitation to an operating entity or the financial holding company in the consolidated group in a form that meets or exceeds all of the other criteria for inclusion in Tier 2 capital.

1.4.5.2 Other Tier 2 Instruments:

Other instruments and provisions qualifying for inclusion as Tier 2 capital are as follows:

- Contributed / Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital*

Contributed / Stock surplus (i.e. share premium) that is not eligible for inclusion in Tier 1 capital, will only be permitted to be included in Tier 2 capital if the shares giving rise to the contributed/stock surplus are permitted to be included in Tier 2 capital.

ii) General provisions/general loan-loss reserves

Provisions or loan-loss reserves held against unidentified losses are freely available to meet losses which subsequently materialize and therefore qualify for inclusion within Tier 2 capital. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded. Furthermore, general provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital will be limited to a maximum of 1.25% of credit RWAs.

1.4.5.3 Regulatory Adjustments to Tier 2 Capital:

Net Tier 2 capital is defined as Tier 2 capital including all regulatory adjustments but may not be lower than zero. If the total of all Tier 2 deductions exceeds Tier 2 capital available, the excess must be deducted from Tier 1 capital.

A bank shall apply the following regulatory adjustments in the calculation of Tier 2 capital at the solo or consolidated level, as the case may be, in accordance with the transitional arrangements (no more than five years) as set out in the BCBS's Basel III framework¹⁹.

i) Investment in own Tier 2 Capital

Investments in the bank's own Tier 2 capital instruments, whether held directly or indirectly by the bank or any of its banking group entities, shall be deducted in the calculation of Tier 2 capital. Any owned Tier 2 capital instruments, which the reporting bank or any of its banking group entities could be contractually obliged to purchase, shall also be included in the deduction. This adjustment shall apply to exposures in both the banking and trading books.

ii) Reciprocal cross-holdings in Tier 2 capital instruments

Reciprocal cross-holdings of capital that are designed to artificially inflate the capital position of banks will be deducted in full. Banks must apply a "corresponding deduction approach" to such investments in the capital of other banks, other financial institutions and insurance entities. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself.

iii) Investments (significant and non-significant investments) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation

These comprise of:

- i. Direct, indirect and synthetic holdings of Tier 2 capital instruments in banking, financial and insurance entities. This includes:

¹⁹ BCBS "Basel III: A global regulatory framework for more resilient banks and banking systems" June 2011

- Holdings of Tier 2 capital instruments held in the banking book;
 - Net long positions in Tier 2 capital instruments held in the trading book; and
 - Underwriting positions in Tier 2 capital instruments held for more than five working days.
- ii. The amount of such capital investments to be deducted in the calculation of Tier 2 capital shall be in accordance with 1.4.3.2 paragraphs x and xi.

1.4.6 ADDITIONAL REPORTING REQUIREMENTS

A bank must ensure that any component of capital included in its capital base satisfies, in both form and substance, all applicable requirements prescribed for the relevant category of capital, in which it is included.

The Central Bank may, in writing, require a bank to:

- a) Exclude from its regulatory capital any component of capital that in the opinion of the Central Bank does not represent a genuine contribution to the financial strength of the bank; or
- b) Reallocate to a lower category of capital any component of capital that in the opinion of the Central Bank does not fully satisfy the requirements for the category of capital to which it was originally allocated.
- c) Provide the Central Bank, as soon as practicable, with copies of documentation associated with the issue of Tier 1 and Tier 2 capital instruments and provide a description of the main features of the capital instrument issued.
- d) Notify the Central Bank prior to any subsequent modification of the terms and conditions of an instrument that may affect its eligibility to continue to qualify as regulatory capital.

1.5 CREDIT RISK MINIMUM CAPITAL REQUIREMENT

The Central Bank has adopted the Standardised Approach for determining the capital charge for credit risk which provides a standardised methodology using the risk ratings assigned by eligible external credit assessment institutions.

The following section sets out the minimum capital requirements for credit risk exposures in the Banking Book by establishing prescribed risk weights. Banks must apply the prescribed RW to both on-balance sheet and off-balance sheet exposures. Exposures are to be risk weighted net of specific provisions. RWs will be based on the risk rating assigned by external credit assessment institutions (ECAIs)²⁰ deemed eligible by the Central Bank. [Annex I: External Credit Assessment Institutions](#) outlines the criteria to be used in recognizing an ECAI as eligible for capital adequacy purposes. It also outlines key issues related to the use of ratings assigned by eligible ECAIs.

²⁰ Also, known as Credit Rating Agencies (CRAs). The notations follow the methodology used by one institution, Standard & Poor's and is an example only; other external credit assessment institutions could equally be used. The ratings used throughout this document, therefore, do not express any preferences or determinations on external assessment institutions by the Central Bank.

1.5.1 RISK WEIGHT CATEGORIES

1.5.1.1 Cash Items

A 0% RW will be applied to cash. Gold bullions, held in the bank's own vaults or on an allocated basis to the extent backed by bullion liabilities, will also be risk weighted at 0%. Gold bullion – other which is not on the premises of the bank will be risk-weighted at 100%. The 20% RW will apply to cash items in the process of collection.

1.5.1.2 Claims on Sovereigns

Claims on sovereigns and their Central Banks will be risk-weighted as follows:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

The Central Bank will allow a 0% risk weight to be applied to bank exposures to their sovereign (or central bank) of incorporation, when such exposures are denominated and funded in BZD or USD²¹. Banks with exposures (that are funded and denominated in the domestic currency) to other sovereigns (i.e. overseas central governments or central banks) may apply the preferential RW assigned to those sovereign exposures by their central banks.

Banks will apply a 0% RW to claims on the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank, the European Stability Mechanism, and the European Financial Stability Facility.

1.5.1.3 Claims on Non-Central Government Public Sector Entities

Claims on PSEs will be assigned a RW that is one category less favourable than the sovereign RW:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	50%	100%	100%	150%	100%

The Central Bank will allow a 20% risk weight to be applied to bank exposures to PSEs, when such exposures are denominated in BZ\$ and funded in BZ\$. Claims on a domestic PSE which are guaranteed by the central government may be assigned the RW of the sovereign on the condition that the guarantee must be explicit, unconditional, legally enforceable and irrevocable. PSEs whose major shareholder is the state, a regional authority or a local authority will be treated as a commercial undertaking where the entity operates like a corporate in a competitive market; claims on such PSEs will be risk weighted as claim on corporates.

²¹ This lower RW may be applied to the risk weighting of collateral and guarantees.

1.5.1.4 Claims on Multilateral Development Banks

Claims on MDBs will generally be risk weighted in accordance with the table below:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	50%	50%	100%	150%	100%

Claims on highly rated MDBs that meet the following criteria²² will receive a RW of 0%:

- very high-quality long-term issuer ratings;
- the MDB's shareholder structure is comprised of a significant proportion of sovereigns with long-term issuer credit assessments of AA- or better, or the majority of the MDB's fund-raising is in the form of paid-in equity/capital and there is little or no leverage;
- strong shareholder support demonstrated by the amount of paid-in capital contributed by the shareholders; the amount of further capital the MDBs have the right to call, if required, to repay their liabilities; and continued capital contributions and new pledges from sovereign shareholders;
- adequate level of capital and liquidity; and,
- strict statutory lending requirements and conservative financial policies, which would include among other conditions a structured approval process, internal creditworthiness and risk concentration limits, large exposures approval by the board or a committee of the board, fixed repayment schedules, effective monitoring of use of proceeds, status review process, and rigorous assessment of risk and provisioning to loan loss reserve.

1.5.1.5 Claims on Banks

No claim on an unrated bank, except for self-liquidating letters of credit, may receive a risk weight lower than that applied to claims on its sovereign of incorporation.

i) *Maturity more than three months:*

RWs for banks will be based on the external credit assessment for each institution. Unrated banks will be risk-weighted at 100%. Accordingly, claims on banks (with a maturity of more than three months) will be risk-weighted as follows:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	50%	50%	100%	150%	100%

²² These criteria are established by the BCBBS who will continue to evaluate eligibility on a case-by-case basis. MDBs currently eligible for a 0% RW are: the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (ISDB), and the Council of Europe Development Bank (CEDB) and other multilateral lending institutions or regional development institutions in which the Government of Belize is a shareholder or contributing member.

ii) *Maturity less than three months:*

Claims on banks with an original maturity of three months or less will be treated as a short-term claim. Short-term claims on banks will be assigned a preferential RW that is one category more favourable than claims on banks with a maturity more than three months, subject to a floor of 20%, as follows:

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	20%	20%	20%	50%	150%	100%

Short-term claims which are expected to be rolled over (i.e. where the effective maturity is longer than 3 months) will not qualify for the preferential treatment outlined under this part for capital adequacy purposes.

Short-term claims on banks that are funded and denominated in the domestic currency may be assigned a preferential RW that is one category more favourable than that assigned to claims on the sovereign, subject to a floor of 20%.

1.5.1.6 Claims on Securities Firms

Claims on securities will be risk weighted at 100%.

1.5.1.7 Claims on Corporates, Insurance Companies, and Other Financial Corporates

All corporate claims will be risk weighted at 100% without regard to external ratings. However, the Central Bank reserves the right to increase the standard RW for these claims where it determines that a higher RW is warranted by the overall default experience.

1.5.1.8 Claims Included in the Regulatory Retail Portfolio (Individuals or Small Business)

Claims that qualify under the regulatory retail portfolio may receive a 75% RW. To qualify under the regulatory retail portfolio the exposure must meet the following criteria:

- a) *Orientation Criterion* - The exposure is to an individual person, persons, or small business;
- b) *Product Criterion* - The exposure takes the form of any of the following:
 - i. Revolving credits and lines of credit (including credit cards and overdrafts);
 - ii. Personal term loans and leases (e.g. instalment loans, auto loans and leases, student and educational loans, personal finance); or
 - iii. Small business facilities and commitments that satisfy the criteria as determined by the Belize Trade and Investment Development Service.

Securities (such as bonds and equities), whether listed or not, must be excluded from this category. Mortgage loans must also be excluded to the extent that they qualify for treatment as claims secured by residential property.

- c) *Granularity Criterion* – the Central Bank must be satisfied that the regulatory retail portfolio is sufficiently diversified to a degree that reduces the risks in the portfolio.

- d) *Low value of individual exposures* — the maximum aggregated outstanding retail exposure to one counterparty cannot exceed an absolute threshold of BZ\$250,000 or its equivalent in a foreign currency. Small business loans extended through or guaranteed by an individual are subject to the same exposure threshold.

Claims that do not satisfy the above criteria will be risk weighted at 100%. In addition, the Central Bank will regularly review the 75% RW to ensure that it is not too low based on the default experience for these types of exposures. Past due loans and claims secured by residential property are excluded from the regulatory retail portfolio for risk weighting purposes.

1.5.1.9 Claims Secured by Residential Property

Loans secured by mortgages on residential property (residential mortgage loans) that is or will be occupied by the borrower or that is rented and is not past due for more than 90 days, will be risk weighted at 50%. In addition, such claims should be fully secured by a first priority charge. If the rental is a multifamily residential building where the prospects for repayment and recovery on the exposure depend primarily on the cash flow generated by the asset, it would be risk weighted at 100%.

Where a residential mortgage loan does not satisfy the previous constraints, a 100% RW must be applied. The Central Bank will maintain under review the default experience with such claims to determine the continuing appropriateness of the concessionary weighting.

1.5.1.10 Claims Secured by Commercial Property

A RW of 100% will be applied to claims secured by commercial real estate.

1.5.1.11 Securitization Exposures²³

Banks will require authorization from the Central Bank to engage in securitizations. If authorization is granted, the risk-weighted asset amount of a securitization tranche will be computed by multiplying the amount of the position by the appropriate RW determined in accordance with the following tables:

- i) *Short-term ratings - For exposures with short-term ratings, the following RWs will apply:*

External credit assessment	A-1/P-1	A-2/P-2	A-3/P-3	All other ratings
Risk weight	20%	50%	100%	1250%

- ii) *Long-term ratings - For exposures with long-term ratings, RWs will be determined according to the following table:*

External credit assessment	AAA to AA-	A+ to A-	BBB + to BBB-	BB+ to BB-	All other ratings
Risk weight	20%	50%	100%	350%	1250%

²³ A 1250% RW is equivalent to deduction from capital as $8\% \times 1250\% = 100\%$. Where deductions of investments are made, the deductions will be 50% from Tier 1 and 50% from Tier 2 Capital.

1.5.1.12 Defaulted Exposures

i) Unsecured Portions of Defaulted Exposure

The unsecured portion of any exposure (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, will be risk-weighted as 100% RW when specific provisions are 20% or more of the outstanding amount of the exposure.

ii) Secured Portions of Defaulted Exposures

For the purpose of defining the secured portion of the defaulted exposure, eligible collateral and guarantees will be the same as for credit risk mitigation purposes (see [section 1.5.2 Credit Risk Mitigation](#) Credit Risk Mitigation). For the secured portion of defaulted exposures, banks should apply the RW of the eligible collateral or guarantees, as if they were not past due, provided the credit risk mitigation criteria set out in [section 1.5.2 Credit Risk Mitigation](#) continues to be satisfied.

Qualifying residential mortgage loans (treated as [claims secured by residential property](#)) that are past due for more than 90 days will be risk weighted at 100%, net of specific provisions.

1.5.1.13 Other Exposures

A RW of 100% will apply to private equity exposures and exposures not included in any previous categories. The Central Bank may decide to apply a 150% or higher risk weight reflecting the higher risks associated with some other assets including venture capital exposures.

1.5.1.14 Off-Balance Sheet Instruments

The categories of off-balance sheet items include guarantees, commitments, and similar contracts whose full notional principal amount may not necessarily be reflected on the balance sheet. Banks should convert off-balance sheet items into credit exposures equivalents using the following credit conversion factors (CCFs):

Table II: CCF for Off-Balance Sheet Items

Off-Balance Sheet Exposure ²⁴	CCF
i. Commitments that are unconditionally cancellable without prior notice or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness. Also, include in this category, commitments and contingencies that are fully secured by cash on deposit at the reporting bank or portions of such commitments that are secured by cash on deposit at the reporting bank.	0%
i. Commitments with an original maturity up to one year. ii. Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment) ²⁵ .	20%
i. Commitments with an original maturity exceeding one year, including underwriting commitments and commercial credit lines. In cases where the terms of a commitment have been renegotiated and/or the maturity of a commitment extended, the original maturity should	50%

²⁴ In case of doubts for products not listed here, refer to BCBS's: "International Convergence of Capital Measurement and Capital Standards - A Revised Framework", 2004 (rev. June 2006), p.82-89.

²⁵ A 20% CCF will be applied to both issuing and confirming banks

Off-Balance Sheet Exposure ²⁴	CCF
be measured from the start of the initial commitment until the expiry date of the renegotiated/extended facility. For the purpose of this category, the “original maturity” of a commitment should be measured from the date at which the facility becomes available to be drawn down, until its expiry date, after which the facility is no longer available to be drawn down.	
i. Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances) where the reporting bank does not retain title to the underlying shipment. ii. Sale and repurchase agreements and asset sales with recourse, where the credit risk remains with the bank. iii. Others.	100%

Where there is an undertaking to provide a commitment on an off-balance sheet item, the lower of the two applicable CCFs should be applied.

1.5.1.15 Over-the-Counter Derivative Transactions

Banks will need special authorization from the Central Bank to engage in Over-the-Counter Derivative (OTC). These transactions expose the bank to counterparty risk. The treatment that shall be applied to determine the credit equivalent amount of the OTC derivatives is the so called “current exposure method”²⁶, whereby banks must calculate the current replacement cost by marking contracts to market/model, thus capturing the current exposure without any need for estimation, and then adding a factor (the “add-on”) to reflect the potential future exposure over the remaining life of the contract. In order to calculate the credit equivalent amount of these instruments under this method, a bank must sum:

- The total replacement cost (obtained by “marking to market”) of all its contracts with positive value; and
- An amount for potential future credit exposure calculated on the basis of the total notional principal amount of its book, split by residual maturity as follows:

Table III: Add-on for OTC Derivative Transactions

	Interest Rates	FX and Gold	Equities	Precious Metals Except Gold	Other commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

Notes:

- For contracts with multiple exchanges of principal (like swaps), the factors are to be multiplied by

²⁶ BCBS: Annex IV of the “International Convergence of Capital Measurement and Capital Standards - A Revised Framework”, 2004 (rev. June 2006). This approach was replaced by the “The standardised approach for measuring counterparty credit risk exposures”, March 2014 (rev. April 2014), but given the reduced level of OTC derivatives transactions within Belize, it is still considered more convenient to apply.

the number of remaining payments in the contract.

- For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date.
- In the case of interest rate contracts with remaining maturities of more than one year that meet the above criteria, the add-on factor is subject to a floor of 0.5%.
- Other derivative contracts not covered by any of the columns in the above matrix are to be treated as "other commodities".
- No potential future credit exposure would be calculated for single currency floating/floating interest rate swaps; the credit exposure on these contracts would be evaluated solely based on their mark-to-market value.

1.5.1.16 Security Financing Transactions

Securities Financing Transactions (SFTs) are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. The credit equivalent amount of SFTs that expose a bank to counterparty credit risk is to be calculated as follows:

$$E^* = \max\{0; 1.15 \cdot E - (0.85 - H_{FX}) \cdot C\},$$

where:

E^* = credit equivalent (after risk mitigation);

E = current value of the exposure;

C = the current value of the collateral received

H_{FX} = 8% when collateral and exposures are denominated in different currencies, otherwise 0.

Once the bank has calculated the credit equivalent amounts of any off-balance sheet item they are to be weighted according to the category of counterparty in the same way as in the main framework, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral.

For the capital treatment of failed securities, commodities, and foreign exchange transactions please refer to the [Annex II: "Capital Treatment for Failed Trades Non DvP Transactions"](#)²⁷. In regard to unsettled securities, commodities, and foreign exchange transactions that are not processed through a delivery-versus-payment or payment-versus-payment mechanism, banks must calculate a capital charge as set forth in the aforementioned [Annex II](#).

²⁷ Delivery versus Payment - a securities industry settlement procedure in which the buyer's payment for securities is due at the time of delivery.

1.5.2 CREDIT RISK MITIGATION

The framework set out in this section is applicable to banking book exposures that are risk-weighted under the standardised approach. Banks will not be allowed to use credit derivatives even for the purposes of credit risk mitigation without special authorization from the Central Bank.

1.5.2.1 CRM Techniques and Requirements

Banks will be allowed to use the following CRM techniques:

- i. *Collateralization*: Banks' credit exposure or potential credit exposure can be hedged in whole or in part by collateral posted by either the counterparty, or by a third party on behalf of the counterparty. Where banks take eligible financial collateral, the regulatory capital requirements shall be reduced by means of the simple method as described in section [1.5.2.2 Collateralized Transactions](#).
- ii. *On-balance sheet netting*: Where banks have legally enforceable netting arrangements for loans and deposits they may calculate capital requirements on the basis of net credit exposures subject to the conditions set out in section [1.5.2.3 On-Balance Sheet Netting](#)
- iii. *Guarantees by a third party*: where guarantees fulfil the minimum operational conditions set out in section [1.5.2.4 Third Party Guarantees](#), banks may take account of the credit protection offered by such CRM techniques in calculating capital requirements.

Where these techniques meet the general and legal requirements as set out below, CRM will be recognized.

General Requirements for CRM Techniques:

- No transaction in which CRM techniques are used shall receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.
- The effects of CRM must not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on exposures for which the RW already reflects that CRM.
- While the use of CRM techniques reduces or transfers credit risk, it may simultaneously increase other risks (i.e. residual risks). Residual risks include legal, operational, liquidity and market risks and banks must employ robust procedures and processes to control these risks.
- Where the credit quality of the counterparty and the value of the collateral have a material positive correlation, the collateral instrument will not be eligible for credit risk mitigation purposes. For example, securities issued by the counterparty, or by any related group entity, would provide little protection and so would be ineligible.
- Where a bank has multiple CRM techniques covering a single exposure, the bank must subdivide the exposure into portions covered by each type of CRM technique and the risk-weighted assets of each portion must be calculated separately.

Legal Requirement:

- For banks to obtain capital relief for any use of CRM techniques, all documentation used in collateralized transactions and third-party guarantees must be binding on all parties and legally

enforceable in all relevant jurisdictions. Banks must have conducted sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review, as necessary, to ensure continuing enforceability.

1.5.2.2 Collateralized Transactions

Before capital relief is granted in respect of any form of collateral, the standards set out below must be met:

- The legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession, in a timely manner, in the event of the default, insolvency or bankruptcy of the counterparty (and, where applicable, of the custodian holding the collateral). Additionally, banks must take all steps necessary to fulfil those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g. by registering it with a registrar, or for exercising a right to net or set off in relation to the title transfer of the collateral.
- Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.
- Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

Under the simple approach, the RW of the counterparty is replaced by the RW of the collateral instrument collateralizing or partially collateralizing the exposure. For collateral to be recognized in the simple approach, it must be pledged for at least the life of the exposure, and it must be marked to market and revalued with a minimum frequency of six months. Those portions of exposures collateralized by the market value of recognized collateral receive the RW applicable to the collateral instrument. The RW on the collateralized portion is subject to a floor of 20% except under the conditions specified below. The remainder of the exposure must be assigned the RW appropriate to the counterparty. Maturity mismatches are not allowed under the simple approach.

Collateral Instruments Eligible for Recognition:

The following collateral instruments are eligible for recognition in the simple approach:

- a) Cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposit with the bank that is incurring the counterparty exposure.
- b) Gold.
- c) In jurisdictions that allow the use of external ratings for regulatory purposes:
 - i. Debt securities rated by a recognized ECAI where these are either:
 - at least BB– when issued by sovereigns or PSEs that are treated as sovereigns by the national supervisor;
 - at least BBB– when issued by other entities (including banks and other prudentially regulated financial institutions); or
 - at least A-3/P-3 for short-term debt instruments.

ii. Debt securities not rated by a recognized ECAI where these are:

- issued by a bank; and
- listed on a recognized exchange; and
- classified as senior debt; and
- all rated issues of the same seniority by the issuing bank are rated at least BBB– or A-3/P-3 by a recognized ECAI; and
- the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB– or A-3/P-3 (as applicable); and
- the Central Bank is confident that the market liquidity of the security is adequate.

d) Equities (including convertible bonds) that are included in a main index.

Exemptions to the Risk-Weight Floor:

The 20% floor for the RW on a collateralized transaction does not apply and a 0% RW may be applied where the exposure and the collateral are denominated in the same currency, and either:

- the collateral is cash on deposit with the bank that is incurring the counterparty exposure; or
- the collateral is in the form of sovereign / PSE securities eligible for a 0% RW, and its market value has been discounted by 20%.

1.5.2.3 On-Balance Sheet Netting

Where a bank,

- a) has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt;
- b) is able at any time to determine those assets and liabilities with the same counterparty that are subject to the netting agreement;
- c) monitors and controls its roll-off risks; and
- d) monitors and controls the relevant exposures on a net basis,

it may use the net exposure of loans and deposits as the basis for its capital adequacy calculation in accordance with the formula:

$$E = \max \{ 0 ; \text{Assets} - (1 - H_{FX}) \cdot \text{Liabilities} \}, \text{ where}$$

E = current value of the exposure;

H_{FX} = 8% when collateral and exposures are denominated in different currencies, otherwise 0.

1.5.2.4 Third-party Guarantees

If the operational requirements set below are met, banks can substitute the RW of the counterparty with the RW of the guarantor:

- a) it represents a direct claim on the protection provider;
- b) it is explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible;
- c) other than non-payment by a protection purchaser of money due in respect of the credit protection contract it is irrevocable; there is no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure;
- d) It must be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the underlying counterparty fails to make the payment(s) due.

Specific Operational Requirements for Guarantees:

In addition to the legal certainty requirements in section [1.5.2.1 CRM Techniques and Requirements](#)

CRM Techniques and Requirements, in order for a guarantee to be recognized, the following requirements must be satisfied:

- a) On the qualifying default/non-payment of the counterparty, the bank may in a timely manner pursue the guarantor for any monies outstanding under the documentation governing the transaction. The guarantor may make one lump sum payment of all monies under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The bank must have the right to receive any such payments from the guarantor without first having to take legal action in order to pursue the counterparty for payment.
- b) The guarantee is an explicitly documented obligation assumed by the guarantor.
- c) Except as noted in the following sentence, the guarantee covers all types of payments the underlying counterparty is expected to make under the documentation governing the transaction, for example notional amount, margin payments, etc. Where a guarantee covers payment of principal only, interests and other uncovered payments must be treated as an unsecured amount in accordance with the rules for proportional cover described below.

Range of Eligible Guarantors (Counter-Guarantors) / Protection Providers:

Credit protection given by the following entities can be recognized when they have a lower RW than the counterparty:

- Sovereign entities²⁸, PSEs, MDBs, banks, securities firms and other prudentially regulated financial

²⁸ This includes the Bank for International Settlements, the International Monetary Fund, the European Central Bank, the European Union, the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF), as well as MDBs eligible for a 0% RW.

institutions²⁹ with a lower RW than the counterparty;

- Other entities that are externally rated except when credit protection is provided to a securitization exposure. This would include credit protection provided by a parent, subsidiary and affiliate companies when they have a lower RW than the obligor;
- When credit protection is provided to a securitization exposure, other entities that currently are externally rated BBB– or better and that were externally rated A– or better at the time the credit protection was provided. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower RW than the obligor.

Risk-Weight Treatment of Transactions in which Eligible Credit Protection is Provided:

- General risk-weight treatment:
 - The protected portion is assigned the RW of the protection provider. The uncovered portion of the exposure is assigned the RW of the underlying counterparty.
 - Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank purchasing the credit protection.
- Proportional cover: where losses are shared *pari passu* on a pro rata basis between the bank and the guarantor, capital relief is afforded on a proportional basis, i.e. the protected portion of the exposure receives the treatment applicable to eligible guarantees, with the remainder treated as unsecured.
- Tranched cover: where the bank transfers a portion of the risk of an exposure in one or more tranches to a protection seller or sellers and retains some level of the risk of the loan, and the risk transferred and the risk retained are of different seniority, banks may obtain credit protection for either the senior tranches (e.g. the second-loss portion) or the junior tranche (e.g. the first-loss portion). In this case, the rules as set out in the securitization standard apply.
- Currency mismatches: where the credit protection is denominated in a currency different from that in which the exposure is denominated, that is there is a currency mismatch, the amount of the exposure deemed to be protected must be reduced by the application of a haircut H_{FX} , using the formula that follows:

$$G_a = G \cdot (1 - H_{FX}), \text{ where:}$$

G = nominal amount of the credit protection

H_{FX} = haircut appropriate for currency mismatch between the credit protection and underlying obligation and will be calculated as:

²⁹ A prudentially regulated financial institution is defined as: a legal entity supervised by a regulator that imposes prudential requirements consistent with international norms or a legal entity (parent company or subsidiary) included in a consolidated group where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international norms. These include, but are not limited to, prudentially regulated insurance companies, broker/dealers, thrifts and futures commission merchants, and qualifying central counterparties.

$$H_{FX} = 8\% \cdot \sqrt{\frac{N_R + (T_M - 1)}{10}},$$

where N_R = actual number of business days between re-margining for capital market transactions or revaluation for secured transactions, and T_M = minimum holding period for the type of transaction.

- **Sovereign guarantees and counter-guarantees:** As specified in section [1.5.1.2 Claims on Sovereigns](#), a lower risk weight may be applied at national discretion to a bank's exposures to the sovereign (or central bank) where the bank is incorporated and where the exposure is denominated in domestic currency and funded in that currency. National authorities may extend this treatment to portions of claims guaranteed by the sovereign (or central bank), where the guarantee is denominated in the domestic currency and the exposure is funded in that currency. A claim may be covered by a guarantee that is indirectly counter guaranteed by a sovereign. Such a claim may be treated as covered by a sovereign guarantee provided that:
 - a) the sovereign counter-guarantee covers all credit risk elements of the exposure;
 - b) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter-guarantee need not be direct and explicit to the original exposure; and
 - c) The Central Bank is satisfied that the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct sovereign guarantee.

1.6 MARKET RISK MINIMUM CAPITAL REQUIREMENT

1.6.1 DEFINITIONS AND SCOPE OF APPLICATION

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in the market prices of instruments. The risks subject to the market risk capital requirement are:

- a) The risks pertaining to interest rate related instruments and equities in the trading book; and
- b) Foreign exchange risk and commodities risk throughout the banking and trading book.

Market risk must be managed in such a way that the capital requirements are being met on a continuous basis, i.e. at the close of each business day.

1.6.1.1 Financial Instruments

Instruments comprise financial instruments, foreign exchange, and commodities. A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary financial instruments (or cash instruments) and derivative financial instruments. A financial asset is any asset that is cash, the right to receive cash or another financial asset or a commodity, or an equity instrument. A financial liability is the contractual obligation to deliver cash or another financial asset or a commodity.

1.6.1.2 Trading Book

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or able to be hedged completely. Banks must fair-value daily any trading book instrument and recognize any valuation change in the Statement of Comprehensive Income.

Any instrument a bank holds for one or more of the following purposes must be designated as a trading book instrument:

- a) short-term resale;
- b) profiting from short-term price movements;
- c) locking in arbitrage profits;
- d) hedging risks that arise from instruments meeting criteria (a), (b) or (c) above.

Banks must have clearly defined policies, procedures and documented practices for determining which instruments to include in or to exclude from the trading book for purposes of calculating their regulatory capital and taking into account the bank's risk management capabilities and practices. Compliance with the policies and procedures must be fully documented and subject to periodic (at least yearly) internal audit and the results must be documented and available for supervisory review.

In cases where banks intend to move instruments between the trading book and the banking book, after initial designation, special authorization from the Central Bank will be required. Switching instruments for regulatory arbitrage is strictly prohibited. Market events, changes in the liquidity of a financial instrument, or a change of trading intent alone are not valid reasons for re-designating an instrument to a different book. Without exception, a capital benefit as a result of switching will not be allowed in any case or circumstance.

1.6.1.3 Prudent Valuation Guidance

A framework for prudent valuation practices should at a minimum include:

- a) Systems and controls to give management and supervisors the confidence that their valuation estimates are prudent and reliable. Such systems must include documented policies and procedures for the process of valuation (e.g. sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices); and clear and independent (i.e. of front office) reporting lines for the department accountable for the valuation process.
- b) A valuation methodology where marking to market is done daily. This is the valuation of positions at readily available close out prices that are sourced independently. Banks must mark-to-market as much as possible.

Independent price verification is the process by which market prices or model inputs are regularly verified for accuracy. While daily marking-to-market may be performed by dealers, verification of market prices or model inputs should be performed by a unit independent of the dealing room, at least monthly. Independent price verification entails a higher standard of accuracy in that the market prices or model inputs are used to determine profit and loss figures, whereas daily marks are used primarily for management reporting in between reporting dates.

1.6.1.4 Market Risk Stress Tests

Banks should have methodologies that enable them to assess and actively manage all material market risks, wherever they arise, at position, trading desk, business line and firm-wide level. For more sophisticated banks, their assessment of internal capital adequacy for market risk, at a minimum, should be based on both mathematic modelling and stress testing, including an assessment of concentration risk and the assessment of illiquidity under stressful market scenarios, although all firms' assessments should include stress testing appropriate to their trading activity. The bank must demonstrate that it has enough capital to not only meet the minimum capital requirements but also to withstand a range of severe but plausible market shocks. In particular, it must factor in, where appropriate, events like market illiquidity, holding concentrated positions (in relation to market turnover), deep out-of-the money positions, and jumps-to-defaults.

1.6.2 MEASUREMENT OF MARKET RISK

The Central Bank has adopted the standardised approach for determining the capital requirements for market risk. Under this approach, banks subject to market risk, will calculate their total capital requirement using a building-block approach, whereby the capital charge for each risk category (interest rate risk, equity risk, foreign exchange risk and commodity risk) is determined separately. The capital charge for each risk category is then aggregated to obtain the total market risk capital requirement.

$$\text{Total Capital Requirement} = CR_{IRR} * SF_{IRR} + CR_{EQ} * SF_{EQ} + CR_{FX} * SF_{FX} + CR_{COMM} * SF_{COMM}$$

where:

- CR_{IRR} = capital requirement for interest rate risk;
- CR_{EQ} = capital requirement for equity risk;
- CR_{FX} = capital requirement for foreign exchange risk;
- CR_{COMM} = capital requirement for commodities risk;
- SF_{IRR} = Scaling factor of 1.50;
- SF_{EQ} = Scaling factor of 3.00;
- SF_{FX} = Scaling factor of 1.50; and
- SF_{COMM} = Scaling factor of 1.50.

Within the interest rate and equity risk categories, separate capital charge for specific risk and the general market risk arising from debt and equity positions are calculated. Specific risk is defined as the risk of loss caused by an adverse price movement of a debt instrument or security due principally to factors related to the issuer. General market risk is defined as the risk of loss arising from adverse changes in market prices. For commodities, options, and foreign exchange, there is only a general market risk capital requirement.

1.6.2.1 Interest Rate Risk

This section describes the simplified standardised approach for measuring the risk of holding or taking positions in debt securities and other interest rate related instruments in the trading book. The instruments

covered include all fixed-rate and floating-rate debt securities and instruments that behave like them. The minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the “specific risk” of each security, and the other to the interest rate risk in the portfolio (termed “general market risk”), where long and short positions in different securities or instruments can be offset.

i) Interest Rate – Specific Risk

The capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer. In measuring the risk, offsetting will be restricted to matched positions in the identical issue. Even if the issuer is the same, no offsetting will be permitted between different issues.

The specific risk capital charges for “government” and “other” categories will depend on the RW of the issue and the term to maturity, as follows in **Table IV**:

Table IV: Government and Other Categories

Categories	External Credit Assessment	Specific Risk Capital Requirement
Government	AAA to AA- A+ to BBB- BB+ to B- Below B- Unrated	0% 0.25% (residual term to final maturity ≤ 6 months) 1.00% (residual term to final maturity > 6 and ≤ 24 months) 1.60% (residual term to final maturity > 24 months) 8.00% 12.00% 8.00%
Qualifying		0.25% (residual term to final maturity ≤ 6 months) 1.00% (residual term to final maturity > 6 and ≤ 24 months) 1.60% (residual term to final maturity > 24 months)
Other	BB+ to BB- Below BB- Other unrated	8.00% 12.00% 8.00%

The category “government”³⁰ will include all forms of government paper including but not limited to bonds, treasury bills and other short-term instruments. The Central Bank reserves the right to apply a specific capital charge to securities issued by certain governments, especially to securities denominated in a currency other than that of the issuing government.

When the government paper is denominated in the domestic currency and funded by the bank in the same currency, at national discretion, a lower specific risk capital requirement may be applied.

The “qualifying” category includes securities issued by public sector entities and multilateral development banks, plus other securities that are:

³⁰ Including local and regional governments denominated in BZ\$ and funded in BZ\$, subject to the 0% RW.

- rated investment-grade³¹ by at least two CRA specified by the Central Bank; or
- rated investment-grade by one CRA and not less than investment-grade by any other CRA specified by the Central Bank (subject to supervisory oversight); or
- subject to supervisory approval, unrated, but deemed to be of comparable investment quality by the reporting bank, and the issuer has securities listed on a recognized stock exchange.

Instruments issued by a non-qualifying issuer will receive the same specific risk charge as a non-investment grade corporate borrower under the standardised approach for credit risk. For debt instruments by a non-qualifying issuer which have a high yield to redemption relative to government debt securities will have a 12% specific risk charge.

ii) Interest Rate – General Risk

The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates. The “maturity” method will be applied, whereby the capital charge is obtained from the sum of four components:

- The net short or long position in the whole trading book;
- A small proportion of the matched positions in each time-band (the “vertical disallowance”);
- A larger proportion of the matched positions across different time-bands (the “horizontal disallowance”); and
- A net charge for positions in options, where appropriate.

Separate maturity ladders should be used for each currency, and capital charges should be calculated for each currency separately and then summed with no offsetting between positions of opposite sign. In the case of those currencies in which business is insignificant (< 5% of total assets), separate maturity ladders for each currency are not required. Rather, the bank may construct a single maturity ladder and slot, within each appropriate time-band, the net long or short position for each currency. However, the absolute values of the individual net positions are to be summed within each time-band, irrespective of whether they are long or short positions, to produce a gross position figure.

The long or short positions in debt securities and other sources of interest rate exposures including derivative instruments are slotted into a maturity ladder comprising thirteen time-bands (or fifteen time-bands in case of low coupon instruments). Fixed rate instruments should be allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next repricing date. Opposite positions of the same amount in the same issues (but not different issues by the same issuer), whether actual or notional, can be omitted from the interest rate maturity framework, as well as closely matched swaps, forwards, futures and forward rate agreements.

The first step in the calculation is to weight the positions in each time-band by a factor designed to reflect the price sensitivity of those positions to assumed changes in interest rates. The weights for each time-band are set out in Table II below. Zero-coupon bonds and deep-discount bonds (defined as bonds with a coupon of less than 3%) should be slotted according to the time-bands set out in the second column of **Table V**:

³¹ Example, securities which are rated at or above Baa by Moody's Investors Services or BBB by Standard & Poor's Corporation.

Table V: Time-bands and Weights

Coupon 3% or more	Coupon less than 3%	Risk weight	Assumed changes in yield/interest rates
1 month or less	1 month or less	0.00%	1.00
1 to 3 months	1 to 3 months	0.20%	1.00
3 to 6 months	3 to 6 months	0.40%	1.00
6 to 12 months	6 to 12 months	0.70%	1.00
1 to 2 years	1.0 to 1.9 years	1.25%	0.90
2 to 3 years	1.9 to 2.8 years	1.75%	0.80
3 to 4 years	2.8 to 3.6 years	2.25%	0.75
4 to 5 years	3.6 to 4.3 years	2.75%	0.75
5 to 7 years	4.3 to 5.7 years	3.25%	0.70
7 to 10 years	5.7 to 7.3 years	3.75%	0.65
10 to 15 years	7.3 to 9.3 years	4.50%	0.60
15 to 20 years	9.3 to 10.6 years	5.25%	0.60
over 20 years	10.6 to 12 years	6.00%	0.60
	12 to 20 years	8.00%	0.60
	over 20 years	12.50%	0.60

The next step in the calculation is to offset the weighted longs and shorts in each time-band, resulting in a single short or long position for each band. Since, however, each band would include different instruments and different maturities, a 10% capital charge to reflect basis risk and gap risk will be levied on the smaller of the offsetting positions, be it long or short.

The result of the above calculations is to produce two sets of weighted positions, the net long or short positions in each time-band and the vertical disallowances, which have no sign. In addition, however, banks will be allowed to conduct two rounds of “horizontal offsetting”:

- a) First between the net positions in each of three zones where zone 1 is set as zero to one year, zone 2 is set as one year to four years and zone 3 is set as four years and over; and
- b) Subsequently between the net positions in the three different zones.

Table VI: Horizontal Disallowances

Zones	Time-band	Within the zone	Between adjacent zones	Between zones 1 and 3
Zone 1	0 - 1 month	40%	40%	100%
	1 - 3 months			
	3 - 6 months			
	6 - 12 months			
Zone 2	1 - 2 years	30%	40%	
	2 - 3 years			
	3 - 4 years			
	4 - 5 years			
Zone 3	5 - 7 years	30%	40%	
	7 - 10 years			
	10 - 15 years			
	15 - 20 years			
	over 20 years			

The offsetting will be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in **Table VI** above. The weighted long and short positions in each of three zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

In the case of residual currencies, the gross positions in each time-band will be subject to the RWs set out in **Table V**, with no further offsets.

iii) Interest Rate Derivatives

A capital requirement will be determined for all interest rate derivatives and off-balance sheet instruments in the trading book, which react to changes in interest rates, (e.g. forward rate agreements (FRAs), interest rate and cross-currency swaps and forward foreign exchange positions). The derivatives should be converted into positions in the relevant category and become subject to specific and general market risk charges as described above. In order to calculate the standard formula described above, the amounts reported should be the market value of the principal amount of the underlying or of the notional underlying.

Futures and forward contracts, including forward rate agreement - These instruments are treated as a combination of a long and a short position in a notional government security. The maturity of a future or a forward rate agreement will be the period until delivery or exercise of the contract, plus - where applicable - the life of the underlying instrument. For example, a long position in a 3-month interest rate future (taken in April) is to be reported as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months.

Swaps - These instruments will be treated as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed will be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap.

Interest rate and currency swaps, forward rate agreements, forward foreign exchange contracts and interest rate futures will not be subject to a specific risk charge. General market risk applies to positions in all derivative products in the same manner as for cash positions.

1.6.2.2 Equity Risk

This section sets out a minimum capital standard to cover the risk of holding or taking positions in equities and all other instruments that exhibit market behaviour similar to equities, but not to non-convertible preference shares. Long and short positions in the same issue may be reported on a net basis. The instruments covered include common stocks, whether voting or non-voting, convertible securities that behave like equities, and commitments to buy or sell equity securities.

The minimum capital standard for equities is expressed in terms of two separately calculated charges for the “specific risk” of holding a long or short position in an individual equity and for the “general market risk” of holding a long or short position in the market as a whole. Specific risk is defined as the bank’s gross equity positions (i.e. the sum of all long equity positions and of all short equity positions) and general market risk as the difference between the sum of the longs and the sum of the shorts (i.e. the overall net position in an equity market). The long or short position in the market must be calculated on a market-by-market basis, i.e. a separate calculation has to be carried out for each national market in which the bank holds equities. Both the capital charge for specific risk and the charge for general market risk will be 9%.

1.6.2.3 Foreign Exchange Risk

This section sets out a minimum capital standard to cover the risk of holding or taking positions in foreign currencies, including gold. Two processes are needed to calculate the capital requirement for foreign exchange risk. The first is to measure the exposure in a single currency position. The second is to measure the risks inherent in a bank’s mix of long and short positions in different currencies.

i) Measuring the Exposure in a Single Currency

The bank’s net open position in each currency should be calculated by summing:

- The net spot position (i.e. all asset items less all liability items, including accrued interest, denominated in the currency in question);
- The net forward position (i.e. all amounts to be received less all amounts to be paid under forward foreign exchange transactions, including currency futures and the principal on currency swaps not included in the spot position);
- Guarantees (and similar instruments) that are certain to be called and are likely to be irrecoverable;
- Net future income / expenses not yet accrued but already fully hedged; and
- Depending on particular accounting conventions in different countries, any other item representing a profit or loss in foreign currencies.

If banks include deferred income/expenses they should do so on a consistent basis and not be permitted to select only those expected future flows which reduce their position.

Forward currency and gold positions will be valued at current spot market exchange rates.

ii) Measuring foreign exchange risk in a portfolio of foreign currency positions

Banks will calculate the minimum capital by using the “shorthand method”, whereby the nominal amount (or net present value) of the net position in each foreign currency and in gold is converted at spot rates into the reporting currency. The overall net open position is measured by aggregating:

- The sum of the net short positions or the sum of the net long positions, whichever is greater; plus
- The net position (short or long) in gold, regardless of sign.

The capital charge will be 9% of the overall net open position.

1.6.2.4 Commodities Risk

This section establishes a minimum capital standard to cover the risk of holding or taking positions in commodities, including precious metals, but excluding gold.

A commodity is defined as a physical product, which is or can be traded on a secondary market, e.g. agricultural products, minerals (including oil) and precious metals.

Commodities position risk will be measured under the simplified approach, where long and short positions in each commodity may be reported on a net basis for the purposes of calculating open positions. However, positions in different commodities will, as a general rule, not be off settable in this fashion.

The capital charge for directional commodity risk will be the product of 15% times the net position, long or short (in absolute value), in each commodity. In order to protect the bank against basis risk, interest rate risk and forward gap risk, an additional capital charge will be levied equivalent to 3% of the bank’s gross positions, long plus short, in that particular commodity will be added.

1.6.2.5 Treatment of Options

Banks will not be allowed to sell financial options of any kind, although they may buy a limited range of purchased options requiring authorization from the Central Bank to do so. For banks that are allowed to purchase options, the simplified approach to calculate capital will be applied. The positions for the options and the associated underlying, cash or forward, are not subject to the standardised methodology but rather subject to separately calculated capital charges requirement that incorporate both general market risk and specific risk (see **Table VII**).

The risk numbers thus generated are then added to the capital charges for the relevant category, i.e. interest rate related instruments, equities, foreign exchange and commodities.

The charge to be applied under this measure are:

- 16% for interest rate options;
- 16% for equity options;
- 8% for currency options; and
- 15% for commodities options.

Table VII: Simplified Approach - Capital Charges for Options

Positions	Capital Requirement ³²
Long Cash and Long Put or Short Cash and Long Call	The capital charge will be the market value of the underlying security ³³ multiplied by the sum of specific and general market risk charges ³⁴ for the underlying less the amount the option is in the money (if any) bounded at zero.
Long Call or Long Put	The capital charge will be the lesser of: i. the market value of the underlying security multiplied by the sum of specific and general market risk charges for the underlying; ii. the market value of the option

1.7 OPERATIONAL RISK MINIMUM CAPITAL REQUIREMENT

1.7.1 DEFINITION

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk,³⁵ but excludes strategic and reputational risk.

1.7.2 MEASUREMENT OF OPERATIONAL RISK

The capital requirement for the measurement of operational risk is the Standardised Approach under Basel III. The standardised approach methodology is based on the following components:

- i. the Business Indicator (BI) which is a financial-statement-based proxy for operational risk;
- ii. the Business Indicator Component (BIC), which is calculated by multiplying the BI by a set of regulatory determined marginal coefficients (α_i); and
- iii. the Internal Loss Multiplier (ILM), which is a scaling factor that is based on a bank's average historical losses and the BIC.³⁶

³² As an example of how the calculation would work, if a holder of 100 shares currently valued at \$10 each holds an equivalent put option with a strike price of \$11, the capital charge would be: $\$1,000 \times 16\%$ (i.e. 8% specific plus 8% general market risk) = \$160, less the amount the option is in the money $(\$11 - \$10) \times 100 = \$100$, i.e. the capital charge would be \$60.

³³ In some cases, such as foreign exchange, it may be unclear which side is the "underlying security"; this should be taken to be the asset which would be received if the option were exercised. In addition, the nominal value should be used for items where the market value of the underlying instrument could be zero, e.g. caps.

³⁴ Some options (e.g. where the underlying is an interest rate, a currency or a commodity) bear no specific risk but specific risk will be present in the case of options on certain interest rate related instruments (e.g. options on a corporate debt security).

³⁵ Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

³⁶ The operational risk capital requirement is determined by the product of the BIC and the ILM. For banks in bucket 1 (see Table IV: BI Ranges and Marginal Coefficients), internal loss data does not affect the capital calculation. That is, the ILM is equal to 1.

1.7.2.1 The Business Indicator

The Business Indicator (BI) comprises three components: the interest, leases and dividend component (ILDC); the services component (SC); and the financial component (FC), which are all averaged over three years³⁷: The BI can be expressed as:

$$BI = ILDC + SC + FC$$

i) Interest, Leases and Dividend Component

The ILDC reflects the operational risk associated with interest, leases and dividends. The ILDC can be expressed by the following formula, where the components are calculated as the average over three years: t, t-1 and t-2:

$$ILDC = \text{Min}[\text{Abs}(\text{Interest Income} - \text{Interest Expense}); 2.25\% \times \text{Interest Earning Assets}] + \text{Dividend Income}$$

Table VIII: Definition of Interest, Leases and Dividend Component

Items	Description	Typical Sub-Items
Interest income	Interest income from all financial assets and other interest income	- Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operational leases - Interest income from hedge accounting derivatives - Other interest income - Profits from leased assets
Interest expense	Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets)	- Interest expenses from deposits, debt securities issued, financial leases, and operating leases - Interest expenses from hedge accounting derivatives - Other interest expenses - Losses from leased assets - Depreciation and impairment of operating leased assets
Interest earning assets (balance sheet item)	Total gross outstanding loans, advances, interest bearing securities (including government bonds), and lease assets measured at the end of each financial year.	
Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	

³⁷ The absolute value of the net items (that is, interest income – interest expense) should be calculated first year by year. Only after this year-by-year calculation should the average of the three years be calculated. The absolute value of net P&L is used instead of the actual value.

ii) Services Component

The SC captures the operational risk arising from a bank's service activities. The SC is calculated based on the following formula:

$$SC = \text{Max}(\overline{\text{Other Operating Income}}; \overline{\text{Other Operating Expense}}) + \text{Max}(\overline{\text{Fee Income}}; \overline{\text{Fee Expense}})$$

Table IX: Definition of Services Component

Items	Description	Typical Sub-Items
Other Operating Income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded)	- Rental income from investment properties - Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37)
Other Operating Expense	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded)	- Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) - Losses incurred as a consequence of operational loss events (e.g. fines, penalties, settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years - Expenses related to establishing provisions / reserves for operational loss events
Fee and Commission Income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	Fee and commission income from: - Securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) - Clearing and settlement; Asset management; Custody; Fiduciary transactions; Payment services; Structured finance; Servicing of securitizations; Loan commitments and guarantees given; and foreign transactions
Fee and Commission Expense	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g. logistical, IT, human resources)	Fee and commission expenses from: Clearing and settlement; Custody; Servicing of securitizations; Loan commitments and guarantees received; and foreign transactions

iii) Financial Component

The FC captures the operational risk associated with the bank's trading book and banking book. It is calculated based on the following equation.

$$FC = \text{Abs}(\text{Net Profit \& Loss Trading Book}) + \text{Abs}(\text{Net Profit \& Loss Banking Book})$$

Table X: Definition of Financial Component

Items	Description
Net Profit (Loss) on the Trading Book	- Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities) - Net profit/loss from hedge accounting - Net profit/loss from exchange differences
Net Profit (Loss) on the Banking Book	- Net profit/loss on financial assets and liabilities measured at fair value through the statement of Profit and Loss - Realized gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortized cost) - Net profit/loss from hedge accounting - Net profit/loss from exchange differences

iv) Exclusions from the Business Indicator

The following Profit and Loss items do not contribute to any of the items of the BI:

- Income and expenses from insurance or reinsurance businesses
- Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased
- Administrative expenses, including staff expenses, management fees, outsourcing fees paid for the supply of non-financial services (e.g. logistical, IT, human resources), and other administrative expenses (e.g. IT, utilities, telephone, travel, office supplies, postage)
- Recovery of administrative expenses including recovery of payments on behalf of customers
- Expenses of premises and fixed assets (except when these expenses result from operational loss events)
- Depreciation/amortization of tangible and intangible assets (except depreciation related to operating lease assets, which should be included in financial and operating lease expenses)
- Provisions/reversal of provisions (e.g. on pensions, commitments and guarantees given) except for provisions related to operational loss events
- Expenses due to share capital repayable on demand
- Impairment/reversal of impairment (e.g. on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates)
- Changes in goodwill recognized in profit or loss

- Corporate income tax (tax based on profits including current tax and deferred).

1.7.2.2 The Business Indicator Component

To calculate the BIC, the BI is multiplied by the marginal coefficients (α_i). The marginal coefficients increase with the size of the BI as shown in **Table XI**. For banks in the first bucket (i.e. with a BI less than or equal to Belize dollar equivalent of €1bn) the BIC is equal to BI x 12%. The marginal increase in the BIC resulting from a one-unit increase in the BI is 12% in bucket 1, 15% in bucket 2 and 18% in bucket 3. For example, given a BI = €35bn, the BIC = (1 x 12%) + (30-1) x 15% + (35-30) x 18% = €5.37bn.

Table XI: BI Ranges and Marginal Coefficients

Bucket	BI Range (in €bn)	BI Marginal Coefficients (α_i)
1	≤ 1	12%
2	$1 < BI \leq 30$	15%
3	> 30	18%

1.7.2.3 The Internal Loss Multiplier

The ILM is a risk-sensitive component that captures a bank's internal operational losses. While the BIC is effectively the baseline operational risk capital requirement, the ILM serves as a scaling factor that adjusts the baseline capital depending on the operational loss experience of the bank. The ILM is expressed as follows:

$$ILM = \text{Ln} \left(\exp(1) - 1 + \left(\frac{LC}{BIC} \right)^{0.8} \right)$$

Calculation of the ILM is required only for banks in the second and third BI buckets (that is, banks with a BI of over the Belize dollar equivalent of EUR 1 billion and over EUR 30 billion, respectively). For banks in the first BI bucket (i.e. BI less than the Belize dollar equivalent of EUR 1 billion), the ILM is assumed to equal 1. In such instances, internal loss data should not affect the capital calculation for operational risk. Therefore, operational risk capital will be equal to the BIC, (ORC = 12% x BI). However, if a bank exceeds the BI range in bucket 1 then the following will apply in the calculation of the ILM.

The Loss Component (LC) should correspond to 15 times the average annual operational risk losses incurred over the preceding 10 years. The following relationships below will emerge based on the formula above:

- If LC = BIC, the ILM equals 1. Accordingly, operational risk capital corresponds to the BIC.
- For LC > BIC, the ILM exceeds 1. Accordingly, operational risk capital is higher than the BIC implying that banks with losses exceeding the BIC need to hold higher operational risk capital.
- Conversely, for LC < BIC, the ILM is less than 1. Accordingly, the operational risk capital requirement is lower than the BIC.

The calculation of the LC must be based on 10 years of high-quality annual loss data and is subject to qualitative requirements for loss data collection.

2. PILLAR 2 - SUPERVISORY REVIEW PROCESS

2.1 OVERVIEW

Pillar 2 - Supervisory Review Process ensures that banks have adequate capital and liquidity to support all risks in their business. It reinforces Pillar 1 by addressing other key risks and factors not covered under Pillar 1 and encourages banks to develop and use better risk management techniques in monitoring and managing their risks.

Pillar 2 recognises the responsibility of banks' management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment. In this framework, bank management continues to bear responsibility for ensuring that the bank has adequate capital to support its risks beyond the Pillar 1 core minimum requirements.

2.2 PRINCIPLES OF PILLAR 2

Pillar 2 is based on four interlocking principles:

i) *Principle I*

Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels through the Internal Capital Adequacy Assessment Process (ICAAP).

ii) *Principle II*

The Central Bank should review and evaluate banks' internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure their compliance with regulatory capital ratios through the 'Supervisory Review and Evaluation Process' (SREP). Supervisors should take appropriate supervisory action if they are not satisfied with the results of this process.

iii) *Principle III*

The Central Bank should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital more than the minimum requirement.

iv) *Principle IV*

The Central Bank should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

2.3 RISK MANAGEMENT PRINCIPLES

Sound risk management processes are necessary to support supervisory and market participants' confidence in banks' assessments of their risk profiles and internal capital adequacy assessments. These processes take on particular importance in light of the identification, measurement and aggregation challenges arising from increasingly complex on- and off-balance sheet exposures. Accordingly, a sound risk management system should have the following key features:

- i) active board and senior management oversight;
- ii) appropriate policies, procedures and limits;
- iii) comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- iv) appropriate management information systems at the business and enterprise level; and
- v) comprehensive internal controls

The detail and sophistication of a bank's risk management programme should be commensurate with the size and complexity of its business and the overall level of risk that the bank accepts. Accordingly, the Central Bank has adopted the following risk management principles developed by the BCBS which should be applied by banks on a proportionate basis:

- [Principles for the Management of Credit Risk](#)
- [Principles for the Management of Operational Risk](#)
- [Principles for Liquidity Risk Management](#)
- [Principles for the Management of Interest Rate Risk in the Banking Book](#)
- [Stress Testing Principles](#)

2.4 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

2.4.1 OVERVIEW

The ICAAP is the formal process through which a bank adequately identifies, measures, aggregates, and monitors material risk, to ultimately build a risk profile that will become the basis for allocating internal capital to support the risks it takes on.

The design of the ICAAP is the responsibility of the banks. Each bank is responsible for its ICAAP, and for setting internal capital targets that are consistent with its risk profile and operating environment. The ICAAP should be tailored to the bank's circumstances and needs, and it should use the inputs and definitions that the bank normally uses for internal purposes.

Banks should establish their ICAAPs making adequate allowance for the principle of proportionality. The ICAAP will be proportional to the size, nature, scale, and complexity of bank's activities. Based on that, the ICAAP may not include some of the areas discussed within this Practice Direction or may include other areas, which are not included, that may be relevant to their operations. As such, the ICAAP may be as simple or complex as a bank's characteristics warrant.

Through its ICAAP, each bank will assess the total amount of capital that it calculates as necessary to safeguard it against all the risks inherent in its business, both currently and taking a forward view. While some banks will wish to adopt a sophisticated economic capital model in formulating their ICAAP, for others the ICAAP will more likely be derived from their Pillar 1 calculation, together with appropriate capital estimations determined by each bank to cover other material risks. In each case, it must be evident from the Central Bank's review that the bank has adequately considered and understood all its material

risks when assessing their overall capital needs.

Given the importance of risk management, the motivation for implementation of ICAAP should not be driven by supervisory considerations, but more so by the promotion of a sound risk management and corporate governance culture within the bank, built on risk-based capital and adequate risk management techniques. Accordingly, the ICAAP should be integrated into the strategic planning process by emphasising, inter alia, that strategic decision-making involves risk-taking, which ultimately must be offset by adequate levels of capital. A thorough and comprehensive ICAAP is a vital component of a strong risk management program.

2.4.2 SCOPE OF APPLICATION

Each bank needs to implement a comprehensive ICAAP and prepare an ICAAP report reflecting a relatively high-level overview of its business but with sufficient detail to provide insight into the underlying analysis and procedures used in the assessment (See [Annex III: ICAAP Report Format](#)).

The ICAAP of a bank should reflect its own circumstances, and group-wide data and methodologies should be appropriately modified and adapted to yield internal capital targets and a capital plan that is relevant to the bank.

Each bank should have an ICAAP that is appropriate for its unique risk characteristics and should not rely solely upon the assessment of capital adequacy at the parent company level. This does not preclude the use of a consolidated ICAAP as an important input to a bank's own ICAAP, provided that each entity's board and senior management ensure that the ICAAP is appropriately modified to address the unique structural and operating characteristics which reflects the risks of the bank.

2.4.3 REGULATORY REPORTING REQUIREMENTS

The ICAAP should be conducted at least annually for financial information as at 31 December, and a corresponding ICAAP report should be submitted to the Central Bank by 31 March of the following year. Prior to submission to the Central Bank, the ICAAP report should be approved by the bank's Board of Directors.

2.4.4 CHARACTERISTICS OF AN ICAAP

The level of complexity and sophistication of an ICAAP depends on the nature of a bank's business operations. However, all ICAAPs should exhibit the following characteristics to ensure their adequacy and integrity.

i) Comprehensive

The ICAAP should be comprehensive and consider all material risks, including:

- a) Pillar 1 risks, including major differences between the treatment of Pillar 1 risks in the calculation of regulatory capital requirements and the treatment under the bank's own ICAAP;

- b) Risks not fully captured under Pillar I, such as underestimation of credit and operational risks. Regarding credit risk, particular attention should be given to any residual risk arising from the use of credit risk mitigation (CRM);
- c) All material Pillar 2 risks to which the bank may be exposed, such as interest rate risk in the banking book, concentration risk, liquidity risk, reputation, and strategic risk. Some of these risks are less likely to lend themselves to quantitative approaches, and banks are expected to employ more qualitative methods of assessment and mitigation; and
- d) Risk factors external to the bank. These include risks that may arise from the regulatory, economic or business environment and which are not included in the above-mentioned risks.

ii) Forward Looking

- a) The ICAAP should consider the bank's strategic plans and how they relate to macroeconomic factors. The bank should develop internal strategies which incorporate factors such as loan growth expectations, future sources, and uses of funds.
- b) The bank should have an explicit, approved capital plan, which states the bank's objectives and the time horizon for achieving those objectives, and in broad terms the capital planning process and the responsibilities for that process.
- c) The capital plan should include details on how the bank will comply with capital requirements in the future, any relevant limits related to capital, and a general contingency plan for dealing with divergences and unexpected events (for example, raising additional capital, restricting business, or using risk mitigation techniques). In addition, banks should conduct appropriate stress tests.
- d) Senior management and the Board of Directors (Board) should view capital planning as a crucial element in being able to achieve its desired strategic objectives.

iii) Reasonable Outcome

- a) The ICAAP should produce a reasonable overall capital number and assessment. The bank should document the similarities and differences between its ICAAP number and its regulatory capital.

2.4.5 ICAAP COMPONENTS

At a minimum, a rigorous ICAAP should incorporate the following components:

- Board oversight;
- Senior management oversight;
- Sound capital assessment, inclusive of stress testing;
- Comprehensive assessment of risks;
- Monitoring and reporting; and
- Internal control review.

2.4.5.1 Board Oversight

The Board of Directors has the responsibility of ensuring that the bank has an adequate ICAAP. The Board should:

- i. Define corporate objectives, risk strategies, and the bank's risk profile;
- ii. Set the bank's tolerance for risks;
- iii. Establish, along with the Senior Management team and the Chief Risk Officer, the bank's risk appetite, considering the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively (see [Annex V: Risk Appetite Statement](#));
- iv. Approve the approach and oversee the implementation of key policies pertaining to the bank's ICAAP;
- v. Ensure that management implements the ICAAP with adequate systems and internal monitoring policies and procedures;
- vi. Review timely reports on the nature and level of all risk exposures and their relation to capital levels;
- vii. Understand and acknowledge that risk measurements will include a level of uncertainty;
- viii. Ensure that the results of the ICAAP form part of the ongoing management of the bank's business; and
- ix. Review the ICAAP at least annually, or whenever material changes in the bank's risk profile or business environment become evident.

2.4.5.2 Senior Management Responsibility

The responsibility for the ongoing development of the ICAAP should reside with Senior Management. Therefore, the ICAAP should be considered and incorporated into the bank's strategic and operations management processes. Senior Management must be able to assess on a regular basis, the material risks within the bank's activities, as the results of such assessments will play a key role in the allocation of capital to business units, as well as influencing key business decisions such as expansion plans and budgets.

Throughout these processes, management must establish clear and transparent reporting lines and define corresponding responsibilities. Specifically, Senior Management should:

- i. Consistent with the direction given by the Board, implement business strategies, risk management systems, risk culture, processes, and controls for managing the risks to which the bank is exposed and concerning which it is responsible for complying with laws, regulations and internal policies;
- ii. Establish, along with the Board and the Chief Risk Officer, the bank's risk appetite, considering the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively;
- iii. Define strategies and procedures for the setting of limits and adherence to capital requirements;
- iv. Ensure that there are adequate systems for measuring, assessing, and reporting on the size, composition and quality of exposures on a bank-wide basis across all risk types, products and counterparties;

- v. Establish procedures for the regular and independent validation and testing of any models used to measure components of risk;
- vi. Report to the Board in a timely manner, the nature and level of all risk exposures and their relation to capital levels;
- vii. Ensure dissemination of information and procedures on the ICAAP to relevant staff;
- viii. Establish suitable internal control systems and reporting structures and ICAAP supporting documentation to support the ICAAP;
- ix. Ensure that employees are trained and well equipped to perform their duties; and
- x. Ensure that there is a regular (at least annual) review of systems, procedures and processes that support the ICAAP, and that adaptation is carried out as necessary.

Overall, Senior Management is responsible for integrating capital planning and capital management into the bank's risk-management culture and approach.

2.4.5.3 Comprehensive Assessment of Capital and Risks

The ICAAP involves multiple stages. The main stages are described below:

i) Risk Appetite & Risk Profile Identification and Assessment

- This initial stage is critical to ensuring the integrity of the ICAAP, as it sets the stage for the remainder of the risk management process. The bank can only control risks if they are identified in this step. This segment of the ICAAP should be reviewed regularly and any changes to the bank's risk profile factored into the process. For instance, the introduction of new products or services by a bank may alter its risk profile significantly.
- Banks should explicitly define their risk appetite. The risk appetite refers to the aggregate level and types of risk a bank is willing to assume, decided in advance, and within its risk capacity to achieve its strategic objectives and business plan. The risk capacity is the maximum amount of risk a bank can assume given its capital base, risk management and control capabilities as well as its regulatory constraints.
- The Board should consider, inter alia, when defining the bank's risk appetite:
 - How much risk can the bank take on (and especially: which supervisory constraints must be observed)?
 - How much risk does the bank want to take on (and at what rate of return)?
 - How much capital is necessary to cover the specific risks involved (capital planning)?
- Key to the process of identifying risks is the identification of the data necessary for the quantification of risks and how such data can be provided.
- Once the risk appetite has been determined, it should be transposed onto risk types and in more granular measures, such as business lines or operational sub-units. In this way, the bank can more clearly define its risk profile. The risk profile is a point-in-time assessment of a bank's gross risk

exposures (i.e. before the application of any mitigants) or as appropriate, net risk exposures (i.e. after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions. This step will aid Senior Management in decision-making and assignment of responsibility for individual business lines and operational sub-units.

ii) Assessment and Quantification of Material Risks

- The purpose of assessing risks is to give a picture of the significance and effects of risks on the bank. Banks need to look in detail at each type of relevant risk to determine its materiality. Banks can establish their own risk indicators for each type of risk to help assess which risks are most material to its operations. Risk indicators are an important tool which can assist banks in assessing their risk profile on an ongoing basis and may signal a change in the level of materiality of a risk. Banks should ensure that a concise description of their material risk identification process is well documented.
- After banks have identified the material risks throughout their operations, decisions must be made on how individual risks will be assessed and measured for the calculation of both internal and regulatory capital requirements. Such decisions must be transparent and formally documented.
- For material risks, banks also need to consider and assess how the risks are mitigated. Materiality should be considered against a range of benchmarks such as capital, earnings, market rating, impact on customer confidence, and impact on cost of funding. Some risks tend to overlap, so care should be taken not to double-count. While in some cases the degree of risk against which it is prudent to hold capital can be measured precisely (e.g. for interest rate risk in the banking book by assessing the effect of a sudden 200 basis point shift in the yield curve), in other cases it will be necessary to allocate a suitable capital cushion less systematically.
- Once individual risks have been identified and the capital required to cover the risk has been quantified, the required capital for all the risks needs to be aggregated to determine the total ICAAP figure – i.e. the total amount of capital needed to cushion the bank's unique risk profile.
- While not all risks can be measured precisely, a process should be developed to estimate risks. Therefore, the following risk exposures, which by no means constitute a comprehensive list of all risks, should be considered.

a. Credit Risk

Banks should have methodologies that enable them to assess the credit risk involved in exposures to individual borrowers or counterparties as well as at the portfolio level. The credit review assessment of capital adequacy, at a minimum, should cover four areas: risk rating systems, portfolio analysis/aggregation, large exposures, and risk concentrations.

Internal risk ratings are an important tool in monitoring credit risk. Internal risk ratings should be adequate to support the identification and measurement of risk from all credit exposures and should be integrated into a bank's overall analysis of credit risk and capital adequacy. The ratings system should provide detailed ratings for all assets, not only for problem assets.

b. Risk Concentrations

The impact of risk concentrations should be reflected in a bank's ICAAP. Typical situations in which risk concentrations can arise include exposures to:

- Single counterparty, borrower or group of connected counterparties or borrowers;
- Industry or economic sectors;
- Similar collateral types, and other exposures arising from credit risk mitigation techniques; and
- Trading exposures/market risk.

Risk concentrations can also arise through a combination of exposures across these broad categories. A bank should understand its firm-wide credit risk concentrations resulting from similar exposures across its different business lines.

A bank may also incur a concentration to a particular asset type indirectly through collateral or guarantees used to mitigate credit risk. Banks that place more reliance on collateral values than on an evaluation of a borrower's or counterparty's capacity to perform may see themselves exposed to unexpected market risk in addition to wrong way risk³⁸, particularly where the value of the collateral declines.

A bank should have in place adequate, systematic procedures for identifying high correlation between a collateral and the obligors of the underlying exposures due to their performance being dependent on common factors beyond systemic risk (i.e., "wrong way risk").

c. Risk Diversification

Banks should exercise caution when including risk diversification benefits in ICAAP. Assumptions on diversification are often based on expert judgement and are difficult to validate. Banks should be conservative in their assessment of diversification benefits, between different classes of risk.

Banks should have clear policies and procedures supporting the aggregation across risk types. Banks should understand the challenges presented by risk aggregation and the inherent uncertainty in quantitative estimates used to aggregate risks (including the difficulty in estimating concentrations across risk types). Banks are encouraged to consider the various interdependencies among risk types, the different techniques used to identify such interdependencies, and the channels through which those interdependencies might arise – across risk types, within the same business line, and across different business lines. Any associated uncertainty in aggregating capital estimates across risk types and business lines should translate into greater capital needs.

d. Cross Border Lending

Banks that engage in cross border lending are subject to increased risk including country risk, concentration risk, foreign currency risk (market risk) as well as regulatory, legal, compliance and

³⁸ A Wrong Way Risk occurs when credit exposure to a counterparty is negatively correlated with the credit quality of that counterparty. In other words, the more a party gains on a trade, the more likely it is for the counterparty to default.

operational risks, all of which should be reflected in the ICAAP. Laws and regulators' actions in foreign jurisdictions could make it much more difficult to realize on assets and security in the event of a default. Where regulatory, legal and compliance risks associated with concentrations in cross border lending are not considered elsewhere in a bank's risk assessment process; additional capital may be required for this type of lending in a bank's ICAAP.

e. Operational Risk

Similar rigor should be applied to the management of operational risk, as is done for the management of other significant banking risks. The failure to properly manage operational risk can result in a misstatement of a bank's risk/return profile and expose the bank to significant losses.

A bank should develop a framework for managing operational risk and evaluate the adequacy of capital given this framework. The framework should cover the bank's appetite and tolerance for operational risk, as specified through the policies for managing this risk, including the extent and manner in which operational risk is transferred outside the bank. It should also include policies outlining the bank's approach to identifying, assessing, monitoring, and controlling/mitigating the risk.

f. Market Risk

Banks should have methodologies that enable them to assess and actively manage all material market risks, wherever they arise throughout the bank (i.e., position, trading desk, business line or firm-level).

g. Interest Rate Risk in the Banking Book

The measurement process should include all material interest rate positions of the bank and consider all relevant repricing and maturity data. Such information will generally include current balance and contractual rate of interest associated with the instruments and portfolios, principal payments, interest reset dates, maturities, the rate index used for repricing, and contractual interest rate ceilings or floors for adjustable-rate items. The process should also have well-documented assumptions and techniques.

Regardless of the type and level of complexity of the measurement system used, bank management should ensure the adequacy and completeness of the system. Because the quality and reliability of the measurement system is largely dependent on the quality of the data and various assumptions used in the model, management should give particular attention to these items.

h. Liquidity Risk

Liquidity is crucial to the ongoing viability of any banking organization. Banks' capital positions can have an effect on their ability to obtain liquidity, especially in a crisis. Each bank must have adequate systems for measuring, monitoring, and controlling liquidity risk. Banks should evaluate the adequacy of capital given their own liquidity profile and the liquidity of the markets in which they operate.

i. Other Risks

Although risks such as strategic and reputation risk are not easily measurable, banks are expected to develop techniques for managing all aspects of these risks. Reputation risk is a key issue for an industry that relies on the confidence of consumers, creditors, and the general marketplace. For example, when a bank acts as an advisor, arranges, or actively participates in financial transactions, it may assume insurance, market, credit, and operational risks. Reputation risk often arises because of inadequate management of these other risks, whether they are associated with direct or indirect involvement in the sale or origination of financial transactions or relatively routine operational activities.

Reputational risk can lead to the provision of implicit support, which may give rise to credit, liquidity, market, and legal risk – all of which can have a negative impact on a bank's earnings, liquidity and capital position. A bank should identify potential sources of reputational risk to which it is exposed. This includes the bank's business lines, liabilities, affiliated operations, and markets in which it operates. The risks that arise should be incorporated into the bank's risk management process and appropriately addressed in its ICAAP and liquidity contingency plans.

iii) Development of a Suitable Risk Policy

A risk policy must be formulated which will aid management in the setting of individual risk limits. The likely steps in developing such limits are as follows:

- Definition of limits (initially aggregated for the overall operations of the bank) based on the bank's articulated risk appetite and its target risk structure;
- Assignment of limits to individual risk categories and business lines or operational sub-units;
- Validation of the utilization of individual limits; and
- Implementation of limits in actual operations.

iv) Stress Testing³⁹

- In addition to ensuring that banks have comprehensive procedures for assessing their material risks, the Central Bank also expects a bank's management to be able to demonstrate that they are alert to the particular stage of the business cycle it is currently operating within. Banks need to put in place rigorous forward-looking stress-testing, seeking to identify possible events or cyclical changes in market conditions that may impact severely their earnings, liquidity, or asset values.
- The assumptions underlying the usual assessment methods may not be relevant in a stressed situation and this can lead to substantial underestimates of risk. For this reason, it is important for a bank to define and document relevant stress scenarios, together with their relevant underlying assumptions.
- Banks must define relevant stress scenarios for all material risk types and analyse the effect that simultaneous and concurrent occurrences of exceptional situations would have on the bank's risk-bearing capacity. The results of the stress tests provide indications, which may be helpful in

³⁹ Banks should review the Central Bank's Stress Testing Principles in formulating stress test scenarios.

identifying any existing weaknesses.

- A bank's capital planning process should incorporate rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank. In their ICAAPs, banks should examine future capital resources and capital requirements under adverse scenarios. The results of forward-looking stress testing should be considered when evaluating the adequacy of a bank's capital.

2.4.5.4 Monitoring and Reporting

- The bank should establish an adequate system for monitoring and reporting risk exposures and assessing how the bank's changing risk profile affects the need for capital. The bank's Senior Management and Board should, on a regular basis, receive reports on the bank's risk profile and capital needs. These reports should allow Senior Management to:
 - Evaluate the level and trend of material risks and their effect on capital levels;
 - Evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system;
 - Determine that the bank holds sufficient capital against the various risks and is compliant with established capital adequacy goals; and
 - Assess its future capital requirements based on the bank's reported risk profile and make necessary adjustments to the bank's strategic plan accordingly.

2.4.5.5 Internal Audit, Controls and Review

- Adequate internal audit and controls provide critical support in any risk management system. Within the ICAAP, banks are required to have strategies and processes in place for continuously assessing and maintaining the adequacy of internal capital. It is therefore essential that regular independent internal reviews of these strategies and processes be carried out to enable maintenance of the ICAAP's integrity, reliability, and relevance.
- The internal control system should ensure compliance with relevant laws and other regulations, as well as internal policies and procedures. The system of internal control should include, inter alia, an ICAAP review process that is subject to independent internal reviews conducted at least annually or as often as deemed necessary, to ensure that capital coverage reflects the actual risk profile of the bank. Areas that should be reviewed include:
 - Appropriateness of the bank's capital assessment process given the nature, scope, and complexity of its activities;
 - Identification of large and/or material exposures and risk concentrations;
 - Accuracy and completeness of data inputs into the bank's assessment process;
 - Reasonableness and validity of scenarios used in the assessment process; and
 - Stress testing and analysis of assumptions and inputs.

2.4.6 CRITICAL SUCCESS FACTORS

Below are some factors that are critical to developing and maintaining an adequate ICAAP.

i) *Methodology, Assumptions and Definitions*

The ICAAP should include a description of how the assessments for each of the risks within the ICAAP have been approached and the main underlying assumptions. In addition, banks must include within ICAAP documentation, all definitions of terminology used.

ii) *Suitable IT Systems*

Banks may conduct a gap analysis to determine the capacity and capabilities of existing IT systems as it relates to the requirements of an ICAAP. In some cases, banks may be able to rely on existing risk management systems (risk measurement, limit monitoring) to support their ICAAP. However, it may be necessary for some banks to invest in expansions and new acquisitions within its IT systems, to support its ICAAP.

iii) *Documentation*

Adequate supporting documentation is critical to help ensure the proper functioning of an ICAAP. Documentation of methods and procedures used within the ICAAP should describe, inter alia, the risk management process, internal risk definitions, risk assessment methods applied during the risk management process, as well as assumptions made during this process.

The ICAAP must be transparent throughout the organisation and documentation of its different aspects must be tailored to the relevant target groups throughout the organisational structure. It is therefore advisable to use various levels of detail and explanation of the ICAAP for different levels of responsibility throughout the organisation. The scope and level of detail of documentation should be proportionate to the size, complexity, and risk levels of the bank. Therefore, management must determine if varying levels of documentation are necessary to support the type of business operations, which the ICAAP is meant to support.

The ICAAP should be clearly documented and approved at the Board level. In addition, documentation should be updated as necessary.

2.4.7 ROLE OF THE CENTRAL BANK

The Central Bank is responsible for evaluating how well banks are assessing their capital needs relative to their risks and therefore requires that the ICAAP be shared with the Central Bank. Once received, the ICAAP will be reviewed in detail by the Central Bank as the basis for a supervisory review dialogue with the bank.

The Central Bank will place particular emphasis on the quality of the risk management and controls of a financial bank which may be assessed by any combination of:

- on-site examinations;

- off-site review;
- discussions with management of the financial bank;
- review of work done by internal or external auditors (provided it is adequately focused on the necessary capital issues); and
- periodic reporting.

The review and assessment of a bank's ICAAP will form a significant part of the Central Bank's risk-based supervisory model. The review will reflect the principle of proportionality as it relates to the nature, scale and complexity of the activities and the risks posed to the Central Bank's supervisory objective of preserving safety and soundness of banks.

The Central Bank will provide individual feedback to banks on its supervisory review and evaluation of the ICAAP. In addition, where necessary, the Central Bank may request further information and meet with the Board and Senior Management of banks to evaluate fully the comprehensiveness of the ICAAP and the adequacy of the governance arrangements around it. The bank's management should be prepared to discuss and defend all aspects of the ICAAP, including both quantitative and qualitative components.

After completing the review of the bank's ICAAP, the Central Bank will take appropriate action if it is not satisfied with the results of the bank's own risk assessment and capital allocation. It should be noted, however, that increased capital would not be the only option adopted by the Central Bank for addressing increased/unmitigated risks. The Central Bank will consider a range of other options/ actions including:

- intensified monitoring and reporting;
- restriction or prohibition of certain activities;
- restriction or prohibition of the payment of dividends; and
- requiring the preparation and implementation of a satisfactory capital adequacy restoration plan.

Banks should not regard capital as a substitute for addressing fundamentally inadequate controls or risk management processes. Banks are expected to implement risk mitigating measures including strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls etc. that are commensurate with their risk exposures, size, and complexity.

3. PILLAR 3 – DISCLOSURE REQUIREMENTS

3.1 OVERVIEW

Pillar 3 – Disclosure Requirements aims to promote market discipline through regulatory disclosure requirements. The provision of meaningful information about common key risk metrics to market participants is a fundamental tenet of a sound banking system. It reduces information asymmetry and helps promote comparability of banks' risk profiles within and across jurisdictions. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

In developing these requirements, the Central Bank has adopted the disclosure standards set forth by the BCBS. However, the content has been modified to reflect the nature of activities and specificities of Belize's banking sector. Therefore, certain disclosure requirements that are not applicable or relevant to banks operating in Belize have been excluded.

Banks are expected to meet these disclosure requirements in a timely, consistent, and accessible manner. Disclosures should be clear and comprehensive. The Central Bank will apply the principle of proportionality in assessing compliance, recognizing the diversity of institutions within the sector. However, all banks must adhere to the minimum disclosure standards, irrespective of their size or business model.

The Central Bank will assess banks' adherence to the disclosures as part of its supervisory review process and may issue additional guidance or updates to ensure alignment with evolving international standards and its supervisory objectives.

3.2 REPORTING LOCATION

Banks must publish the Pillar 3 report in a standalone document that provides a readily accessible source of prudential information for users. Banks must also make available on their websites an archive (for a retention period of three years) of Pillar 3 reports.

3.3 IMPLEMENTATION DATES

Disclosure requirements are applicable for banks' financial years ending on or after 31 December 2025.

3.4 FREQUENCY AND TIMING OF DISCLOSURES

The Pillar 3 report, including all disclosure templates and tables, must be published annually within four months of the end of a bank's financial year, or such longer period as the Central Bank may permit in writing.

3.5 RETROSPECTIVE DISCLOSURES, DISCLOSURE OF TRANSITIONAL METRICS AND REPORTING PERIODS

In templates which require the disclosure of data points for current and previous reporting periods, the disclosure of the data point for the previous period is not required when a new standard is reported for the first time unless this is explicitly stated in the disclosure requirement.

Unless otherwise specified in the disclosure templates, when a bank is under a transitional regime, the transitional data should be reported unless the bank already complies with the full requirements. Banks should clearly state whether the figures disclosed are computed on a transitional basis.

Unless otherwise specified in the disclosure templates, the data required should be for the corresponding 12-month period.

3.6 ASSURANCE OF PILLAR 3 DATA

The information provided by banks under Pillar 3 must be subject, at a minimum, to the same level of internal review and internal control processes as the information provided by banks for their financial reporting (i.e. the level of assurance must be the same as for information provided within the management discussion and analysis part of the financial report).

Banks must establish a formal board-approved disclosure policy for Pillar 3 information that sets out the internal controls and procedures for disclosure of such information. The key elements of this policy should be described in the year-end Pillar 3 report. The board of directors and senior management are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including Pillar 3 disclosures. They must also ensure that appropriate reviews of the disclosures take place. The Managing Director or Chief Executive Officer must attest in writing that Pillar 3 disclosures have been prepared in accordance with the board-approved internal control processes.

3.7 PROPRIETARY AND CONFIDENTIAL INFORMATION

The disclosure requirements strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information. In exceptional cases, disclosure of certain items required by Pillar 3 may reveal the position of a bank or contravene its legal obligations by making public information that is proprietary or confidential in nature. In such cases, a bank does not need to disclose those specific items but must disclose more general information about the subject matter of the requirement instead. It must also explain in the narrative commentary to the disclosure requirement the fact that the specific items of information have not been disclosed and the reasons for this. Such exceptions should be approved by the Central Bank prior to publication.

3.8 PRINCIPLES OF THE PILLAR 3 DISCLOSURES

Pillar 3 complements the minimum risk-based capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent and comparable basis. The five (5) principles aim to provide a firm foundation for achieving transparent, high-quality Pillar 3 risk disclosures that will enable users to better understand and compare a bank's business and its risks.

i) Principle 1: Disclosures should be clear.

- Disclosures should be presented in a form that is understandable to key stakeholders (i.e. investors, analysts, financial customers and others) and communicated through an accessible medium. Important messages should be highlighted and easy to find. Complex issues should be explained in simple language with important terms defined. Related risk information should be presented together.

ii) Principle 2: Disclosures should be comprehensive.

- Disclosures should describe a bank's main activities and all significant risks, supported by relevant underlying data and information. Significant changes in risk exposures between reporting periods should be described, together with the appropriate response by management.
- Disclosures should provide sufficient information in both qualitative and quantitative terms on a bank's processes and procedures for identifying, measuring and managing those risks.
- Approaches to disclosure should be sufficiently flexible to reflect how senior management and the board of directors internally assess and manage risks and strategy, helping users to better understand a bank's risk tolerance/appetite.

iii) Principle 3: Disclosures should be meaningful to users.

- Disclosures should highlight a bank's most significant current and emerging risks and how those risks are managed, including information that is likely to receive market attention. Where meaningful, linkages must be provided to line items on the statement of financial position or the statement of comprehensive income. Disclosures that do not add value to users' understanding or do not communicate useful information should be avoided. Furthermore, information which is no longer meaningful or relevant to users should be removed.

iv) Principle 4: Disclosures should be consistent over time.

- Disclosures should be consistent over time to enable key stakeholders to identify trends in a bank's risk profile across all significant aspects of its business. Additions, deletions and other important changes in disclosures from previous reports, including those arising from a bank's specific, regulatory or market developments, should be highlighted and explained.

v) Principle 5: Disclosures should be comparable across banks.

- The level of detail and the format of presentation of disclosures should enable key stakeholders to perform meaningful comparisons of business activities, prudential metrics, risks and risk management between banks and across jurisdictions.

3.9 PRESENTATION OF THE DISCLOSURE REQUIREMENTS – TEMPLATES AND TABLES

The disclosure requirements are presented either in the form of templates or tables. Templates must be completed with quantitative data in accordance with the definitions provided. Tables generally relate to qualitative requirements, but quantitative information is also required in some instances. Banks may choose the format they prefer when presenting the information requested in tables.

In line with Principle 3, the information provided in the templates and tables should be meaningful to users. The disclosure requirements that necessitate an assessment from banks are specifically identified. When preparing these individual tables and templates, banks will need to consider carefully how widely the disclosure requirement should apply. If a bank considers that the information requested in a template or table would not be meaningful to users, for example because the exposures and risk-weighted asset amounts are deemed immaterial, it may choose not to disclose part, or all of the information requested. In such circumstances, however, the bank will be required to explain in a narrative commentary why it considers such information not to be meaningful to users. It should describe the portfolios excluded from the disclosure requirement and the aggregate total RWA those portfolios represent.

For templates, the format is designated as either *fixed* or *flexible*:

- 1) Where the *format of a template is described as fixed*, banks must complete the fields in accordance with the instructions given. If a row/column is not considered to be relevant to a bank's activities or the required information would not be meaningful to users (e.g. immaterial from a quantitative perspective), the bank may delete the specific row/column from the template, but the numbering of the subsequent rows and columns must not be altered. Banks may add extra rows and extra columns to fixed format templates if they wish to provide additional detail to a disclosure requirement by adding sub-rows or columns, but the numbering of prescribed rows and columns in the template must not be altered.
- 2) Where the *format of a template is described as flexible*, banks may present the required information either in the format provided in this document or in one that better suits the bank.

The format for the presentation of qualitative information in tables is not prescribed. Notwithstanding, banks should comply with the restrictions in presentation, should such restrictions be prescribed in the template. In addition, when a customised presentation of the information is used, the bank must provide information comparable with that required in the disclosure requirement (i.e. at a similar level of granularity as if the template/table were completed as presented in this document).

3.10 QUALITATIVE NARRATIVE TO ACCOMPANY THE DISCLOSURE REQUIREMENTS

Banks are expected to supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary to explain at least any significant changes between reporting periods and any other issues that management considers to be of interest to market participants. The form taken by this additional narrative is at the bank's discretion.

Disclosure of additional quantitative and qualitative information will provide market participants with a broader picture of a bank's risk position and promote market discipline. Additional voluntary risk disclosures allow banks to present information relevant to their business model that may not be adequately

captured by the standardised requirements. Additional quantitative information that banks choose to disclose must provide sufficient meaningful information to enable market participants to understand and analyse any figures provided. It must also be accompanied by a qualitative discussion. Any additional disclosure must comply with the five guiding principles above.

3.11 DISCLOSURE TABLES AND TEMPLATES

The tables and templates constituting the Disclosure Requirements for banks are listed below:

Table XII: Pillar 3 Tables and Templates

Chapter	Template	Name	Format
Overview of risk management, key prudential metrics and RWA	KM1	Key metrics (at consolidated group level)	Fixed
	OVA	Bank risk management approach	Flexible
	OV1	Overview of risk-weighted assets (RWA)	Fixed
Standardized RWA	CMS2	Standardized RWA for credit risk at asset class level	Fixed
Composition of capital and TLAC	CCA	Main features of regulatory capital instruments and of other total loss-absorbing capacity (TLAC) - eligible instruments	Flexible
	CC1	Composition of regulatory capital	Fixed
	CC2	Reconciliation of regulatory capital to balance sheet	Fixed
Capital distribution constraints	CDC	Capital distribution constraints	Fixed
Links between financial statements and regulatory exposures	LIA	Explanations of differences between accounting and regulatory exposure amount	Flexible
	LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Flexible
	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Flexible
	PV1	Prudent valuation adjustments (PVAs)	Fixed
Asset encumbrance	ENC	Asset encumbrance	Fixed
Remuneration	REMA	Remuneration policy	Flexible
	REM1	Remuneration awarded during financial year	Flexible
	REM2	Special payments	Flexible
Credit risk	CRA	General qualitative information about credit risk	Flexible
	CR1	Credit quality of assets	Fixed
	CR2	Changes in stock of defaulted loans and debt securities	Fixed
	CRB	Additional disclosure related to the credit quality of assets	Flexible
	CRB-A	Additional disclosure related to prudential treatment of problem assets	Flexible
	CRC	Qualitative disclosure related to credit risk mitigation techniques	Flexible
	CR3	Credit risk mitigation techniques - overview	Fixed
	CRD	Qualitative disclosure on banks' use of external credit ratings under the standardized approach for credit risk	Flexible

Chapter	Template	Name	Format
	CR4	Standardized approach - Credit risk exposure and credit risk mitigation effects	Fixed
	CR5	Standardized approach - Exposures by asset classes and risk weights	Fixed
Counterparty credit risk	CCRA	Qualitative disclosure related to CCR	Fixed
	CCR1	Analysis of CCR exposures by approach	Fixed
	CCR8	Qualitative disclosure related to CCR	Fixed
Securitization	SECA	Qualitative disclosure requirements related to securitization exposures	Flexible
	SEC4	Securitization exposures in the banking book and associated capital requirements – bank acting as investor	Fixed
Sovereign exposures	SOV1	Exposures to sovereign entities – country	Fixed
DIS50: Market risk	MRA	General qualitative disclosure requirements related to market risk	Flexible
	MR3	Market risk under the simplified standardized approach	Fixed
Operational risk	ORA	General qualitative information on a bank's operational risk framework	Flexible
	OR1	Historical losses	Fixed
	OR2	Business indicator and subcomponents	Fixed
	OR3	Minimum required operational risk capital	Fixed
Interest rate risk in the banking book	IRRBBA	Interest rate risk in the banking book (IRRBB) risk management objective and policies	Flexible
	IRRBB1	Quantitative information on IRRBB	Fixed
Liquidity	LIQA	Liquidity risk management	Flexible
	LIQ1	Liquidity coverage ratio (LCR)	Fixed
	LIQ2	Net stable funding ratio (NSFR)	Fixed

ANNEX I: EXTERNAL CREDIT ASSESSMENT INSTITUTIONS

Under the Standardised Approach, banks will rely on the credit assessments prepared by ECAIs. For such ratings to be used for capital adequacy purposes, the ECAI must first be recognized as eligible by the Central Bank, as well as an appropriate mapping of the ratings of individual ECAI ratings.

The Recognition Process: The Central Bank will determine on a continuing basis whether an ECAI meets the eligibility criteria provided below. The IOSCO Code of Conduct Fundamentals for Credit Rating Agencies will also be referenced when determining ECAI eligibility. The assessments of ECAIs may be recognized on a limited basis, e.g. by type of claims or by jurisdiction.

A.1.1 Eligibility Criteria

An ECAI must satisfy each of the following eight criteria:

- **Objectivity:** The methodology for assigning external ratings must be rigorous, systematic, and subject to some form of validation based on historical experience. Moreover, external ratings must be subject to ongoing review and responsive to changes in financial condition. Before being recognised by supervisors, a rating methodology for each market segment, including rigorous back testing, must have been established for at least one year and preferably three years.
- **Independence:** An ECAI should be independent and should not be subject to political or economic pressures that may influence the rating. In particular, an ECAI should not delay or refrain from taking a rating action based on its potential effect (economic, political or otherwise). The rating process should be as free as possible from any constraints that could arise in situations where the composition of the board of directors or the shareholder structure of the CRA may be seen as creating a conflict of interest. Furthermore, an ECAI should separate operationally, legally and, if practicable, physically its rating business from other businesses and analysts.
- **International access/Transparency:** The individual ratings, the key elements underlining the assessments and whether the issuer participated in the rating process should be publicly available on a non-selective basis, unless they are private ratings, which should be at least available to both domestic and foreign institutions with legitimate interest and on equivalent terms. In addition, the ECAI's general procedures, methodologies and assumptions for arriving at ratings should be publicly available.
- **Disclosure:** An ECAI should disclose the following information: its code of conduct; the general nature of its compensation arrangements with assessed entities; any conflict of interest, the ECAI's compensation arrangements, its assessment methodologies, including the definition of default, the time horizon, and the meaning of each rating; the actual default rates experienced in each assessment category; and the transitions of the ratings, e.g. the likelihood of AA ratings becoming A over time. A rating should be disclosed as soon as practicably possible after issuance.
- **Resources:** An ECAI should have sufficient resources to carry out high-quality credit assessments. These resources should allow for substantial ongoing contact with senior and operational levels within the entities assessed in order to add value to the credit assessments. In particular, ECAIs should assign analysts with appropriate knowledge and experience to assess the creditworthiness of the type of entity or obligation being rated. Such assessments should be based on methodologies combining qualitative and quantitative approaches.

- **Credibility:** To some extent, credibility is derived from the criteria above. In addition, the reliance on an ECAI's external ratings by independent parties (investors, insurers, trading partners) is evidence of the credibility of the ratings of an ECAI. The credibility of an ECAI is also underpinned by the existence of internal procedures to prevent the misuse of confidential information. In order to be eligible for recognition, an ECAI does not have to assess firms in more than one country.
- **No abuse of unsolicited ratings:** ECAIs must not use unsolicited ratings to put pressure on entities to obtain solicited ratings. Supervisors should consider whether to continue recognizing such ECAIs as eligible for capital adequacy purposes, if such behaviour is identified.
- **Cooperation with the supervisor:** ECAIs should notify the supervisor of significant changes to methodologies and provide access to external ratings and other relevant data in order to support initial and continued determination of eligibility.

A.1.2 The Mapping Process

The Central Bank will assign eligible ECAIs' assessments to the RWs available under the risk-weighting framework outlined in this document, i.e. deciding which assessment categories correspond to which RWs. The mapping process would be objective and result in a RW assignment consistent with that of the level of credit risk reflected in the tables above (for the respective RW category). It would cover the full spectrum of RWs.

When conducting such a mapping process, factors that the Central Bank should assess include, among others, the size and scope of the pool of issuers that each ECAI covers, the range and meaning of the ratings that it assigns, and the definition of default used by the ECAI.

Banks must use the chosen ECAIs and their ratings consistently for all types of claims where they have been recognized by their supervisor as an eligible ECAI, for both risk-weighting and risk management purposes. Banks will not be allowed to "cherry-pick" the ratings provided by different ECAIs and to arbitrarily change the use of ECAIs.

Banks are to regularly monitor the credit ratings assigned by ECAIs. Relevant adjustments must be made to the capital calculation once there are changes to the ratings assigned to a counterparty's exposure. Banks are also required to keep a record of the ratings for each line item.

If there is only one rating by an ECAI chosen by a bank for a particular claim, that rating should be used to determine the RW of the exposure. If there are two ratings by ECAIs chosen by a bank that map into different RWs, the higher RW will be applied. If there are three or more ratings with different RWs, the two ratings that correspond to the lowest RWs should be referred to. If these give rise to the same RW, that RW should be applied. If different, the higher RW should be applied.

A.1.3 Determination of whether an exposure is rated: Issue-specific and issuer ratings

Where a bank invests in a particular issue that has an issue-specific assessment, the RW of the claim will be based on this assessment. Where the claim is an investment in an issue that has not been specifically assessed, the bank can rely on a specific credit assessment of an issued debt or on a credit assessment of the issuer. The following general principles will apply:

- Where the borrower has a specific rating for an issued debt – but the bank's exposure is not an investment in this particular debt – a high-quality credit rating (one which maps into a RW lower than

that which applies to an unrated claim) on that specific debt may only be applied to the bank's unrated exposure if this claim ranks in all respects *pari passu* or senior to the claim with a rating. If not, the external rating cannot be used, and the unassessed claim will receive the RW for unrated exposures.

- Where the borrower has an issuer rating, this rating typically applies to senior unsecured claims on that issuer. Consequently, only senior claims on that issuer will benefit from a high-quality issuer rating. Other unassessed exposures of a highly rated issuer will be treated as unrated. If either the issuer or a single issue has a low-quality rating (mapping into a RW equal to or higher than that which applies to unrated exposures), an unassessed exposure to the same counterparty that ranks *pari passu* or is subordinated to either the senior unsecured issuer rating or to the exposure with a low-quality rating will be assigned the same RW as is applicable to the low-quality assessment.
- Where the issuer has a specific high-quality rating (one which maps into a lower RW) that only applies to a limited class of liabilities (such as a deposit assessment or a counterparty risk assessment), this may only be used in respect of exposures that fall within that class.

Whether banks intend to rely on an issuer- or an issue-specific assessment, the assessment must take into account and reflect the entire amount of credit risk exposure (principal and interest where applicable) that banks have with regard to all payments owed to them.

A.1.4 Recognized ECAIs

The following ECAIs will be recognized for capital adequacy purposes:

- Moody's Investors Service;
- Standard and Poor's (S&P);
- Fitch Rating Services;

The list of eligible ECAIs will be updated subject to applicants satisfying the eligibility criteria outlined above. The ratings of the respective ECAIs are to be mapped as follows:

Short Term Rating:

S&P	Fitch	Moody
A-1	F-1	P-1
A-2	F-2	P-2
A-3	F-3	P-3

Long Term Rating:

S&P	Fitch	Moody's
AAA to AA-	AAA to AA-	Aaa to Aa3
A1 to A3	A+ to A-	A1 to A3
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3
BB+ to B-	BB+ to B-	Ba1 to B3
Below B-	Below B-	Below B3
Unrated	Unrated	Unrated

A.1.5 Short Term / Long Terms Assessments

For risk-weighting purposes, short-term ratings are deemed to be issue-specific. They can only be used to derive RWs for exposures arising from the rated facility. They cannot be generalized to other short-term exposures, except under the conditions where short-term ratings are available (see below). In no event can a short-term rating be used to support a RW for an unrated long-term exposure. Short-term ratings may only be used for short-term exposures against banks and corporates. The table below provides a framework for banks' exposures to specific short-term facilities, such as a particular issuance of commercial paper:

Short Term Rating		
S&P / Moody's	Fitch	Risk Weight
A-I / P-I ⁴⁰	F1	20%
A2/P-2	F2	50%
A3/P3	F3	100%
Others ⁴¹		150%

If a short-term rated facility attracts a 50% RW, unrated short-term exposures cannot attract a RW lower than 100%. If an issuer has a short-term facility with an external rating that warrants a RW of 150%, all unrated exposures, whether long-term or short-term, should also receive a 150% RW, unless the bank uses recognized CRM techniques for such exposures.

In cases where short-term ratings are available, the general preferential treatment for short-term exposures to banks will apply for the following (see section [1.5.1.5 Claims on Banks](#)):

- The general preferential treatment for short-term exposures applies to all exposures to banks of up to three months' original maturity when there is no specific short-term claim assessment.
- When there is a short-term rating and such a rating maps into a RW that is more favourable (i.e. lower) or identical to that derived from the general preferential treatment, the short-term rating should be used for the specific exposure only. Other short-term exposures would benefit from the general preferential treatment.
- When a specific short-term rating for a short-term exposure to a bank map into a less favourable (higher) RW, the general short-term preferential treatment for interbank exposures cannot be used. All unrated short-term exposures should receive the same RW as that implied by the specific short-term rating.

When a short-term rating is to be used, the institution making the assessment needs to meet all of the eligibility criteria for recognising ECAIs, as described in section A.1.1 Eligibility Criteria, in terms of its short-term ratings.

⁴⁰ The notations follow the methodology used by Standard & Poor's, Moody's Investors Service and Fitch Ratings. The A-1 rating of Standard & Poor's includes both A-1+ and A-1- and the F rating of Fitch ratings includes both the modifiers "+" and "-".

⁴¹ This category includes all non-prime and B or C ratings.

A.1.6 Other issues

In order to avoid any double counting of credit enhancement factors, no supervisory recognition of credit risk mitigation techniques will be taken into account if the credit enhancement is already reflected in the issue specific rating.

Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that foreign currency ratings would be used for exposures in foreign currency; and domestic currency ratings, if separate, would only be used to RW claims denominated in the domestic currency.

Level of application of the rating: external assessments for one entity within a corporate group cannot be used to RW other entities within the same group.

Generally, banks should use solicited ratings from eligible ECAs. The Central Bank may allow banks to use unsolicited ratings in the same way as solicited ratings, if it is satisfied that the credit assessments of unsolicited ratings are not inferior in quality to the general quality of solicited ratings.

ANNEX II: TREATMENT FOR FAILED TRADES AND NON-DVP TRANSACTIONS

I. Overarching principles

1. Banks should continue to develop, implement and improve systems for tracking and monitoring the credit risk exposures arising from unsettled and failed transactions as appropriate for producing management information that facilitates action on a timely basis.
2. Transactions settled through a delivery-versus-payment system (DvP), providing simultaneous exchanges of securities for cash, expose firms to a risk of loss on the difference between the transaction valued at the agreed settlement price and the transaction valued at current market price (i.e. **positive current exposure**). Transactions where cash is paid without receipt of the corresponding receivable (securities, foreign currencies, gold, or commodities) or, conversely, deliverables were delivered without receipt of the corresponding cash payment (non-DvP, or free delivery) expose firms to a risk of **loss on the full amount** of cash paid or deliverables delivered. The current rules set out specific capital charges that address these two kinds of exposures.
3. The following capital treatment is applicable to all transactions on securities, foreign exchange instruments, and commodities that give rise to a risk of delayed settlement or delivery. This includes transactions through recognised clearing houses that are subject to daily mark-to-market and payment of daily variation margins and that involve a mismatched trade. Repurchase and reverse-repurchase agreements as well as securities lending and borrowing that have failed to settle are excluded from this capital treatment.
4. In cases of a system wide failure of a settlement or clearing system, a national supervisor may use its discretion to waive capital charges until the situation is rectified.
5. Failure of a counterparty to settle a trade in itself will not be deemed a default for purposes of credit risk.

II. Capital requirements

1. For DvP transactions, if the payments have not yet taken place five business days after the settlement date, banks must calculate a capital charge by multiplying the positive current exposure of the transaction by the appropriate factor, according to the **Table XIII** below.

Table XIII: Risk Multiplier

Number of working days after the agreed settlement date	Corresponding risk multiplier
From 5 to 15	8%
From 16 to 30	50%
From 31 to 45	75%
46 or more	100%

A reasonable transition period may be allowed for banks to upgrade their information system to be able to track the number of days after the agreed settlement date and calculate the corresponding capital charge.

2. For non-DvP transactions (i.e. free deliveries), after the first contractual payment/delivery leg, the bank that has made the payment will treat its exposure as a loan if the second leg has not been received by the end of the business day. This means that banks will use the standardised risk weights. However, when exposures are not material, banks may choose to apply a uniform 100% risk-weight to these exposures, in order to avoid the burden of a full credit assessment. If five business days after the second contractual payment/delivery date the second leg has not yet effectively taken place, the bank that has made the first payment leg will deduct from capital the full amount of the value transferred plus replacement cost, if any. This treatment will apply until the second payment/delivery leg is effectively made.

ANNEX III: ICAAP REPORT FORMAT⁴²

Executive Summary
The executive summary should present an overview of the ICAAP methodology and results. Matters that should typically be covered include: • the purpose of the report; • the main findings of the ICAAP; • the capital the bank considers it should hold including how much and what composition of internal capital it considers it should hold as compared with the Pillar 1 minimum capital requirement (details with calculations should be provided); • the adequacy of the bank's risk management processes; • a summary of the financial position of the bank; • whether the bank has adequate capital resources over its planning horizon including periods of economic downturn; • an overview of the bank's strategy; • a brief description of the capital policy and dividend plan, how the bank intends to manage capital going forward and for what purposes; • description of the bank's most material risks, why the level of risk is acceptable or what mitigating actions have been/will be put in place; • description of the major issues where further analysis is required; and • the personnel who have approved the ICAAP Report and the date of approval.
Background
This section should include relevant organizational and historical financial data on the bank. This may include details of the group structure (legal and operational), reporting structure, sub-committees, profitability, dividends, capital resources, deposit liabilities and any conclusions that can be drawn from trends in the data that may have implications for the future. It should also give a brief description of expected changes to the bank's current business profile.
Risk Appetite Statement

⁴² While the Central Bank provides guidance on the format of the ICAAP document, a bank may make amendments to the format, where appropriate. In addition, banks may append any documents that they deem necessary to support the detail presented in the ICAAP document.

This section must provide an overview of the Bank's risk appetite and set the frequency for the reviews of the Board and Senior Management's risk appetite and tolerance.

For details on formulating a Risk Appetite Statement, refer to [Annex V](#).

Material Risks

This section should provide a concise description of the bank's risk identification process and outline how the bank identifies material risk areas. Key risks that must be considered as part of an ICAAP are:

- Credit risk;
- Market risk;
- Operational risk;
- Interest rate risk in banking book;
- Credit concentration risk;
- Counterparty credit risk;
- Residual risk;
- Funding risk/Liquidity risk;
- Business and strategic risk;
- Reputation risk;
- Securitization risk; and
- Any other risks identified.

Capital Adequacy

This section should include a detailed review of the capital adequacy of the bank covering the following information: -

Timing

The effective date of the ICAAP calculations, with details of any events that have happened since and that may materially change the ICAAP's calculations. The impact of such events should be included.

Risk Analysis

In an appendix to the ICAAP submission, provide further detail on the bank's risk assessment and quantification methodology, including:

- How the bank defines each of the key risks listed above and any others considered key based on the bank's risk profile;
- How the bank determines the materiality of each key risk;

- Identification of any risks that have been identified but deemed immaterial and the justification for this determination;
- A description of how each material risk is then quantified for capital allocation purpose, including detailed methodology to specify data, assumptions, and calculations; and
- Conclusions arising out of the risk assessment including an analysis of significant movements in available capital and capital required since the last ICAAP and a comparison of the capital required under Pillar 1 calculations, as compared with the overall capital requirement identified by the ICAAP.

Methodology and Assumptions

- A description of how the risk assessment has been carried out and what assumptions have been made;
- An explanation of how the risk assessment relates to the internal capital target set by the bank;
- Details on how capital is allocated for the following:
 - Pillar 1 risks – that is, credit, market and operational;
 - risks not covered or not fully covered under Pillar 1 and Pillar 2 risks; and
 - stress testing / scenario analysis.
- Where internal models are used to quantify risks, the following information should be provided:
 - key assumptions and parameters within the capital modelling work and background information on the derivation of key assumptions;
 - how parameters have been chosen, including the historical period used and the calibration process;
 - limitations of the model;
 - the sensitivity of the model to changes in the key assumptions or parameters chosen; and
 - validation work undertaken to ensure the continuing adequacy of the model(s).

Stress Testing

This section should provide a concise description of how the bank's stress testing program is used to support capital adequacy assessment and management.

Banks must stress test all material portfolios and significant risks identified. Banks must develop their own scenarios so that stress tests covering all its major risks and material portfolios are reported.

To evidence the implementation of ICAAP stress tests and their outcomes, banks should provide:

- Quantitative outcome of the scenarios considered and impact on key measurements, including Profit and Loss and capital, and prudential ratios, as well as, integrated approaches, the impact on the liquidity position; and

Explanation of how the scenario outcomes is relevant to the bank's business model, strategy, material risks and group entities covered by ICAAP.
Summary of Current and Projected Financial and Capital Positions
This section should explain the present financial position of the bank, any changes to its current business profile, projected business volumes, projected financial position and future planned sources of capital.
Capital Planning
This section should outline the key aspects of the bank's capital needs to support its operations in the medium term (3 to 5 years), to support its strategic plan (forecasted/long-term) and to support unforeseen and unexpected events as set out in contingency plans. The detailed capital plan, if a separate document, should be submitted as an appendix to the ICAAP.
Risk Aggregation and Diversification
This section should describe how the results of separate risk assessments have been combined to obtain an overall view of capital adequacy. This requires some sort of methodology to be used to quantify the amount of capital required to support individual risks so that they can be aggregated into a total figure. Any adjustments made for diversification or risk correlations must be explained.
Use of ICAAP within the Bank
This section should: - Summarize how the ICAAP has been used by the bank and how it is embedded in the decision-making process; - Describe how ICAAP results have been integrated into risk limits setting and monitoring; and - Describe how the ICAAP results are reported to the Board.
Future Action Plan
This section should include: - A summary of significant deficiencies and weaknesses identified by the bank and action plans, including timeframes to address them including: - changes in risk profile; - improvements in governance and internal organization; and - changes in equity/capital targets. - Planned changes (improvements) in governance, risk management and internal controls including: - improvements in risk policy; and - improvement in risk management tools.
Approval Process
This section should:

- Summarize the extent of challenge and testing of the ICAAP and the control processes applied to the ICAAP calculations;
- Outline the Board and Senior Management sign-off procedures;
- Identify the nature of any independent review of the ICAAP (append any reports generated); and
- Identify any plans to enhance the ICAAP going forward.

ANNEX IV: ICAAP SUBMISSION FORM

	Minimum Regulatory Capital Under Pillar 1	Bank Assessment of Capital Required for the Risk under the ICAAP	ICAAP Page Reference ⁴³
Credit Risk			
Market Risk			
Operational Risk			
Total Pillar I⁴⁴			
Pillar II Risk ⁴⁵			
Pillar II Risk			
Pillar II Risk			
Total Pillar II			
Additional capital to cover stress testing			
Additional capital to arrive at target capital			
ICAAP Capital			

⁴³ Indicate the section of the ICAAP report for more details.

⁴⁴ For each risk type, provide a brief explanation of the difference between calculations using the regulatory methodologies and ICAAP calculations.

⁴⁵ Banks are to indicate which risk is being identified under Pillar 2 and where necessary, add as much rows as needed.

ANNEX V: RISK APPETITE STATEMENT

As part of the ICAAP process, a bank's Board and Senior Management are responsible for defining the bank's risk appetite and essentially the "tone at the top." The risk appetite should set out the level of risks the bank is prepared to take or accept to achieve its business objectives.

The risk appetite statement (RAS) should be integral in the risk management framework of a bank and establishing an appropriate risk appetite is a key component of a successful framework.

An effective risk appetite statement should:

- i. Include key background information and assumptions that informed the bank's strategic and business plans at the time they were approved;
- ii. Be linked to the bank's short- and long-term strategic, capital, and financial plans, as well as compensation programs;
- iii. Establish the amount of risk the bank is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interests of its customers (e.g. depositors) and the fiduciary duty to shareholders, as well as capital and other regulatory requirements;
- iv. Determine how much risk the bank is currently undertaking as compared to its capacity to undertake the level of risk. (This also forms part of the process towards sound capital assessment and capital planning.)
- v. Include quantitative measures that can be translated into risk limits applicable to business lines and legal entities as relevant, and at group level, which in turn can be aggregated and disaggregated to enable measurement of the risk profile against risk appetite and risk capacity;
- vi. Include qualitative statements that articulate clearly the motivations for taking on or avoiding certain types of risk, including for reputational and other conduct risks⁴⁶, and establish some form of boundaries or indicators (e.g. non-quantitative measures) to enable monitoring of these risks;
- vii. Ensure that the strategy and risk limits of each business line and legal entity, as relevant, align with the bank-wide risk appetite statement as appropriate;
- viii. Be forward looking and, where applicable, subject to stress testing to ensure that the bank understands what events might push the bank outside its risk appetite and/or risk capacity; and
- ix. Formalize and approve a risk appetite statement. Once the risk appetite has been approved, the statement should then be communicated to the wider organization.

⁴⁶ Conduct risk is a form of business risk that refers to potential misconduct of individuals associated with a firm, including employees, third-party vendors, customers, or agents interacting with the firm.

ANNEX VI: DISCLOSURE TABLES AND TEMPLATES

3.11.1 Overview of Risk Management, Key Prudential Metrics and RWA

The disclosure requirements under this section are:

- *Template KM1 – Key Metrics (at consolidated level)*
- *Table OVA – Bank Risk Management Approach*
- *Template OVI – Overview of Risk-Weighted Assets (RWA)*

Template KM1 provides users of Pillar 3 data with a time series set of key prudential metrics covering a bank's available capital (including buffer requirements and ratios), its RWA, Liquidity Coverage Ratio and Net Stable Funding Ratio. Table OVA provides information on a bank's strategy and how senior management and the board of directors assess and manage risks.

Template KM1 – Key Metrics (at consolidated level)

Purpose: To provide an overview of a bank's prudential regulatory metrics.

Content: Key prudential metrics related to risk-based capital ratios and liquidity standards. Banks are required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by T in the template below) as well as the four previous quarter-end figures (T-1 to T-4). All metrics are intended to reflect actual bank values for (T).

Format: Fixed. If banks wish to add rows to provide additional regulatory or financial metrics, they must provide definitions for these metrics, and a full explanation of how the metrics are calculated (including the scope of consolidation and the regulatory capital used if relevant). The additional metrics must not replace the metrics in this disclosure requirement.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant change in each metric's value compared with previous quarters, including the key drivers of such changes (e.g. whether the changes are due to changes in the regulatory framework, group structure or business model).

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)					
2	Tier 1					
3	Total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)					
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)					
6	Tier 1 ratio (%)					
7	Total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
12	CET1 available after meeting the bank's minimum capital requirements (%)					
	Liquidity Coverage Ratio (LCR)					
15	Total high-quality liquid assets (HQLA)					
16	Total net cash outflow					

17	LCR ratio (%)					
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding					
19	Total required stable funding					
20	NSFR ratio					

Instructions

Row number	Explanation
12	<i>CET1 available after meeting the bank's minimum capital requirements (as a percentage of RWA): it may not necessarily be the difference between row 5 and the minimum CET1 requirement because CET1 capital may be used to meet the bank's Tier 1 and/or total capital ratio requirements. See instructions to [CC1:68/a].</i>
15	<i>Total HQLA: total adjusted value using simple averages of daily observations over the previous quarter (i.e. the average calculated over a period of 3 months).</i>
16	<i>Total net cash outflow: total adjusted value using simple averages of daily observations over the previous quarter (i.e. the average calculated over a period of 3 months).</i>

Table OVA – Bank Risk Management Approach

Purpose: Description of the bank's strategy and how senior management and the Board of Directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Content: Qualitative information.

Format: Flexible

Banks must describe their risk management objectives and policies, in particular:

- (a) How the business model determines and interacts with the overall risk profile (e.g. the key risks related to the business model and how each of these risks is reflected and described in the risk disclosures) and how the risk profile of the bank interacts with the risk tolerance approved by the board.
- (b) The risk governance structure: responsibilities attributed throughout the bank (e.g. oversight and delegation of authority; breakdown of responsibilities by type of risk, business unit etc.); relationships between the structures involved in risk management processes (e.g. board of directors, executive management, separate risk committee, risk management structure, compliance function, internal audit function).
- (c) Channels to communicate, decline and enforce the risk culture within the bank (e.g. code of conduct; manuals containing operating limits or procedures to treat violations or breaches of risk thresholds; procedures to raise and share risk issues between business lines and risk functions).
- (d) The scope and main features of risk measurement systems.
- (e) Description of the process of risk information reporting provided to the board and senior management, in particular the scope and main content of reporting on risk exposure.
- (f) Qualitative information on stress testing (e.g. portfolios subject to stress testing, scenarios adopted, and methodologies used, and use of stress testing in risk management).
- (g) The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants.

Template OV1 – Overview of Risk-Weighted Assets (RWA)

Purpose: To provide an overview of total RWA forming the denominator of the risk-based capital requirements. Further breakdowns of RWA are presented in subsequent parts.

Content: RWA and capital requirements under Pillar 1. Pillar 2 requirements should not be included.

Format: Fixed.

Accompanying narrative: Banks are expected to identify and explain the drivers behind differences in reporting periods T and T-1 where these differences are significant.

		a	b	c
		RWA		Minimum Capital Requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)			
6	Counterparty credit risk (CCR)			
15	Settlement risk			
16	Securitization exposures in banking book			
20	Market risk			
24	Operational risk			
29	Total (1 + 6 + 15 + 16 + 20 + 24)			

Definitions and instructions

RWA: risk-weighted assets according to the Pillar 1 and as reported in accordance with the subsequent parts of this standard.

RWA (T-1): risk-weighted assets as reported in the previous Pillar 3 report (i.e. at the end of the previous year).

Minimum capital requirement T: Pillar 1 capital requirements at the reporting date. This will be sum of RWA * 9% for banks licensed under the DBFIA and RWA * 10% for banks licensed under the IBA.

Row number	Explanation
1	Credit risk (excluding counterparty credit risk): RWA and capital requirements according to the credit risk standard of the Basel framework, with the exceptions of RWA and capital requirements related to: - counterparty credit risk (reported in row 6); - settlement risk (reported in row 15); - securitization positions subject to the securitization regulatory framework, including securitization exposures in the banking book (reported in row 16).
6	Counterparty credit risk: RWA and capital charges according to the counterparty credit risk under Pillar 1 (sections 1.5.1.15 and 1.5.1.16)
15	Settlement risk: the amounts correspond to the requirements in Annex II: Capital Treatment for Failed Trades and Non-DvP Transactions .
16	Securitization exposures in banking book: the amounts correspond to capital requirements applicable to the securitization exposures in the banking book.
20	Market risk: the amounts reported in row 20 correspond to the RWA and capital requirements in Pillar 1.
24	Operational risk: the amounts corresponding to the minimum capital requirements for operational risk as specified in Pillar 1
29	The bank's total RWA.

Linkages across templates

Amount in [OV1:2/a] is equal to [CR4:12/e]

Amount in [OV1:6/a] is equal to the sum of [CCR1:6/f+CCR8:1/b+CCR8:11/b]

3.11.2 Standardised RWA

The disclosure requirement under this section is Template CMS2 –*Standardised RWA for Credit Risk at Asset Class Level*. Template CMS2 focuses on RWA for credit risk at asset class and sub-asset class levels.

Template CMS2 –Standardised RWA for Credit Risk at Asset Class Level

Purpose: Risk-weighted assets (RWA) calculated according to the standardized approach (SA) for credit risk at the asset class level		
Content: RWA.		
Format: Fixed. The columns are fixed. Banks are encouraged to add rows to show where significant differences occur.		
Accompanying narrative: Banks are expected to explain the main drivers of RWA by asset classes.		
		d
		RWA calculated using the standardized approach
1	Sovereign	
	Of which: categorized as MDB/PSE in SA	
2	Banks and other financial institutions	
3	Equity	
4	Purchased receivables	
5	Corporates	
6	Retail	
	Of which: other retail	
	Of which: retail residential mortgages	
8	Others	
9	Total	

3.11.3 Composition of Capital

The disclosure requirements set out in this chapter are:

- *Table CCA – Main Features of Regulatory Capital Instruments - Eligible Instruments*
- *Template CC1 – Composition of Regulatory Capital*
- *Template CC2 – Reconciliation of Regulatory Capital to Statement of Financial Position*

Table CCA details the main features of a bank's regulatory capital instruments. This table should be posted on a bank's website, with the web link referenced in the bank's Pillar 3 report to facilitate users' access to the required disclosure. Table CCA represents the minimum level of disclosure that banks are required to report in respect of each regulatory capital instrument.

Template CC1 details the composition of a bank's regulatory capital.

Template CC2 provides users of Pillar 3 data with a reconciliation between the scope of a bank's accounting consolidation, as per audited financial statements, and the scope of its regulatory consolidation.

Table CCA – Main Features of Regulatory Capital Instruments - Eligible Instruments

Purpose: Provide a description of the main features of a bank's regulatory capital instruments that are recognized as part of its capital base.

Content: Quantitative and qualitative information as required.

Format: Flexible.

Accompanying information: Banks are required to make available on their websites the full terms and conditions of all instruments included in regulatory capital.

		a
		Quantitative / qualitative information
1	Issuer	
2	Unique identifier (e.g. Committee on Uniform Security Identification Procedures (CUSIP), International Securities Identification Number (ISIN) or Bloomberg identifier for private placement)	
3	Governing law(s) of the instrument	
7	Instrument type (types to be specified by each jurisdiction)	
8	Amount recognized in regulatory capital (currency in millions, as of most recent reporting date)	
9	Par value of instrument	
10	Accounting classification	
11	Original date of issuance	
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date, contingent call dates and redemption amount	
16	Subsequent call dates, if applicable	
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	
18	Coupon rate and any related index	
19	Existence of a dividend stopper	
20	Fully discretionary, partially discretionary or mandatory	
21	Existence of step-up or other incentive to redeem	
22	Non-cumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger(s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down feature	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of writeup mechanism	

34a	Type of subordination	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	

Instructions

Banks are required to complete the template for each outstanding regulatory capital instrument.

Banks are required to report each instrument, including common shares, in a separate column of the template, such that the completed Table CCA would provide a “main features report” that summarizes all of the regulatory capital the banking group. The list of main features represents a minimum level of required summary disclosure.

Row number	Explanation	Format / list of options (where relevant)
1	Identifies issuer legal entity.	Free text
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement).	Free text
3	Specifies the governing law(s) of the instrument.	Free text
4	Specifies the regulatory capital treatment during the Basel III transitional phase (i.e. the component of capital from which the instrument is being phased out).	Disclosure: [Common Equity Tier 1] [Additional Tier 1] [Tier 2]
7	Specifies instrument type, varying by jurisdiction. Helps provide more granular understanding of features, particularly during transition.	Disclosure: Options to be provided to banks by each jurisdiction
8	Specifies amount recognized in regulatory capital.	Free text
9	Par value of instrument.	Free text
10	Specifies accounting classification. Helps to assess loss-absorbency.	Disclosure: [Shareholders' equity] [Liability – amortized cost] [Liability – fair value option] [non-controlling interest in consolidated subsidiary]
11	Specifies date of issuance.	Free text
12	Specifies whether dated or perpetual.	Disclosure: [Perpetual] [Dated]
13	For dated instrument, specifies original maturity date (day, month and year). For perpetual instrument, enter “no maturity”.	Free text
14	Specifies whether there is an issuer call option.	Disclosure: [Yes] [No]
15	For an instrument with issuer call option, specifies: (i) the first date of call if the instrument has a call option on a specific date (day, month and year); (ii) the instrument has a tax and/or regulatory event call; and (iii) the redemption price.	Free text
16	Specifies the existence and frequency of subsequent call dates, if applicable.	Free text
17	Specifies whether the coupon/dividend is fixed over the life of the instrument, floating over the life of the instrument, currently fixed but will move to a floating rate in the future, or currently floating but will move to a fixed rate in the future.	Disclosure: [Fixed], [Floating] [Fixed to floating], [Floating to fixed]
18	Specifies the coupon rate of the instrument and any related index that the coupon/dividend rate references.	Free text
19	Specifies whether the non-payment of a coupon or dividend on the instrument prohibits the payment of dividends on common shares (i.e. whether there is a dividend-stopper).	Disclosure: [Yes] [No]
20	Specifies whether the issuer has full, partial or no discretion over whether a coupon/dividend is paid. If the bank has full discretion to cancel coupon/dividend payments under all circumstances, it must select “fully discretionary” (including when there is a dividend-stopper that does not have the effect of preventing the bank from cancelling payments on the instrument). If there are conditions that must be met before	Disclosure: [Fully discretionary] [Partially discretionary] [Mandatory]

	payment can be cancelled (e.g. capital below a certain threshold), the bank must select “partially discretionary”. If the bank is unable to cancel the payment outside of insolvency, the bank must select “mandatory”.	
21	Specifies whether there is a step-up or other incentive to redeem.	Disclosure: [Yes] [No]
22	Specifies whether dividends/coupons are cumulative or non-cumulative.	Disclosure: [Non-cumulative] [Cumulative]
23	Specifies whether the instrument is convertible.	Disclosure: [Convertible] [Non-convertible]
24	Specifies the conditions under which the instrument will convert, including point of non-viability. Where one or more authorities have the ability to trigger conversion, the authorities should be listed. For each of the authorities it should be stated whether the legal basis for the authority to trigger conversion is provided by the terms of the contract of the instrument (a contractual approach) or statutory means (a statutory approach).	Free text
25	For conversion trigger separately, specify whether the instrument will: (i) always convert fully; (ii) may convert fully or partially; or (iii) will always convert partially.	Free text referencing one of the options above
26	Specifies the rate of conversion into the more loss-absorbent instrument.	Free text
27	For convertible instruments, specifies whether conversion is mandatory or optional.	Disclosure: [Mandatory] [Optional] [NA]
28	For convertible instruments, specifies the instrument type it is convertible into.	Disclosure: [Common Equity Tier 1] [Additional Tier 1] [Tier 2] [Other]
29	If convertible, specify the issuer of the instrument into which it converts.	Free text
30	Specifies whether there is a write-down feature.	Disclosure: [Yes] [No]
31	Specifies the trigger at which write-down occurs, including point of non-viability. Where one or more authorities have the ability to trigger write-down, the authorities should be listed. For each of the authorities it should be stated whether the legal basis for the authority to trigger conversion is provided by the terms of the contract of the instrument (a contractual approach) or statutory means (a statutory approach).	Free text
32	For each write-down trigger separately, specifies whether the instrument will: (i) always be written down fully; (ii) may be written down partially; or (iii) will always be written down partially.	Free text referencing one of the options above
33	For write-down instruments, specifies whether write-down is permanent or temporary.	Disclosure: [Permanent] [Temporary] [NA]
34	For instruments that have a temporary write-down, description of writeup mechanism.	Free text
34a	Type of subordination.	Disclosure: [Structural] [Statutory] [Exemption from subordination] [Contractual]
35	Specifies instrument to which it is most immediately subordinate. Where applicable, banks should specify the column numbers of the instruments in the completed main features template to which the instrument is most immediately subordinate. In the case of structural subordination, “NA” should be entered.	Free text

Template CC1 – Composition of Regulatory Capital

Purpose: Provide a breakdown of the constituent elements of a bank's capital.

Content: Breakdown of regulatory capital according to the scope of regulatory consolidation

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such change.

		a	b
		Amounts	Source based on reference numbers of the statement of financial position under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus		
2	Retained earnings		
3	Accumulated other comprehensive income (and other reserves)		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 capital)		
6	Common Equity Tier 1 capital before regulatory adjustments	0	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)		
10	Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
13	Securitization gain on sale		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 capital due to insufficient Additional Tier 1 and Tier 2 capital to cover deductions		

28	Total regulatory adjustments to Common Equity Tier 1 capital	0	
29	Common Equity Tier 1 capital (CET1)	0	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		i
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group additional Tier 1 capital)		
35	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
36	Additional Tier 1 capital before regulatory adjustments	0	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal crossholdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
42	Regulatory adjustments applied to additional Tier 1 capital due to insufficient Tier 2 capital to cover deductions		
43	Total regulatory adjustments to additional Tier 1 capital	0	
44	Additional Tier 1 capital (AT1)	0	
45	Tier 1 capital (T1 = CET1 + AT1)	0	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
50	Provisions		
	Revaluation Reserves for long-term assets whose value fluctuate.		
51	Tier 2 capital before regulatory adjustments	0	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		

54a	Investments in the other TLAC liabilities 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 of the entity.		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
57	Total regulatory adjustments to Tier 2 capital	0	
58	Tier 2 capital	0	
59	Total regulatory capital (= Tier 1 + Tier2)	0	
60	Total risk-weighted assets		
	Capital adequacy ratios and buffers		
61	Common Equity Tier 1 capital (as a percentage of risk-weighted assets)		
62	Tier 1 capital (as a percentage of risk-weighted assets)		
63	Total capital (as a percentage of risk-weighted assets)		
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements, expressed as a percentage of risk-weighted assets)		
65	Of which: capital conservation buffer requirement		
66	Of which: bank-specific countercyclical buffer requirement		
68	Common Equity Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements		
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-significant investments in the capital and other liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	MSR (net of related tax liability)		
75	DTA arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 capital in respect of exposures subject to standardized approach (prior to application of cap)		
77	Cap on inclusion of provisions in Tier 2 capital under standardized approach		

Instructions

The reconciliation requirements included in Template CC2 result in the decomposition of certain regulatory adjustments. For example, the disclosure template below includes the adjustment “Goodwill net of related tax liability”. The reconciliation requirements will lead to the disclosure of both the goodwill component and the related tax liability component of this regulatory adjustment.

Shading:

- Each dark grey row introduces a new section detailing a certain component of regulatory capital.
- Light grey rows with no thick border represent the sum cells in the relevant section.
- Light grey rows with a thick border show the main components of regulatory capital and the capital adequacy ratios.

Columns

Source: Banks are required to complete column b to show the source of every major input, which is to be cross-referenced to the corresponding rows in Template CC2.

Rows

Set out in the following table is an explanation of each row of the template above. Regarding the regulatory adjustments, banks are required to report deductions from capital as positive numbers and additions to capital as negative numbers. For example, goodwill (row 8) should be reported as a positive number, as should gains due to the change in the own credit risk of the bank (row 14). However, losses due to the change in the own credit risk of the bank should be reported as a negative number as these are added back in the calculation of CET1 capital.

Template CC2 – Reconciliation of Regulatory Capital to Statement of Financial Position

Purpose: Enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation, and to show the link between a bank’s statement of financial position and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Content: Carrying values (corresponding to the values reported in financial statements).

Format: Flexible (but the rows must align with the presentation of the bank’s financial report).

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes in the expanded statement of financial position items over the reporting period and the key drivers of such change. Narrative commentary to significant changes in other statement of financial position items could be found in Table LIA.

	a	b	c
	Statement of Financial Position as in audited financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks			
Items in the course of collection from other banks			
Financial assets designated at fair value			
Loans and advances to banks			
Loans and advances to customers			
Available for sale financial investments			
Current and deferred tax assets			

Prepayments, accrued income and other assets			
Goodwill and intangible assets			
Property, plant and equipment			
Total assets			
Liabilities			
Deposits from banks			
Items in the course of collection due to other banks			
Customer accounts			
Repurchase agreements and other similar secured borrowing			
Financial liabilities designated at fair value			
Accruals, deferred income and other liabilities			
Current and deferred tax liabilities			
Subordinated liabilities			
Provisions			
Retirement benefit liabilities			
Total liabilities			
Shareholders' equity			
Paid-in share capital			
Retained earnings			
Accumulated other comprehensive income			
Total shareholders' equity			

Columns

Banks are required to take their statement of financial position in their audited financial statements (numbers reported in column a above) and report the numbers when the regulatory scope of consolidation is applied (numbers reported in column b above).

If there are rows in the statement of financial position under the regulatory scope of consolidation that are not present in the audited financial statements, banks are required to add these and give a value of zero in column a.

If a bank's scope of accounting consolidation and its scope of regulatory consolidation are exactly the same, columns a and b should be merged, and this fact should be clearly disclosed.

Rows

Similar to Template LI1, the rows in the above template should follow the statement of financial position presentation used by the bank in its financial statements, on which basis the bank is required to expand the statement of financial position to identify all the items that are disclosed in Template CC1. Set out above (i.e. items a to i) are some examples of items that may need to be expanded for a particular banking group. Disclosure should be proportionate to the complexity of the bank's statement of financial position. Each item must be given a reference number/letter in column c that is used as cross-reference to column b of Template CC1.

Linkages across templates

- (i) The amounts in columns a and b in Template CC2 before statement of financial position expansion (i.e. before Step 2) should be identical to columns a and b in Template LI1.
- (ii) Each expanded item is to be cross-referenced to the corresponding items in Template CC1.

Through the following three-step approach, all banks are required to show the link between the statement of financial position in their published financial statements and the numbers disclosed in Template CC1:

- Step 1: Disclose the reported balance sheet under the regulatory scope of consolidation in Template CC2. If the scopes of regulatory consolidation and accounting consolidation are identical for a particular banking group, banks should state in Template CC2 that there is no difference and move on to Step 2. Where the accounting and regulatory scopes of consolidation differ, banks are required to disclose the list of those legal entities that are included within the accounting scope of consolidation, but excluded from the regulatory scope of consolidation or, alternatively, any legal entities included in the regulatory consolidation that are not included in the accounting scope of consolidation. This will enable users of Pillar 3 data to consider any risks posed by unconsolidated subsidiaries. If some entities are included in both the regulatory and accounting scopes of consolidation, but the method of consolidation differs between these two scopes, banks are required to list the relevant legal entities separately and explain the differences in the consolidation methods. For each legal entity that is required to be disclosed in this requirement, a bank must also disclose the total assets and equity on the entity's balance sheet and a description of the entity's principal activities.
- Step 2: Expand the lines of the balance sheet under the regulatory scope of consolidation in Template CC2 to display all of the components that are used in Template CC1. It should be noted that banks will only need to expand elements of the statement of financial position to the extent necessary to determine the components that are used in Template CC1 (e.g. if all of the paid-in capital of the bank meets the requirements to be included in Common Equity Tier 1 (CET1) capital, the bank would not need to expand this line). The level of disclosure should be proportionate to the complexity of the bank's balance sheet and its capital structure.
- Step 3: Map each of the components that are disclosed in Template CC2 in Step 2 to the composition of capital disclosure set out in Template CC1.

3.11.4 Capital Distribution Constraints

The disclosure requirement under this section is: *Template CDC - Capital Distribution Constraints*. Template CDC provides the common equity tier 1 (CET1) capital ratios that would trigger capital distribution constraints.

Template CDC - Capital Distribution Constraints

Purpose: To provide disclosure of the capital ratio(s) below which capital distribution constraints are triggered as required under the Basel II/III Capital framework (i.e. risk-based, etc.) to allow meaningful assessment by market participants of the likelihood of capital distributions becoming restricted.

Content: Quantitative information. Includes the CET1 capital ratio that would trigger capital distribution constraints when taking into account (i) CET1 capital that banks must maintain to meet the minimum CET1 capital ratio, and Pillar 2 capital requirements (if CET1 capital is required); (ii) CET1 capital that banks must maintain to meet the minimum regulatory capital ratios and any CET1 capital used to meet Tier 1 capital, and total capital and Pillar 2 capital requirements (if CET1 capital is required).

Format: Fixed.

Accompanying narrative: In cases where capital distribution constraints have been imposed, banks should describe the constraints imposed. In addition, banks shall provide a link to the supervisor's or regulator's website, where the characteristics of the requirements governing capital distribution constraints are set out. Further, banks may choose to provide any additional information they consider to be relevant for understanding the stated figures.

	a	b
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		CET1 capital ratio that would trigger capital distribution constraints (%)	Current CET1 capital ratio (%)
1	CET1 minimum requirement plus capital buffers (<u>not</u> taking into account CET1 capital used to meet other minimum regulatory capital)		
2	CET1 capital plus capital buffers (taking into account CET1 capital used to meet other minimum regulatory capital)		

Instructions

Row number	Explanation
1	<i>CET1 minimum plus capital buffers (not taking into account CET1 capital used to meet other minimum regulatory capital):</i> CET1 capital ratio which would trigger capital distribution constraints, should the bank's CET1 capital ratio fall below this level. The ratio takes into account only CET1 capital that banks must maintain to meet the minimum CET1 capital ratio (5.5%) and Pillar 2 capital requirements (if CET1 capital is required). The ratio does not take into account instances where the bank has used its CET1 capital to meet its other minimum regulatory ratios (i.e. Tier 1 capital/total capital), which could increase the CET1 capital ratio which the bank has to meet in order to prevent capital distribution constraints from being triggered.
2	<i>CET1 minimum plus capital buffers (taking into account CET1 capital used to meet other minimum regulatory capital):</i> CET1 capital ratio which would trigger capital distribution constraints, should the bank's CET1 capital ratio fall below this level. The ratio takes into account CET1 capital that banks must maintain to meet the minimum regulatory ratios (i.e. CET1, Tier 1, total capital requirements), applicable risk-based buffer requirements and Pillar 2 capital requirements (if CET1 capital is required).

Linkages across templates

Amount in [CDC:1/b] is equal to [KM1:5/a]

3.11.5 Links Between Financial Statements and Regulatory Exposures

The disclosure requirements set out in this chapter are:

- *Table LIA – Explanations of Differences Between Accounting and Regulatory Exposure Amounts*
- *Template LI1 – Differences Between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories*
- *Template LI2 – Main Sources of Differences Between Regulatory Exposure Amounts and Carrying Values in Financial Statements*
- *Template PVI – Prudent Valuation Adjustments (PVAs)*

Table LIA – Explanations of Differences Between Accounting and Regulatory Exposure Amounts

Purpose: Provide qualitative explanations on the differences observed between accounting carrying value (as defined in Template LI1) and amounts considered for regulatory purposes (as defined in Template LI2) under each framework.

Content: Qualitative information.

Format: Flexible.

Banks must explain the origins of the differences between accounting amounts, as reported in financial statements amounts and regulatory exposure amounts, as displayed in Templates LI1 and LI2.

(a) Banks must explain the origins of any significant differences between the amounts in columns (a) and (b) in Template LI1.

(b) Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in Template LI2.

In accordance with the implementation of the guidance on prudent valuation (see [1.6.1.3 Prudent Valuation Guidance](#)) banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable. Disclosure must include:

- (c)
- Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used.
 - Description of the independent price verification process.
 - Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).

Banks with insurance subsidiaries must disclose:

- (d)
- the national regulatory approach used with respect to insurance entities in determining a bank's reported capital positions (i.e. deduction of investments in insurance subsidiaries or alternative approaches]; and
 - any surplus capital in insurance subsidiaries recognized when calculating the bank's capital adequacy.

Template LI1 – Differences Between Accounting and Regulatory Scopes of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

Purpose: Columns (a) and (b) enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation; and columns (c)–(g) break down how the amounts reported in banks' financial statements (rows) correspond to regulatory risk categories.

Content: Carrying values (corresponding to the values reported in financial statements).

Format: Flexible (but the rows must align with the presentation of the bank's financial report).

Accompanying narrative: See Table LIA. Banks are expected to provide qualitative explanations on items that are subject to regulatory capital charges in more than one risk category.

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central banks							
Items in the course of collection							

Trading portfolio assets							
....							
Total assets							
Liabilities							
Deposits from banks							
Items in the course of collection due to other banks							
Customer accounts							
....							
Total liabilities							

Instructions

Rows

The rows must strictly follow the statement of financial position presentation used by the bank in its financial reporting.

Columns

If a bank's scope of accounting consolidation and its scope of regulatory consolidation are exactly the same, columns (a) and (b) should be merged.

The breakdown of regulatory categories (c) to (f) corresponds to the breakdown prescribed in the rest of the disclosure requirements. Column (g) includes amounts not subject to capital requirements in Pillar 1 or subject to deductions from regulatory capital.

Note: Where a single item attracts capital charges according to more than one risk category framework, it should be reported in all columns that it attracts a capital charge. As a consequence, the sum of amounts in columns (c) to (g) may not equal the amounts in column (b) as some items may be subject to regulatory capital charges in more than one risk category.

For example, derivative assets/liabilities held in the regulatory trading book may relate to both column (d) and column (f). In such circumstances, the sum of the values in columns (c)–(g) would not equal to that in column (b). When amounts disclosed in two or more different columns are material and result in a difference between column (b) and the sum of columns (c)–(g), the reasons for this difference should be explained by banks in the accompanying narrative.

Template LI2 – Main Sources of Differences Between Regulatory Exposure Amounts and Carrying Values in Financial Statements

Purpose: Provide information on the main sources of differences (other than due to different scopes of consolidation which are shown in Template LI1) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

Content: Carrying values that correspond to values reported in financial statements but according to the scope of regulatory consolidation (rows 1–3) and amounts considered for regulatory exposure purposes (row 10).

Format: Flexible. Row headings shown below are provided for illustrative purposes only and should be adapted by the bank to describe the most meaningful drivers for differences between its financial statement carrying values and the amounts considered for regulatory purposes.

Accompanying narrative: See Table LIA.

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per Template LI1)					
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)					
3	Total net amount under regulatory scope of consolidation (Row 1 – Row 2)					
4	off-balance sheet amounts					
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	⋮					
10	Exposure amounts considered for regulatory purposes					

Instructions

Amounts in rows 1 and 2, columns (b)-(e) correspond to the amounts in columns (c)-(f) of Template LI1.

Row 1 of Template LI2 includes only assets that are risk-weighted under Pillar 1, while row 2 includes liabilities that are considered for the application of the risk weighting requirements, either as short positions, trading or derivative liabilities, or through the application of the netting rules to calculate the net position of assets to be risk-weighted. These liabilities are not included in column (g) in Template LI1. Assets that are risk-weighted under the Basel framework include assets that are not deducted from capital because they are under the applicable thresholds or due to the netting with liabilities.

Off-balance sheet amounts include off-balance sheet original exposure in column (a) and the amounts subject to regulatory framework, after application of the credit conversion factors (CCFs) where relevant in columns (b)-(d).

Column (a) is not necessarily equal to the sum of columns (b)-(e) due to assets being risk-weighted more than once (see Template LI1). Therefore, for any type of risk framework, the exposure values under different regulatory approaches can be presented separately in each of the columns if a separate presentation eases the reconciliation of the exposure values for banks.

The breakdown of columns in regulatory risk categories (b)-(e) corresponds to the breakdown prescribed in the rest of the document, i.e. column (b) credit risk corresponds to the exposures reported in templates [3.11.8](#), column (c) corresponds to the exposures reported in templates [3.11.10](#), column (d) corresponds to exposures reported in templates [3.11.9](#) and column (e) corresponds to the exposures reported in templates [3.11.12](#).

Differences due to consideration of provisions: The exposure values under row 1 are the carrying amounts and hence net of provisions (i.e. specific and general provisions. Row 7 may include the elements qualifying as general provisions that may have been deducted from the carrying amount of exposures under the standardised approach and that therefore need to be reintegrated in the regulatory exposure value of those exposures. Any differences between the accounting impairment and the regulatory provisions under the Basel II/III Capital framework that have an impact on the exposure amounts considered for regulatory purposes should also be included in row 7.

Exposure amounts considered for regulatory purposes: The expression designates the aggregate amount considered as a starting point of the RWA calculation for each of the risk categories. Under the credit risk framework this should correspond either to the exposure amount applied in the standardised approach for credit risk; securitisation exposures should be defined as in the securitisation framework; and counterparty credit exposures are defined as the EAD considered for counterparty credit risk purposes.

Linkages across templates

Template LI2 is focused on assets in the regulatory scope of consolidation that are subject to the regulatory framework. Therefore, column (g) in Template LI1, which includes the elements of the statement of financial position that are not subject to the regulatory framework, is not included in Template LI2. The following linkage holds: column (a) in Template LI2 = column (b) in Template LI1 – column (g) in Template LI1.

Template PV1 – Prudent Valuation Adjustments (PVAs)

Purpose: Provide a breakdown of the constituent elements of a bank's PVAs according to the requirements of Pillar 1, [1.6.1.3 Prudent Valuation Guidance](#), and taking into account the guidance set out in the Basel Committee *Supervisory guidance for assessing banks' financial instrument fair value practices*, April 2009 (in particular Principle 10).

Content: PVAs for all assets measured at fair value (marked to market or marked to model) and for which PVAs are required. Assets can be non-derivative or derivative instruments.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes. In particular, banks are expected to detail "Other adjustments", where significant, and to define them when they are not listed in the Basel framework. Banks are also expected to explain the types of financial instruments for which the highest amounts of PVAs are observed.

		a	b	c	d	e	f	g	h
		Equity	Interest rates	Foreign exchange	Credit	Commodities	Total	Of which: in the trading book	Of which: in the banking book
12	Total adjustment								

Linkages across templates

[PV1:12/f] is equal to [CC1:7/a]

3.11.6 Asset Encumbrance

The disclosure requirement under this section is *Template ENC – Asset Encumbrance*. Template ENC provides information on the encumbered and unencumbered assets of a bank. Banks may include at their discretion a column to report separately all assets currently used in central bank facilities, irrespective of whether those assets are considered to be encumbered or unencumbered as defined in the disclosure requirement.

Template ENC – Asset Encumbrance

Purpose: To provide the amount of encumbered and unencumbered assets.

Content: Carrying amount for encumbered and unencumbered assets on the statement of financial position using period-end values. Banks must use the specific definition of “encumbered assets” set out in the instructions below in making the disclosure. The scope of consolidation for the purposes of this disclosure requirement should be a bank’s regulatory scope of consolidation but including its securitisation exposures.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain

- (i) any significant change in the amount of encumbered and unencumbered assets from the previous disclosure;
- (ii) as applicable, any definition of the amounts of encumbered and/or unencumbered assets broken down by types of transaction/category; and
- (iii) any other relevant information necessary to understand the context of the disclosed figures. When a separate column for central bank facilities is used, banks should describe the types of assets and facilities included in this column.

	a	b	c	d
	Encumbered assets	[Optional] Central Bank Facilities	Unencumbered assets	Total
The assets on the statement of financial position would be disaggregated; there can be as much disaggregation as desired				

Definitions

The definitions are specific to this template and are not applicable for other parts of the Basel II/III Capital framework.

Encumbered assets: Encumbered assets are assets that the bank is restricted or prevented from liquidating, selling, transferring or assigning due to legal, regulatory, contractual or other limitations. When the optional column on central bank facilities is used, encumbered assets exclude central bank facilities. The definition of “encumbered assets” in Template ENC is different than that under the Liquidity Coverage Ratio for on-statement of financial position assets. Specifically, the definition of “encumbered assets” in Template ENC excludes the aspect of asset monetisation. For an unencumbered asset to qualify as high-quality liquid assets, the LCR requires a bank to have the ability to monetise that asset during the stress period such that the bank can meet net cash outflows.

Unencumbered assets: Unencumbered assets are assets which do not meet the definition of encumbered. When the optional column on central bank facilities is used, unencumbered assets exclude central bank facilities.

Central bank facilities: Assets in use to secure transactions, or remaining available to secure transactions, in any central bank facility, including facilities used for monetary policy, liquidity assistance or any other and ad hoc funding facilities.

Instructions

Total (in column (d)): Sum of encumbered and unencumbered assets, and central bank facilities where relevant. The scope of consolidation for the purposes of this disclosure requirement should be based on a bank's regulatory scope of consolidation but including its securitisation exposures.

3.11.7 Remuneration

The disclosure requirements under this section are:

- *Table REMA – Remuneration Policy*
- *Template REM1 – Remuneration Awarded During Financial Year*
- *Template REM2 – Special Payments*

Table REMA – Remuneration Policy

Purpose: Describe the bank's remuneration policy as well as key features of the remuneration system to allow meaningful assessments by users of Pillar 3 data of banks' compensation practices.

Content: Qualitative information.

Format: Flexible.

Banks must describe the main elements of their remuneration system and how they develop this system. In particular, the following elements, where relevant, should be described:

Qualitative disclosures

- Information relating to the bodies that oversee remuneration. Disclosures should include:
- Name, composition and mandate of the main body overseeing remuneration.
- (a)
 - External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.
 - A description of the scope of the bank's remuneration policy (e.g. by regions, business lines).
 - A description of the types of employees considered as material risk-takers and as senior managers
-
- Information relating to the design and structure of remuneration processes. Disclosures should include:
- An overview of the key features and objectives of remuneration policy.
- (b)
 - Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.
 - A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.
-
- (c) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.
-
- Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:
- An overview of main performance metrics for bank, top-level business lines and individuals.
- (d)
 - A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.
 - A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.
-

Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:	
(e)	- A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance. - A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.
Description of the different forms of variable remuneration that the bank utilises and the rationale for using these different forms. Disclosures should include:	
(f)	- An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms). - A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.

Template REM1 – Remuneration Awarded During Financial Year

Purpose: Provide quantitative information on remuneration for the financial year.			
Content: Quantitative information.			
Format: Flexible.			
Accompanying narrative: Banks may supplement the template with a narrative commentary to explain any significant movements over the reporting period and the key drivers of such movements.			
		a	b
	Remuneration amount	Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	
2		Total fixed remuneration	
3		Of which: cash-based	
9	Variable remuneration	Number of employees	
10		Total variable remuneration	
11		Of which: cash-based	
17	Total remuneration (rows 2 + 10)		

Definitions and instructions

Senior management and other material risk-takers categories in columns (a) and (b) must correspond to the type of employees described in Table REMA.

Other forms of remuneration must be described in Table REMA and, if needed, in the accompanying narrative.

Template REM2 – Special Payments

Purpose: Provide quantitative information on special payments for the financial year.			
Content: Quantitative information.			
Format: Flexible.			
Accompanying narrative: Banks may supplement the template with a narrative commentary to explain any significant movements over the reporting period and the key drivers of such movements.			
Special payments	Guaranteed bonuses	Sign-on awards	Severance payments

	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior management						
Other material risk-takers						

Definitions and instructions

Senior management and other material risk-takers categories in rows 1 and 2 must correspond to the type of employees described in Table REMA.

Guaranteed bonuses are payments of guaranteed bonuses during the financial year.

Sign-on awards are payments allocated to employees upon recruitment during the financial year.

Severance payments are payments allocated to employees dismissed during the financial year.

3.11.8 Credit Risk

The scope of disclosure includes items subject to risk-weighted assets (RWA) for credit risk as defined in Pillar 1, i.e. excluding:

- 1) all positions subject to the securitisation regulatory framework, including those that are included in the banking book for regulatory purposes, which are reported in [section 3.11.10](#).
- 2) capital requirements relating to counterparty credit risk, which are reported in [section 3.11.9](#).

The disclosure requirements under this section are:

General information about credit risk:

- *Table CRA - General Qualitative Information About Credit Risk*
- *Template CR1 - Credit Quality of Assets*
- *Template CR2 - Changes in Stock of Defaulted Loans and Debt Securities*
- *Table CRB - Additional Disclosure Related to the Credit Quality of Assets*
- *Table CRB-A - Additional Disclosure Related to Prudential Treatment of Problem Assets*

Credit risk mitigation:

- *Table CRC - Qualitative Disclosure Related to Credit Risk Mitigation Techniques*
- *Template CR3 - Credit Risk Mitigation Techniques - Overview*
- *Credit Risk Under Standardised Approach:*
- *Table CRD - Qualitative Disclosure on Banks' Use of External Credit Ratings Under the Standardised Approach for Credit Risk*
- *Template CR4 - Standardised Approach - Credit Risk Exposure and Credit Risk Mitigation Effects*
- *Template CR5 - Standardised Approach - Exposures by Asset Classes and Risk Weights*

Table CRA: General Qualitative Information About Credit Risk

Purpose: Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organisation and functions involved in credit risk management, risk management reporting).

Content: Qualitative information.

Format: Flexible.

Banks must describe their risk management objectives and policies for credit risk, focusing in particular on:

-
- (a) How the business model translates into the components of the bank's credit risk profile
 - (b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits
 - (c) Structure and organisation of the credit risk management and control function
 - (d) Relationships between the credit risk management, risk control, compliance and internal audit functions
 - (e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors
-

Template CR1: Credit Quality of Assets

Purpose: Provide a comprehensive picture of the credit quality of a bank's (on- and off-balance sheet) assets.

Content: Carrying values (corresponding to the accounting values reported in financial statements but according to the scope of regulatory consolidation).

Format: Fixed.

Accompanying narrative: Banks must include their definition of default in an accompanying narrative.

		a	b	c	d	e	g
		Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans						
2	Debt Securities						
3	Off-balance sheet exposures						
4	Total						

Definitions

Gross carrying values: on- and off-balance sheet items that give rise to a credit risk exposure according to the Basel framework. On-balance items include loans and debt securities. Off-balance sheet items must be measured according to the following criteria:

- (a) guarantees given – the maximum amount that the bank would have to pay if the guarantee were called. The amount must be gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) techniques.
- (b) Irrevocable loan commitments – total amount that the bank has committed to lend. The amount must be gross of any CCF or CRM techniques. Revocable loan commitments must not be included. The gross value is the accounting value before any allowance/impairments but after considering write-offs. Banks must not take into account any credit risk mitigation technique.

Write-offs for the purpose of this template are related to a direct reduction of the carrying amount when the entity has no reasonable expectations of recovery.

Defaulted exposures: banks should use the definition of default that they also use for regulatory purposes. Banks must provide this definition of default in the accompanying narrative. Default exposures in Templates CR1 and CR2 should correspond to exposures that are past due for more than 90 days.

Non-defaulted exposures: any exposure not meeting the above definition of default.

Accounting provisions for credit losses: total amount of provisions, made via an allowance against impaired and not impaired exposures according to the meaning of IFRS 9.

Banks must fill in column d to e in accordance with the categorisation of accounting provisions distinguishing those meeting the conditions to be categorised in general provisions, and those that are categorised as specific provisions. This categorisation must be consistent with information provided in Table CRB.

Net values: Total gross value less allowances/impairments.

Debt securities: Debt securities exclude equity investments subject to the credit risk framework. However, banks may add a row between rows 2 and 3 for “other investment” (if needed) and explain in the accompanying narrative.

Linkages across templates

Amount in [CR1:4/a] is equal to [CR2:6/a], only when (i) there is zero defaulted off-balance sheet exposure in Template CR2.

Template CR2: Changes in Stock of Defaulted Loans and Debt Securities

Purpose: Identify the changes in a bank’s stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

Content: Carrying values. off-balance sheet exposures should be included.

Format: Fixed.

Accompanying narrative: Banks should explain the drivers of any significant changes in the amounts of defaulted exposures from the previous reporting period and any significant movement between defaulted and non-defaulted loans. Banks should disclose in their accompanying narrative whether defaulted exposures include off-balance sheet items.

		a
1	Defaulted loans and debt securities at end of the previous reporting period	
2	Loans and debt securities that have defaulted since the last reporting period	
3	Returned to non-defaulted status	
4	Amounts written off	
5	Other changes	
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)	

Definitions

Defaulted exposure: such exposures must be reported net of write-offs and gross of (i.e. ignoring) allowances/impairments. The default exposures in Templates CR1 and CR2 should correspond to exposures that are “past due for more than 90 days”.

Loans and debt securities that have defaulted since the last reporting period: refers to any loan or debt securities that became marked as defaulted during the reporting period.

Return to non-defaulted status: refers to loans or debt securities that returned to non-default status during the reporting period.

Amounts written off: both total and partial write-offs.

Other changes: balancing items that are necessary to enable total to reconcile.

Table CRB: Additional Disclosure Related to the Credit Quality of Assets

Purpose: Supplement the quantitative templates with information on the credit quality of a bank’s assets.

Content: Additional qualitative and quantitative information (carrying values).

Format: Flexible.

Banks must provide the following disclosures:

Qualitative disclosures

- (a) The scope and definitions of “past due” and “impaired” exposures used for accounting purposes and the differences between the definition of past due and default for accounting and regulatory purposes. “Impaired exposures” are those that are considered “credit-impaired” in the meaning of IFRS 9.
- (b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
- (c) Description of methods used for determining accounting provisions for credit losses. In addition, banks must provide information on the rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures.
- (d) The bank’s own definition of a restructured exposure. Banks should disclose the definition of restructured exposures they use.

Quantitative disclosures

- (e) Breakdown of exposures by geographical areas, industry and residual maturity.
 - (f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related accounting provisions, broken down by geographical areas and industry.
 - (g) Ageing analysis of accounting past-due exposures.
 - (h) Breakdown of restructured exposures between impaired and not impaired exposures.
-

Table CRB-A – Additional Disclosure Related to Prudential Treatment of Problem Assets

Purpose: To supplement the quantitative templates with additional information related to non-performing exposures and forbearance.

Content: Qualitative and quantitative information (carrying values corresponding to the accounting values reported in financial statements but according to the regulatory scope of consolidation).

Format: Flexible.

Banks must provide the following disclosures:

Qualitative disclosures

- (a) The bank's own definition of non-performing exposures. The bank should specify in particular if it is using the definition provided in the guidelines on prudential treatment of problem assets (hereafter in this table referred to as the "Guidelines")⁴⁷ and provide a discussion on the implementation of its definition, including the materiality threshold used to categorise exposures as past due, the exit criteria of the non-performing category (providing information on a probation period, if relevant), together with any useful information for users' understanding of this categorisation. This would include a discussion of any differences or unique processes for the categorisation of corporate and retail loans.

- (b) The bank's own definition of a forborne exposure. The bank should specify in particular if it is using the definition provided in the Guidelines and provide a discussion on the implementation of its definition, including the exit criteria of the restructured or forborne category (providing information on the probation period, if relevant), together with any useful information for users' understanding of this categorisation. This would include a discussion of any differences or unique processes for the categorisation of corporate and retail loans.

Quantitative disclosures

Gross carrying value of total performing as well as non-performing exposures, broken down first by debt securities, loans and off-balance sheet exposures. Loans should be further broken down by corporate and retail exposures; non-performing exposures should in addition be split into:

- i) defaulted exposures and/or impaired exposures⁴⁸;
- (c) ii) exposures that are not defaulted/impaired exposures but are more than 90 days past due; and
- iii) other exposures where there is evidence that full repayment is unlikely without the bank's realisation of collateral (which would include exposures that are not defaulted/impaired and are not more than 90 days past due but for which payment is unlikely without the bank's realisation of collateral, even if the exposures are not past due).

Value adjustments and provisions⁴⁹ for non-performing exposures should also be disclosed.

- (d) Gross carrying values of restructured/forborne exposures broken down first by debt securities, loans and off-balance sheet exposures. Loans should be further broken down by corporate and retail exposures; Exposures should, in addition, be split into performing and non-performing, and impaired and not impaired exposures.

Value adjustments and provisions for non-performing exposures should also be disclosed.

Definitions

Guarantees given – the maximum amount that the bank would have to pay if the guarantee were called. The amount must be gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) techniques.

Irrevocable loan commitments – the total amount that the bank has committed to lend. The amount must be gross of any CCF or CRM techniques. Revocable loan commitments must not be included. The gross value is the accounting value before any allowance/impairments but after considering write-offs. Banks must not take into account any CRM technique.

⁴⁷ www.bis.org/bcbs/publ/d403.pdf

⁴⁸ "Impaired exposures" are those that are considered "credit-impaired" in the meaning of IFRS 9

⁴⁹ Please refer to paragraph 33 of the Guidelines, where it is stated: "these value adjustments and provisions refer to both the allowance for credit losses and direct reductions of the outstanding of an exposure to reflect a decline in the counterparty's creditworthiness". For banks not applying the Guidelines, please refer to the definition of accounting provisions included in Template CR1, which is in line with paragraph 33 of the Guidelines.

Table CRC: Qualitative Disclosure Related to Credit Risk Mitigation Techniques

Purpose: Provide qualitative information on the mitigation of credit risk.	
Content: Qualitative information.	
Format: Flexible	
Banks must disclose:	
(a)	Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting.
(b)	Core features of policies and processes for collateral evaluation and management.
	Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).
(c)	Banks should disclose a meaningful breakdown of their credit derivative providers. Banks are not required to identify their derivative counterparties nominally if the name of the counterparty is considered to be confidential information. Instead, the credit derivative exposure can be broken down by rating class or by type of counterparty (e.g. banks, other financial institutions, non-financial institutions).

Template CR3: Credit Risk Mitigation Techniques – Overview

Purpose: Disclose the extent of use of credit risk mitigation techniques.	
Content: Carrying values. Banks must include all CRM techniques used to reduce capital requirements and disclose all secured exposures Please refer to DIS99.1 linked below for an illustration on how the template should be completed https://www.bis.org/basel_framework/chapter/DIS/99.htm?inforce=20230101&published=20211111	
Format: Fixed. Where banks are unable to categorise exposures secured by collateral, financial guarantees or credit derivative into “loans” and “debt securities”, they can either (i) merge two corresponding cells, or (ii) divide the amount by the pro-rata weight of gross carrying values; they must explain which method they have used.	
Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.	

		a	b	c	d	e
		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans					-
2	Debt securities					-
3	Total					-
4	Of which defaulted					-

Definitions

Exposures unsecured carrying amount: carrying amount of exposures (net of allowances/impairments) that do not benefit from a credit risk mitigation technique.

Exposures to be secured: carrying amount of exposures which have at least one credit risk mitigation mechanism (collateral, financial guarantees, credit derivatives) associated with them. The allocation of the carrying amount of multi-secured exposures to their different credit risk mitigation mechanisms is made by order of priority, starting with the credit risk mitigation mechanism expected to be called first in the event of loss, and within the limits of the carrying amount of the secured exposures.

Exposures secured by collateral: carrying amount of exposures (net of allowances/impairments) partly or totally secured by collateral. In case an exposure is secured by collateral and other credit risk mitigation mechanism(s), the carrying amount of the exposures secured by collateral is the remaining share of the exposure secured by collateral after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralization.

Exposures secured by financial guarantees: carrying amount of exposures (net of allowances/impairments) partly or totally secured by financial guarantees. In case an exposure is secured by financial guarantees and other credit risk mitigation mechanism, the carrying amount of the exposure secured by financial guarantees is the remaining share of the exposure secured by financial guarantees after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralization.

Exposures secured by credit derivatives: carrying amount of exposures (net of allowances/impairments) partly or totally secured by credit derivatives. In case an exposure is secured by credit derivatives and other credit risk mitigation mechanism(s), the carrying amount of the exposure secured by credit derivatives is the remaining share of the exposure secured by credit derivatives after consideration of the shares of the exposure already secured by other mitigation mechanisms expected to be called beforehand in the event of a loss, without considering overcollateralization.

Table CRD: Qualitative Disclosure on Banks' Use of External Credit Ratings Under the Standardised Approach for Credit Risk

Purpose: Supplement the information on a bank's use of the standardised approach with qualitative data on the use of external ratings.

Content: Qualitative information.

Format: Flexible.

A. For portfolios that are risk-weighted for credit risk, banks must disclose the following information:

-
- (a) Names of the external credit assessment institutions (ECAIs) used by the bank, and the reasons for any changes over the reporting period;
 - (b) The asset classes for which each ECAI is used; and
 - (c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book.
-

Template CR4: Standardised Approach – Credit Risk Exposure and Credit Risk Mitigation (CRM)

Purpose: To illustrate the effect of CRM (comprehensive and simple approach) on capital requirement calculations under the standardized approach for credit risk. RWA density provides a synthetic metric on the riskiness of each portfolio.

Scope of application: In circumstances where exposures and RWA amounts subject to the standardized approach may be considered to be negligible, and disclosure of this information to users would not provide any meaningful information, the bank may choose not to disclose the template for the exposures treated under the standardized approach. The bank must, however, explain why it considers the information not to be meaningful to users. The explanation must include a description of the exposures included in the respective portfolios and the aggregate total of RWA from such exposures.

When the framework for equity investments in funds enters into force in the jurisdiction, corresponding requirements must not be reported in this template but in Template OV1.

Content: Regulatory exposure amounts.

Format: Fixed. The columns cannot be altered. The rows reflect the asset classes as defined under Pillar 1.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant change over the reporting period and the key drivers of such changes. Banks should describe the sequence in which CCFs, provisioning and credit risk mitigation measures are applied.

	Asset classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks						
2	Non-central government public sector entities						
3	Multilateral development banks						
4	Banks						
	Of which: securities firms and other financial institutions						
5	Covered bonds						
6	Corporates						
	Of which: securities firms and other financial institutions						
	Of which: specialized lending						
7	Subordinated debt, equity and other capital						
8	Retail						
9	Real estate						
10	Defaulted exposures						
11	Other assets						
12	Total						

Definitions

Other assets: refers to assets subject to specific risk weight as set out in the Pillar 1.

Columns:

Exposures before credit conversion factors (CCF) and CRM – On-balance sheet amount: Banks must disclose the regulatory exposure amount (net of specific provisions, including partial write-offs) under the regulatory scope of consolidation gross of (i.e. before taking into account) the effect of CRM techniques.

Exposures before CCF and CRM – off-balance sheet amount: Banks must disclose the exposure value, gross of CCFs and the effect of CRM techniques under the regulatory scope of consolidation.

Exposures post-CCF and post-CRM: This is the amount to which the capital requirements are applied. It is a net credit equivalent amount, after CRM techniques and CCF have been applied.

RWA density: Total risk-weighted assets/exposures post-CCF and post-CRM (i.e. column (e) / (column (c) + column (d)), expressed as a percentage.

Linkages across templates:

Amount in [CR4:12/c] + [CR4:12/d] is equal to amount in [CR5:Exposure amounts and CCFs applied to off-balance sheet exposures, categorized based on risk bucket of converted exposures 11/d].

Template CR5: Standardised Approach – Exposures by Asset Classes and Risk Weights

Purpose: To present the breakdown of credit risk exposures under the standardized approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardized approach).

Scope of application: In circumstances where exposures and RWA amounts subject to the standardized approach may be considered to be negligible, and disclosure of this information would not provide any meaningful information to users, the bank may choose not to disclose the template for the exposures treated under the standardized approach. The bank must, however, explain why it considers the information not to be meaningful to users. The explanation must include a description of the exposures included in the respective portfolios and the aggregate total of RWA from such exposures. When the framework for equity investments in funds enters into force in the jurisdiction, corresponding requirements must not be reported in this template but only in Template OV1.

Content: Regulatory exposure amounts.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes. Banks should describe the sequence in which CCFs, provisioning and credit risk mitigation measures are applied.

1		0%	20%	50%	100%	150%	Other		Total credit exposure amount (post-CCF and post-CRM)	
	Sovereigns and their central banks									
2		20%	50%	100%	150%	Other			Total credit exposure amount (post-CCF and post-CRM)	
	Non-central government public sector entities									
3		0%	20%	30%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)	
	Multilateral development banks									
4		20%	30%	40%	50%	75%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
	Banks									

	Of which: securities firms and other financial institutions																				
		10%	15%	20%	25%	35%	50%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)											
5	Covered bonds																				
6		20%	50%	65%	75%	80%	85%	100%	130%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)									
	Corporates																				
	Of which: securities firms and other financial institutions																				
	Of which: specialized lending																				
7		100%	150%	250%	400%	Other	Total credit exposure amount (post-CCF and post-CRM)														
	Subordinated debt, equity and other capital ^[6]																				
8		45%	75%	100%	Other	Total credit exposure amount (post CCF and post-CRM)															
	Retail																				
9		0 %	20 %	25 %	30 %	35 %	40 %	45 %	50 %	60 %	65 %	70 %	75 %	85 %	90 %	100 %	105 %	110 %	150 %	Other	Total credit exposure amount (post-CCF and post-CRM)
	Real estate																				
		50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)															

10	Defaulted exposures					
11	Other assets	0%	20%	100%	1250%	Other
						Total credit exposure amount (post-CCF and post-CRM)

Exposure amounts and CCFs applied to off-balance sheet exposures, categorized based on risk bucket of converted exposures

	Risk weight	a	b	c	d
		<i>On-balance sheet exposure</i>	<i>Off-balance sheet exposure (pre-CCF)</i>	<i>Weighted average CCF*</i>	<i>Exposure (post-CCF and post- CRM)</i>
1	<i>Less than 40%</i>				
2	<i>40–70%</i>				
3	<i>75%</i>				
4	<i>85%</i>				
5	<i>90–100%</i>				
6	<i>105–130%</i>				
7	<i>150%</i>				
8	<i>250%</i>				
9	<i>400%</i>				
10	<i>1250%</i>				
11	<i>Total exposures</i>				

* Weighting is based on off-balance sheet exposure (pre-CCF).

Definitions

Total credit exposure amount (post-CCF and post-CRM): the amount used for the capital requirements calculation (for both on- and off-balance sheet amounts), therefore net of specific provisions (including partial write-offs) and after CRM techniques and CCF have been applied but before the application of the relevant risk weights.

Defaulted exposures: correspond to the unsecured portion of any loan past due for more than 90 days or represent exposure to a defaulted borrower.

Equity investments in funds: When the framework for banks' equity investments in funds enters into force in the jurisdiction, corresponding requirements must not be reported in this template but only in Template OV1.

Other assets: refer to assets subject to specific risk weighting as set out in [sections 1.5.1.1](#) and [1.5.1.13](#) in Pillar 1.

3.11.9 Counterparty Credit Risk

These disclosures include all exposures in the banking book and trading book that are subject to a counterparty credit risk charge, including the charges applied to exposures to central counterparties (CCPs).

The disclosure requirements under section are:

- *Table CCRA – Qualitative Disclosure Related to CCR*
- *Template CCR1 – Analysis of CCR Exposures by Approach*
- *Template CCR8 – Exposures to Central Counterparties*

Table CCRA – Qualitative Disclosure Related to CCR

Purpose: Describe the main characteristics of counterparty credit risk management (e.g. operating limits, use of guarantees and other credit risk mitigation (CRM) techniques, impacts of own credit downgrading)	
Content: Qualitative information.	
Format: Flexible.	
Banks must provide risk management objectives and policies related to counterparty credit risk, including:	
(a)	The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;
(b)	Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;
(c)	Policies with respect to wrong-way risk exposures;
(d)	The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.

Template CCR1 – Analysis of CCR Exposures by Approach

Purpose: Provide a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

Content: Regulatory exposures, RWA and parameters used for RWA calculations for all exposures subject to the counterparty credit risk framework (excluding CVA charges or exposures cleared through a CCP).

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

		a	b	c	-	e	f
		Replacement cost	Potential future exposure	Effective EPE	-	Exposure post-CRM	RWA
1	Current exposure CCR (for derivatives)				-		
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
6	Total						

Definitions

SA-CCR (for derivatives): Banks in jurisdictions which have yet to implement the SA-CCR should report in row 1 information corresponding to the Current Exposures Method and the Standardized Method

Replacement Cost (RC): For trades that are not subject to margining requirements, the RC is the loss that would occur if a counterparty were to default and was closed out of its transactions immediately. For margined trades, it is the loss that would occur if a counterparty were to default at present or at a future date, assuming that the closeout and replacement of transactions occur instantaneously. However, close-out of a trade upon a counterparty default may not be instantaneous. The replacement cost under the standardized approach for measuring counterparty credit risk exposures is described in [section 1.5.1.15](#).

Potential Future Exposure: is any potential increase in exposure between the present and up to the end of the margin period of risk. The potential future exposure for the standardized approach is described in [section 1.5.1.15](#).

Effective Expected Positive Exposure (EPE): is the weighted average over time of the effective expected exposure over the first year, or, if all the contracts in the netting set mature before one year, over the time period of the longest-maturity contract in the netting set where the weights are the proportion that an individual expected exposure represents of the entire time interval/.

EAD post-CRM: exposure at default. This refers to the amount relevant for the capital requirements calculation having applied CRM techniques, credit valuation adjustments and specific wrong-way adjustments).

Template CCR8 – Exposures to Central Counterparties

Purpose: Provide a comprehensive picture of the bank's exposures to central counterparties. In particular, the template includes all types of exposures (due to operations, margins, contributions to default funds) and related capital requirements.

Content: Exposures at default and risk-weighted assets corresponding to exposures to central counterparties.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

	a	b
	EAD (post-CRM)	RWA
1 Exposures to QCCPs (total)		
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		
3 (i) OTC derivatives		
4 (ii) Exchange-traded derivatives		
5 (iii) Securities financing transactions		
6 (iv) Netting sets where cross-product netting has been approved		
7 Segregated initial margin		
8 Non-segregated initial margin		
9 Pre-funded default fund contributions		
10 Unfunded default fund contributions		
11 Exposures to non-QCCPs (total)		
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which		
13 (i) OTC derivatives		
14 (ii) Exchange-traded derivatives		

15	(iii) Securities financing transactions		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Pre-funded default fund contributions		
20	Unfunded default fund contributions		

Definitions

Exposures to central counterparties: This includes any trades where the economic effect is equivalent to having a trade with the CCP (e.g. a direct clearing member acting as an agent or a principal in a client-cleared trade). These trades are described in standards CRE54.7 to CRE54.23 of the Basel framework linked in footnote ⁵⁰

EAD post-CRM: exposure at default. The amount relevant for capital requirements calculation, having applied CRM techniques, credit valuation adjustments and specific wrong-way adjustments.

A qualifying central counterparty (QCCP) is an entity that is licensed to operate as a CCP (including a license granted by way of confirming an exemption) and is permitted by the appropriate regulator/overseer to operate as such with respect to the products offered. This is subject to the provision that the CCP is based and prudentially supervised in a jurisdiction where the relevant regulator/overseer has established, and publicly indicated, that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions' Principles for Financial Market Infrastructures.

Initial margin means a clearing member's or client's funded collateral posted to the CCP to mitigate the potential future credit exposure of the CCP to the clearing member arising from the possible future change in the value of their transactions. For the purposes of this template, initial margin does not include contributions to a CCP for mutualized loss-sharing arrangements (i.e. in cases where a CCP uses initial margin to mutualize losses among the clearing members, it will be treated as a default fund exposure).

Prefunded default fund contributions are prefunded clearing member contributions towards, or underwriting of, a CCP's mutualized loss-sharing arrangements.

Unfunded default fund contributions are unfunded clearing member contributions towards, or underwriting of, a CCP's mutualized loss-sharing arrangements. If a bank is not a clearing member but a client of a clearing member, it should include its exposures to unfunded default fund contributions if applicable. Otherwise, banks should leave this row empty and explain the reason in the accompanying narrative.

Segregated refers to collateral which is held in a bankruptcy-remote manner.

⁵⁰https://www.bis.org/basel_framework/chapter/CRE/54.htm?inforce=20230101&published=20200327#paragraph_CRE_54_20230101_54_7

3.11.10 Securitisation

The scope of these disclosures⁵¹:

- 1) covers all securitisation exposures⁵² in Table SECA and in templates SEC1 and SEC2;
- 2) focuses on banking book securitisation exposures subject to capital charges according to the securitisation framework in templates SEC3 and SEC4; and
- 3) excludes capital charges related to securitisation positions in the trading book.

Only securitisation exposures that the bank treats under the securitisation framework described in [section 1.5.1.11](#) are disclosed. The disclosure requirements under this section are:

- *Table SECA – Qualitative Disclosure Requirements Related to Securitisation Exposures*
- *Template SEC4 – Securitisation Exposures in the Banking Book and Associated Capital Requirements – Bank Acting as Investor*

Table SECA – Qualitative Disclosure Requirements Related to Securitisation Exposures

Purpose: Provide qualitative information on a bank's strategy and risk management with respect to its securitization activities.
Content: Qualitative information.
Format: Flexible.
Qualitative disclosures
(A) Banks must describe their risk management objectives and policies for securitization activities and main features of these activities according to the framework below. If a bank holds securitization positions reflected both in the regulatory banking book and in the regulatory trading book, the bank must describe each of the following points by distinguishing activities in each of the regulatory books.
(a) The bank's objectives in relation to securitization and re-securitization activity, including the extent to which these activities transfer credit risk of the underlying securitized exposures away from the bank to other entities, the type of risks assumed, and the types of risks retained.
(c) Summary of the bank's accounting policies for securitization activities. Where relevant, banks are expected to distinguish securitization exposures from re-securitization exposures.
(d) If applicable, the names of external credit assessment institution (ECAIs) used for securitizations and the types of securitization exposure for which each agency is used.

⁵¹ Unless stated otherwise, all terms used in this disclosure are used consistently with the definitions provided in Pillar 1.

⁵² Securitisation refers to the definition of what constitutes a securitisation under the Basel framework. Securitisation exposures correspond to securitisation exposures as defined in the Basel framework. According to this framework, securitisation exposures can include, but are not restricted to, the following: asset-backed securities, mortgage-backed securities, credit enhancements, liquidity facilities, interest rate or currency swaps, credit derivatives and tranches. Reserve accounts, such as cash collateral accounts, recorded as an asset by the originating bank must also be treated as securitisation exposures. Securitisation exposures refer to retained or purchased exposures and not to underlying pools.

Template SEC4 – Securitisation Exposures in the Banking Book and Associated Capital Requirements – Bank Acting as Investor

Purpose: Present securitization exposures in the banking book where the bank acts as investor and the associated capital requirements.

Scope of application: The template is mandatory for all banks having securitization exposures as investor.

Content: Exposure amounts, risk-weighted assets and capital requirements. This template contains investor exposures that are treated under the securitization framework.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with a narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

		a	b	c	d	e
		Exposure values (by risk weights)				
		20%	50%	100%	350%	1250%
1	Total exposures					
2	Traditional securitization					
3	Of which securitization					
4	Of which retail underlying					
5	Of which STC					
6	Of which wholesale					
7	Of which STC					
8	Of which re-securitization					
9	Synthetic securitization					
10	Of which securitization					
11	Of which retail underlying					
12	Of which wholesale					
13	Of which re-securitization					

Definitions

Columns (a) to (e) are defined in relation to regulatory risk weights.

3.11.11 Sovereign Exposures

This chapter sets out disclosure requirements for sovereign exposures. The disclosure requirement under this section is *Template SOV1: Exposures to Sovereign Entities – Country*.

Template SOV1: Exposures to Sovereign Entities – Country

Purpose: To decompose banks' sovereign exposures and risk-weighted assets by significant jurisdictions (i.e. those jurisdictions to which a bank has material sovereign exposures).

Content: Regulatory exposure amounts.

Format: Fixed. (The columns cannot be altered; the rows will vary based on each bank's country breakdown.)

Accompanying narrative: Banks are expected to supplement the template with a narrative to explain any significant changes in sovereign exposures to different countries. Banks may also provide further details on short positions that provide hedging benefits against trading book sovereign exposures where these benefits are not recognised in the calculations used for column b (i.e. the net long position calculation set out in Pillar 1). For example, this could include information on short positions that are not fully recognised due to maturity mismatches, or any index or proxy single-name CDS hedges. In addition, banks may provide information on exposures that are the result of national requirements or other regulatory requirements.

Sovereigns and their central banks

		a	b	c
		Banking book sovereign exposures (after CCF and CRM)	Trading book sovereign exposures	Risk-weighted assets
		Amount (including on- and off- statement of financial position)	Amount	Amount
	Significant jurisdiction ⁵³ where the counterparties are located (in descending order of total exposure value)			
1	Total			
2	Jurisdiction 1			
2a	<i><u>of which: denominated in domestic currency</u></i>			
3	Jurisdiction 2			
3a	<i><u>of which: denominated in domestic currency</u></i>			
4	...			

Definitions

Banks should disclose in accordance with the asset classes as defined under Pillar 1.

Columns

(a) Banking book sovereign exposures (after CCF and CRM): Banks should provide the total value of all sovereign exposures in the banking book (see Pillar 1), after CCF and CRM, including both on- and off-balance sheet exposures. This should include exposures with a zero-risk weight.

(b) Trading book sovereign exposures: Banks should provide the exposure value for their entire trading book portfolio that results in a loss in the case of a default (i.e. long position), without applying the applicable risk weights (see Pillar 1). Therefore, banks are required to provide exposure value even when they apply a zero-risk weight to claims on sovereigns. All banks should report the net long position calculated for specific risk, recognising any full offsetting allowances, but without applying any partial offsetting allowances.

(c) Risk-weighted assets: Banks should report total RWAs including both banking book and trading book exposures. For trading book exposures, banks should report apply 11.11 times the percentage capital requirements. RWA must include counterparty credit risk.

⁵³ Banks shall provide data for their exposures to each significant jurisdiction separately but have the flexibility to provide data by region for their exposures to other jurisdictions.

Rows

(1) Total: This row should include the total exposures to all jurisdictions, whether or not they are included in the jurisdiction breakdown. This row may therefore not be equal to the sum of the jurisdiction breakdown.

3.11.12 Market Risk

The chapter includes disclosures on market risk capital requirements calculated for trading book and banking book exposures as required by the Pillar 1. However, it excludes the counterparty credit risk capital requirements that apply to the same exposures, which are reported in disclosures for Counterparty Credit Risk.

The disclosure requirements under this section are:

- *Table MRA - General Qualitative Disclosure Requirements Related to Market Risk*
- *Template MR3 – Market Risk Under the Simplified Standardised Approach*

Table MRA - General Qualitative Disclosure Requirements Related to Market Risk

Purpose: Provide a description of the risk management objectives and policies for market risk as defined in section 1.6.1 .	
Content: Qualitative information.	
Format: Flexible.	
Banks must describe their risk management objectives and policies for market risk according to the framework as follows:	
Strategies and processes of the bank, which must include an explanation and/or a description of:	
(a)	• The bank's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and the strategies/processes for monitoring the continuing effectiveness of hedges. • Policies for determining whether a position is designated as trading, including the definition of stale positions and the risk management policies for monitoring those positions. In addition, banks should describe cases where instruments are assigned to the trading or banking book contrary to the general presumptions of their instrument category and the market and gross fair value of such cases, as well as cases where instruments have been moved from one book to the other since the last reporting period, including the gross fair value of such cases and the reason for the move. • Description of internal risk transfer activities.
	(b) The structure and organization of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above.
	(c) The scope and nature of risk reporting and/or measurement systems.

Template MR3 – Market Risk under the Simplified Standardised Approach

Purpose: Provide the components of the capital requirement under the simplified standardized approach for market risk.			
Content: Capital requirement (as defined in section 1.6).			
Format: Fixed. Additional rows can be added for the breakdown of other risks.			
		a	b
		Outright products	Options
			Simplified approach
1	Interest rate risk		
2	Equity risk		
3	Commodity risk		
4	Foreign exchange risk		
5	Securitization		
6	Total		

Definitions and instructions	
	Explanation
5	Securitization: specific capital requirement under Pillar1

3.11.13 Operational Risk

The disclosure requirements under this section are:

- *Table ORA – General Qualitative Information on a Bank’s Operational Risk Framework*
- *Template OR1 – Historical Losses*
- *Template OR2 – Business Indicator and Subcomponents*
- *Template OR3 – Minimum Required Operational Risk Capital*

Table ORA – General Qualitative Information on a Bank’s Operational Risk Framework

Purpose: To describe the main characteristics and elements of a bank’s operational risk management framework.	
Content: Qualitative information.	
Format: Flexible.	
Banks must describe:	
(a)	Their policies, frameworks and guidelines for the management of operational risk.
(b)	The structure and organization of their operational risk management and control function.
(c)	Their operational risk measurement system (i.e. the systems and data used to measure operational risk in order to estimate the operational risk capital charge).
(d)	The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.

- (e) The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.

Template OR1 – Historical Losses

Purpose: To disclose aggregate operational losses incurred over the past 10 years, based on the accounting date of the incurred losses. This disclosure informs the operational risk capital calculation. The general principle on retrospective disclosure set out in [section 3.5](#) does not apply for this template. From the implementation date of the template onwards, disclosure of all prior periods is required.

Scope of application: The table is mandatory for: (i) all banks that are in the second or third business indicator (BI) bucket and (ii) all banks in the first BI bucket which have received supervisory approval to include internal loss data to calculate their operational risk capital requirements.

Content: Quantitative information.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with narrative commentary explaining the rationale in aggregate, for new loss exclusions since the previous disclosure. Banks should disclose any other material information, in aggregate, that would help inform users as to its historical losses or its recoveries, with the exception of confidential and proprietary information, including information about legal reserves.

		a	b	c	d	e	f	g	h	i	j	k
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Ten-year average
1	Total amount of operational losses net of recoveries (no exclusions)											
Details of operational risk capital calculation												
11	Are losses used to calculate the ILM (yes/no)?											
12	If “no” in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?											

Definitions

Row 1: Based on a loss event threshold of €20,000, the total loss amount net of recoveries resulting from loss events above the loss event threshold for each of the last 10 reporting periods. Losses excluded from the operational risk capital calculation must still be included in this row.

Row 11: Indicate whether the bank uses operational risk losses to calculate the ILM. Banks using ILM=1 due to national discretion should answer no.

Row 12: Indicate whether internal loss data is not used in the ILM calculation due to non-compliance with the minimum loss data standards.

Notes:

Loss amounts and the associated recoveries should be reported in the year in which they were recorded in financial statements.

Template OR2 – Business Indicator and Subcomponents

Purpose: To disclose the business indicator (BI) and its subcomponents, which informs the operational risk capital calculation. The general principle on retrospective disclosure set out in [section 3.5](#) does not apply for this template. From the implementation date of this template onwards, disclosure of all prior periods is required.

Content: Quantitative information.

Format: Fixed.

Accompanying narrative: Banks are expected to supplement the template with narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes. Additional narrative is required for those banks that have received supervisory approval to exclude divested activities from the calculation of the BI.

		a	b	c
	BI and its subcomponents	T	T-1	T-2
1	Interest, lease and dividend component			
1a	Interest and lease income			
1b	Interest and lease expense			
1c	Interest earning assets			
1d	Dividend income			
2	Services component			
2a	Fee and commission income			
2b	Fee and commission expense			
2c	Other operating income			
2d	Other operating expense			
3	Financial component			
3a	Net P&L on the trading book			
3b	Net P&L on the banking book			
4	BI			
5	Business indicator component (BIC)			

Disclosure on the BI:

	a
6a	BI gross of excluded divested activities
6b	Reduction in BI due to excluded divested activities

Definitions

Row 1: The interest, leases and dividend component (ILDC) = Min [Abs (Interest income – Interest expense); 2.25%* Interest-earning assets] + Dividend income. In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2. The interest-earning assets (statement of financial position item) are the total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of each financial year.

Row 1a: Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets).

Row 1b: Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets).

Row 1c: Total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of each financial year.

Row 1d: Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.

Row 2: Service component (SC) = Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 2a: Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.

Row 2b: Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g. logistical, IT, human resources).

Row 2c: Income from ordinary banking operations not included in other BI items but of a similar nature (income from operating leases should be excluded).

Row 2d: Expenses and losses from ordinary banking operations not included in other BI items but of a similar nature and from operational loss events (expenses from operating leases should be excluded).

Row 3: Financial component (FC) = Abs (Net P&L Trading Book) + Abs (Net P&L Banking Book). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 3a: This comprises (i) net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities); (ii) net profit/loss from hedge accounting; and (iii) net profit/loss from exchange differences.

Row 3b: This comprises (i) net profit/loss on financial assets and liabilities measured at fair value through profit and loss; (ii) realized gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortized cost); (iii) net profit/loss from hedge accounting; and (iv) net profit/loss from exchange differences.

Row 4: The BI is the sum of the three components: ILDC, SC and FC.

Columns: T denotes the end of the annual reporting period, T-1 the previous year-end, etc.

Disclosure on BI should be reported by banks that have received supervisory approval to exclude divested activities from the calculation of the BI.

Row 6a: The BI reported in this row includes divested activities.

Row 6b: Difference between BI gross of divested activities (row 6a) and BI net of divested activities (row 4).

Template OR3 – Minimum Required Operational Risk Capital

Purpose: To disclose operational risk regulatory capital requirements.

Content: Quantitative information.

Format: Fixed.

		a
1	Business indicator component (BIC)	
2	Internal loss multiplier (ILM)	
3	Minimum required operational risk capital (ORC)	

4	Operational risk RWA	
---	----------------------	--

Definitions

Row 1: The BIC used for calculating minimum regulatory capital requirements for operational risk.

Row 2: The ILM used for calculating minimum regulatory capital requirements for operational risk. For banks in the first BI bucket (BI less than the Belize dollar equivalent of EUR 1 billion), the ILM is assumed to equal 1.

Row 3: Minimum Pillar 1 operational risk capital requirements.

Row 4: Converts the minimum Pillar 1 operational risk capital requirement into RWA.

3.11.14 Interest Rate Risk in the Banking Book

The disclosure requirements set out in this chapter are:

- *Table IRRBBA – Interest Rate Risk in the Banking Book (IRRBB) Risk Management Objective and Policies*
- *Template IRRBB1 – Quantitative Information on IRRBB*

Table IRRBBA provides information on a bank's IRRBB risk management objective and policy. Template IRRBB1 provides quantitative IRRBB information, including the impact of interest rate shocks on their change in economic value of equity and net interest income, computed based on a set of prescribed interest rate shock scenarios.

Banks must disclose the measured changes in economic value of equity (ΔEVE) and changes in net interest income (ΔNII) under the prescribed interest rate shock scenarios set out in the BCBS Standard on IRRBB. In disclosing Table IRRBBA and Template IRRBB1, banks should use their own internal measurement system (IMS) to calculate the IRRBB exposure values. SRP31 provides a standardised framework that banks may adopt as their IMS. In addition to quantitative disclosure, banks should provide sufficient qualitative information and supporting detail to enable the market and wider public to:

- 1) Monitor the sensitivity of the bank's economic value and earnings to changes in interest rates;
- 2) Understand the primary assumptions underlying the measurement produced by the bank's IMS; and
- 3) Have an insight into the bank's overall IRRBB objective and IRRBB management.

For the disclosure of ΔEVE :

- 1) Banks should exclude their own equity from the computation of the exposure level;
- 2) Banks should include all cash flows from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure.⁵⁴ Banks should disclose whether they have excluded or included commercial margins and other spread components in their cash flows;

⁵⁴ Interest rate-sensitive assets are assets which are not deducted from Common Equity Tier 1 capital, and which exclude (i) fixed assets such as real estate or intangible assets as well as (ii) equity exposures in the banking book.

- 3) Cash flows should be discounted using either a risk-free rate or a risk-free rate including commercial margins and other spread components (only if the bank has included commercial margins and other spread components in its cash flows)⁵⁵. Banks should disclose whether they have discounted their cash flows using a risk-free rate or a risk-free rate including commercial margins and other spread components; and
- 4) Δ EVE should be computed with the assumption of a run-off balance sheet, where existing banking book positions amortise and are not replaced by any new business.

For the disclosure of Δ NII:

- 1) Banks should include expected cash flows (including commercial margins and other spread components) arising from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book;
- 2) Δ NII should be computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components.
- 3) Δ NII should be disclosed as the difference in future interest income over a rolling 12- month period.

In addition to the required disclosures in Table IRRBBA and Template IRRBB1, banks are encouraged to make voluntary disclosures of information on internal measures of IRRBB that would assist the market in interpreting the mandatory disclosure numbers.

Table IRRBBA – Interest Rate Risk in the Banking Book (IRRBB) Risk Management Objective and Policies

Purpose: Provide a description of the risk management objectives and policies concerning IRRBB.	
Content: Qualitative and quantitative information. Quantitative information is based on the daily or monthly average of the year.	
Format: Flexible.	
Qualitative disclosure	
a	A description of how the bank defines IRRBB for purposes of risk control and measurement.
b	A description of the bank's overall IRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and net interest income (NII) in relation to established limits, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the asset and liability management committee, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.
c	The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.

⁵⁵ The discounting factors must be representative of a risk-free zero-coupon rate. An example of an acceptable yield curve is a secured interest rate swap curve

d	A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.
e	Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (i.e. the EVE metric generated by the bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Template IRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).
f	A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.
g	A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Template IRRBB1, which includes: - For ΔEVE, whether commercial margins and other spread components have been included in the cash flow used in the computation and discount rate used. - How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behavior). - The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. - Any other assumptions (including instruments with behavioral optionality that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Template IRRBB1, including an explanation of why these are material. - Any methods of aggregation across currencies and any significant interest rate correlation between different currencies.
h	(Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.
Quantitative disclosures	
1	Average repricing maturity assigned to non-maturity deposits (NMDs).
2	Longest repricing maturity assigned to NMDs.

Template IRRBB1 – Quantitative Information on IRRBB

Purpose: Provide information on the bank's changes in economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

Content: Quantitative information.

Format: Fixed.

Accompanying narrative: Commentary on the significance of the reported values and an explanation of any material changes since the previous reporting period.

In reporting currency	ΔEVE		ΔNII	
Period	T	T-1	T	T-1
Parallel up				
Parallel down				
Period	T		T-1	

Tier 1 capital		
Definitions		
For each of the supervisory prescribed interest rate shock scenarios, the bank must report for the current period and for the previous period:		
i) the change in the economic value of equity based on its IMS, using a run-off statement of financial position and an instantaneous shock or based on the result of the standardized framework; and ii) the change in projected NII over a forward-looking rolling 12-month period compared with the bank's own best estimate 12-month projections, using a constant statement of financial position assumption and an instantaneous shock.		

3.11.15 Liquidity

The disclosure requirements set out in this chapter are:

- *Table LIQA – Liquidity Risk Management*
- *Template LIQ1 – Liquidity coverage ratio (LCR)*
- *Template LIQ2 – Net stable funding ratio (NSFR)*

Table LIQA – Liquidity Risk Management

Purpose: Enable users of Pillar 3 data to make an informed judgment about the soundness of a bank's liquidity risk management framework and liquidity position.	
Content: Qualitative and quantitative information.	
Format: Flexible. Banks may choose the relevant information to be provided depending upon their business models and liquidity risk profiles, organization and functions involved in liquidity risk management.	
Below are examples of elements that banks may choose to describe, where relevant:	
Qualitative disclosures	
(a)	Governance of liquidity risk management, including risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors.
(b)	Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralized or decentralized.
(c)	Liquidity risk mitigation techniques.
(d)	An explanation of how stress testing is used.
(e)	An outline of the bank's contingency funding plans.
Quantitative disclosures	
(f)	Customized measurement tools or metrics that assess the structure of the bank's statement of financial position or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank.

- (g) Concentration limits on collateral pools and sources of funding (both products and counterparties).
- (h) Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity.
- (i) statement of financial position and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.
- (j) A explanation on the use of simple averages of monthly observations instead of daily observations.

Temple LIQ1 – Liquidity Coverage Ratio (LCR)

Purpose: Present the breakdown of a bank's cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard.

Content: Data must be presented as simple averages of monthly observations over the previous quarter (i.e. the average calculated over a period of, typically, 3 months) in the local currency.

Format: Fixed.

Accompanying narrative: Banks must publish the number of data points used in calculating the average figures in the template. In addition, a bank should provide sufficient qualitative discussion to facilitate users' understanding of its LCR calculation. For example, where significant to the LCR, banks could discuss:

- the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;
- the composition of HQLA;
- concentration of funding sources;
- currency mismatch in the LCR; and
- other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		
Cash outflows			
2	Retail deposits and deposits from small business customers		
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)		
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:		

11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS		
Cash inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures		
19	Other cash inflows		
20	TOTAL CASH INFLOWS		
			Total adjusted value
21	Total HQLA		
22	Total net cash outflows		
23	Liquidity Coverage Ratio (%)		

General explanations

Figures entered in the template must be averages of the observations of individual line items over the financial reporting period (i.e. the average of components and the average LCR over the most recent three months, irrespective of the financial reporting schedule). The averages are calculated after the application of any haircuts, inflow and outflow rates and caps, where applicable. For example:

$$\text{Total unweighted stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total unweighted stable deposits})_t$$

$$\text{Total weighted stable deposits}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total weighted stable deposits})_t$$

Where:

T equals the number of observations in period Qi .

Weighted figures of HQLA (row 1, third column) must be calculated after the application of the respective haircuts but before the application of any caps on Level 2B and Level 2 assets. Unweighted inflows and outflows (rows 2–8, 11–15 and 17–20, second column) must be calculated as outstanding balances. *Weighted* inflows and outflows (rows 2–20, third column) must be calculated after the application of the inflow and outflow rates.

Adjusted figures of HQLA (row 21, third column) must be calculated after the application of both (i) haircuts *and* (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets). *Adjusted* figures of net cash outflows (row 22, third column) must be calculated after the application of both (i) inflow and outflow rates *and* (ii) any applicable cap (i.e. cap on inflows).

The LCR (row 23) must be calculated as the average of observations of the LCR:

$$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^T LCR_t$$

Not all reported figures will sum exactly, particularly in the denominator of the LCR. For example, “total net cash outflows” (row 22) may not be exactly equal to “total cash outflows” minus “total cash inflows” (row 16 minus row

20) if the cap on inflows is binding. Similarly, the disclosed LCR may not be equal to an LCR computed on the basis on the average values of the set of line items disclosed in the template.

Definitions and instructions:

Columns

Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

Row number	Explanation	Relevant paragraph(s) of LCR Guidelines
1	Sum of all eligible HQLA, as defined in the standard, before the application of any limits, excluding assets that do not meet the operational requirements, and including, where applicable, assets qualifying under alternative liquidity approaches.	3.5 to 3.18
2	Retail deposits and deposits from small business customers are the sum of deposits and any other funding sourced from (i) natural persons and/or (ii) small business customers.	3.26
5	Unsecured wholesale funding is defined as those liabilities and general obligations from customers other than natural persons and small business customers that are not collateralized.	3.27 to 3.41
6	Operational deposits include deposits from bank clients with a substantive dependency on the bank where deposits are required for certain activities (i.e. clearing, custody or cash management activities). Deposits in institutional networks of cooperative banks include deposits of member institutions with the central institution or specialized central service providers.	3.35 to 3.38
7	Non-operational deposits are all other unsecured wholesale deposits	3.39 to 3.40
8	Unsecured debt includes all notes, bonds and other debt securities issued by the bank, regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts.	3.41
9	Secured wholesale funding is defined as all collateralized liabilities and general obligations.	3.42 to 3.45
10	Additional requirements include other off-balance sheet liabilities or obligations	3.42 to 3.52
11	Outflows related to derivative exposures and other collateral requirements include expected contractual derivatives cash flows on a net basis. These outflows also include increased liquidity needs related to: downgrade triggers embedded in financing transactions, derivative and other contracts; the potential for valuation changes on posted collateral securing derivatives and other transactions; excess non-segregated collateral held at the bank that could contractually be called at any time; contractually required collateral on transactions for which the counterparty has not yet demanded that the collateral be posted; contracts that allow collateral substitution to non-HQLA assets; and market valuation changes on derivatives or other transactions.	Annex II 1 to 6
12	Outflows related to loss of funding on secured debt products include loss of funding on: asset-backed securities, covered bonds and other structured financing instruments; and asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities.	Annex II 7 and 8
13	Credit and liquidity facilities include drawdowns on committed (contractually irrevocable) or conditionally revocable credit and liquidity facilities. The currently undrawn portion of these facilities is calculated net of any eligible HQLA if the HQLA have already been posted as collateral to secure the	3.48 to 3.52

	facilities or that are contractually obliged to be posted when the counterparty draws down the facility.	
14	Other contractual funding obligations include contractual obligations to extend funds within a 30-day period and other contractual cash outflows not previously captured under the standard.	3.53, 3.54, and 3.61
15	Other contingent funding obligations, as defined in the standard.	3.55 to 3.60
16	Total cash outflows: sum of rows 2–15.	
17	Secured lending includes all maturing reverse repurchase and securities borrowing agreements.	3.65
18	Inflows from fully performing exposures include both secured and unsecured loans or other payments that are fully performing and contractually due within 30 calendar days from retail and small business customers, other wholesale customers, operational deposits and deposits held at the centralized institution in a cooperative banking network.	3.70, 3.71, and 3.73
19	Other cash inflows include derivatives cash inflows and other contractual cash inflows.	3.72, 3.74 to 3.76
20	Total cash inflows: sum of rows 17–19	
21	Total HQLA (after the application of any cap on Level 2B and Level 2 assets).	3.5 to 3.23
22	Total net cash outflows (after the application of any cap on cash inflows).	3.24
23	Liquidity Coverage Ratio (after the application of any cap on Level 2B and Level 2 assets and caps on cash inflows).	3.1

Template LIQ2 – Net Stable Funding Ratio (NSFR)

Purpose: Provide details of a bank's NSFR and selected details of its NSFR components.

Content: Data must be presented as year-end observations.

Format: Fixed.

Accompanying narrative: Banks should provide a sufficient qualitative discussion on the NSFR to facilitate an understanding of the results and the accompanying data. For example, where significant, banks could discuss the drivers of their NSFR results and the reasons for intra-period changes as well as the changes over time (e.g. changes in strategies, funding structure, circumstances).

in strategies, funding structure, circumstances).						
		a	b	c	d	e
(In currency amount)		Unweighted value by residual maturity				Weighted Value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item						
1	Capital:					
2	Regulatory capital					
3	Other capital instruments					
4	Retail deposits and deposits from small business customers					
7	Wholesale funding:					
8	Operational deposits					
9	Other wholesale funding					
11	Other liabilities:					

12	<i>NSFR derivative liabilities</i>					
13	<i>All other liabilities and equity not included in the above categories</i>					
14	Total ASF					
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>					
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>					
20	<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>					
21	<i>With a risk weight of less than or equal to 20% under the Basel II standardized approach for credit risk</i>					
22	<i>Performing residential mortgages, of which:</i>					
23	<i>With a risk weight of less than or equal to 50% under the standardized approach for credit risk</i>					
24	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>					
26	Other assets:					
27	<i>Physical traded commodities, including gold</i>					
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties</i>					
29	<i>NSFR derivative assets</i>					
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>					

31	<i>All other assets not included in the above categories</i>					
32	Off-balance sheet items					
33	Total RSF					
34	Net Stable Funding Ratio (%)					

General instructions for completion of the NSFR disclosure template

Rows in the template are set and compulsory for all banks. Key points to note about the common template are:

- Dark grey rows introduce a section of the NSFR template.
- Light grey rows represent a broad subcomponent category of the NSFR in the relevant section.
- Unshaded rows represent a subcomponent within the major categories under ASF and RSF items. As an exception, rows 21 and 23 are subcomponents of rows 20 and 22, respectively. Row 17 is the sum of rows 18, 19, 20, 22 and 24.
- No data should be entered for the cross-hatched cells.
- Figures entered in the template should be the last observations of individual line items.
- Figures entered for each RSF line item should include both unencumbered and encumbered amounts.
- Figures entered in unweighted columns are to be assigned on the basis of residual maturity and in accordance with 2.7 and 2.15 of the NSFR Guidelines.

Items to be reported in the “no maturity” time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

Explanation of each row of the common disclosure template

Row number	Explanation	Relevant paragraph(s) of NSFR Guidelines
1	Capital is the sum of rows 2 and 3.	
2	Regulatory capital before the application of capital deductions, as defined in Pillar 1.	2.9.(a), 2.11 (d) and 2.12 (a)
3	Total amount of any capital instruments not included in row 2.	2.9(b), 2.11(d) and 2.12 (a)
4	Retail deposits and deposits from small business customers, as defined in the LCR 3.26 and LCR 3.31 to 3.34	
7	Wholesale funding is the sum of rows 8 and 9.	
8	Operational deposits: as defined in LCR 3.35 to 3.38 including deposits in institutional networks of cooperative banks.	2.9 (c), 2.11(b) and 2.12 (a).
9	Other wholesale funding includes funding (secured and unsecured) provided by non-financial corporate customer, sovereigns, public sector entities (PSEs), multilateral and national development banks, central banks and financial institutions.	2.9 (c), 2.11 (a), 2.11 (c), 2.11 (d), and 2.12 (a)
11	Other liabilities are the sum of rows 12 and 13.	
12	In the unweighted cells, report NSFR derivatives liabilities as calculated according to NSFR paragraphs 19 and 20. There is no need to differentiate by maturities. [The weighted value under NSFR derivative liabilities is cross-hatched given that it will be zero after the 0% ASF is applied.]	2.8 and 2.12 (c)
13	All other liabilities and equity not included in above categories.	2.12 (a) and (b)

14	Total available stable funding (ASF) is the sum of all weighted values in rows 1, 4, 7, and 11.	
15	Total HQLA as defined in LCR 3.19 to 3.23, (encumbered and unencumbered), without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that might otherwise limit the ability of some HQLA to be included as eligible in calculation of the LCR: (a) Encumbered assets including assets backing securities or covered bonds. (b) Unencumbered means free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer or assign the asset.	Footnote 9, 2.22 (a) and (b), 2.23, 2.25 (a), 2.26 (a) and (b), 2.28 (a) and 2.29 (a)
16	Deposits held at other financial institutions for operational purposes as defined in 3.35 to 3.38	2.26 (d)
17	Performing loans and securities are the sum of rows 18, 19, 20, 22 and 24.	
18	Performing loans to financial institutions secured by Level 1 HQLA, as defined in the LCR 3.20 (c) to (e).	2.24, 2.26(c) and 2.29(c)
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions.	2.26 (b) and (c), and 2.29 (c)
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs.	2.22 (c), 2.26 (e), 2.27 (b), 2.28 (b) and 2.29(a)
21	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs with risk weight of less than or equal to 50% under the Standardized Approach.	2.22(c), 2.26 (e), 2.27(b)and 2.29 (a)
22	Performing residential mortgages.	2.26 (e), 2.27 (a), 2.28 (b) and 2.29 (a)
23	Performing residential mortgages with risk weight of less than or equal to 50% under the Standardized Approach.	2.26 (e), 2.27 (a) and 2.29 (a)
24	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	2.26 (e),2.28 (c), and 2.29 (a)
26	Other assets are the sum of rows 27–31.	
27	Physical traded commodities, including gold.	2.28 (d)
28	Cash, securities or other assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties.	2.28 (a)
29	In the unweighted cell, report NSFR derivative assets, as calculated according to NSFR 2.20 to 2.21. There is no need to differentiate by maturities. In the weighted cell, if NSFR derivative assets are greater than NSFR derivative liabilities, report the positive difference between NSFR derivative assets and NSFR derivative liabilities.	2.20, 2.21 and 2.29 (b)
30	In the unweighted cell, report derivative liabilities as calculated according to 2.20, i.e. before deducting variation margin posted. There is no need to differentiate by maturities. In the weighted cell, report 20% of derivatives liabilities' unweighted value (subject to 100% RSF).	[NSF30.8] and 2.29 (d)
31	All other assets not included in the above categories.	2.29(c)
32	off-balance sheet items.	2.30 and 2.31
33	Total RSF is the sum of all weighted value in rows 15, 16, 17, 25, 26 and 32.	
34	Net Stable Funding Ratio (%), as stated NSFR 2.1.	2.1