BASEL II AND III REVISED FINANCIAL RETURN TEMPLATE

Presented by:

The Policy Unit

The Central Bank of The Bahamas

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Outline

- Summary Schedule of Total Eligible Capital ("CapSum") - *New*
- Breakdown of Capital Base ("CapComp") – *New*
- Operational Risk ("OpRisk") – *New*
- Credit Risk – On Balance Sheet – *Revised*
- Credit Risk – Off Balance Sheet (Non-Derivative Instruments) – *Revised*
- Credit Risk – Off Balance Sheet (Derivative Instruments) – *Revised*
- Question & Answer Period

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Summary Schedule of Total Eligible Capital

NEW

Summary Schedule Of Total Eligible Capital

					($000s)
Capital Base					
Common Equity Tier 1 Capital					0
Additional Tier 1 Capital					0
Total Tier 1 Capital					0
Total Tier 2 Capital					0
Total Eligible Capital					0
Credit Risk					
Using standardized approach					
Total Capital Required for Credit Risk			0.08	0.00	
Total Credit Risk adjusted risk-weighted assets					0
Operational Risk					
Using basic indicator approach				0.00	
Using standardized approach				0.00	
Total Capital Required For Operational Risk				0.00	
Multiplier				12.50	
Total Operational Risk Adjusted Risk-Weighted Assets					0.00
Market Risk					
Using standardized approach					
1. Interest Rate Risk				0.00	
a. *Specific Risk*				0.00	
b. *General Market Risk*				0.00	
c. *Interest Rate Options*				0.00	
2. Equity Position Risk				0.00	
a. *Specific Risk*				0.00	
b. *General Market Risk*				0.00	
3. Foreign Exchange Risks				0.00	
4. Commodities Risks				0.00	
Total Capital Required For Market Risk				0.00	
Multiplier				12.50	
Total Market Risk Adjusted Risk-Weighted Assets					0.00
Total Risk-Weighted Assets					0.00
Capital Risk Asset Ratio					#DIV/0!
Common Equity Tier 1 To Risk-Weighted Assets					#DIV/0!
Tier 1 Capital To Risk-Weighted Assets					#DIV/0!
Gearing Ratio (Total Eligible Capital/Total Assets)					#DIV/0!

- Generally, no input is needed for this worksheet.
- Figures are automatically populated from other linked worksheets.
- The only exception is the minimum capital required for credit risk which should be entered as a decimal.

This ratio should be manually adjusted to reflect the minimum capital requirement for the licensee.

The multiplier represents the reciprocal of the 8% minimum capital requirement for operational risk and market risk.

Capital Adequacy Ratio

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This worksheet is entitled “CapSum” in the ORIMS Forms.

Note re: Multiplier = The Central Bank does not set different minimum capital requirements for operational risk and market risk. Therefore, there would be no need to change the multiplier.

The Capital Risk Asset Ratio = The Capital Adequacy Ratio

Definition of Common Equity Tier 1 (CET1)

Common Equity Tier 1 (prior to regulatory adjustments) consists of the sum of the following elements:

- Common shares issued by the licensee that meet the criteria for classification as common shares for regulatory purposes;
- Stock surplus (share premium) resulting from the issue of instruments included in Common Equity Tier 1 capital;
- Disclosed reserves (i.e. general reserves, legal reserves and any other appropriation of earnings);
- Retained earnings, after deducting any interim or final dividend;
- 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 Common Equity Tier 1 capital; and
- Accumulated other comprehensive income (inclusive of interim profit or losses)*

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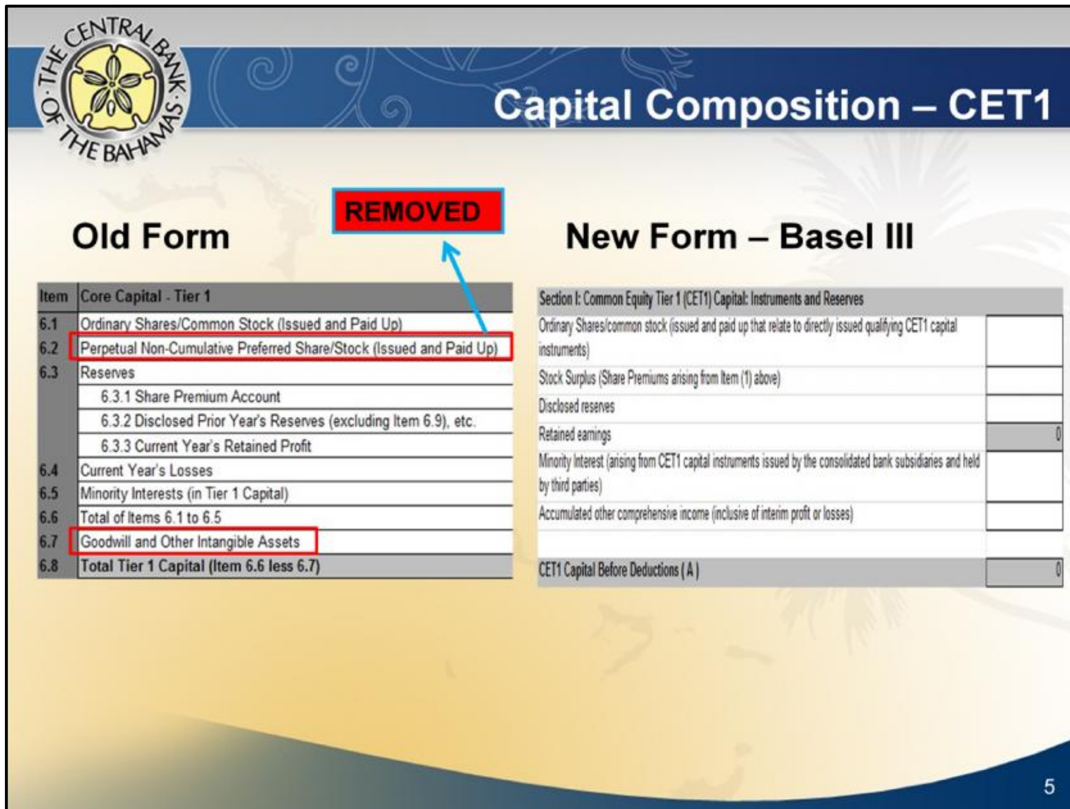
For details on the qualifying criteria, please refer to the Consultative Paper on the Definition of Capital which can be found on the website under Bank Supervision - Regulatory Framework - Basel II and III Implementation - Consultation Documents – Consultation Papers on the Definition of Capital and Minimum Disclosure Requirements.

Accumulated other comprehensive income = revaluations of property, plant and equipment, changes in the fair value of available-for-sale financial assets

Inclusive of interim profit or losses = net income (loss) earned for the reporting period which should be reported on an accumulated basis throughout the year.



Item	Core Capital - Tier 1
6.1	Ordinary Shares/Common Stock (Issued and Paid Up)
6.2	Perpetual Non-Cumulative Preferred Share/Stock (Issued and Paid Up)
6.3	Reserves
	6.3.1 Share Premium Account
	6.3.2 Disclosed Prior Year's Reserves (excluding Item 6.9), etc.
	6.3.3 Current Year's Retained Profit
6.4	Current Year's Losses
6.5	Minority Interests (in Tier 1 Capital)
6.6	Total of Items 6.1 to 6.5
6.7	Goodwill and Other Intangible Assets
6.8	**Total Tier 1 Capital (Item 6.6 less 6.7)**

Section I: Common Equity Tier 1 (CET1) Capital: Instruments and Reserves	
Ordinary Shares/common stock (issued and paid up that relate to directly issued qualifying CET1 capital instruments)	
Stock Surplus (Share Premiums arising from Item (1) above)	
Disclosed reserves	
Retained earnings	0
Minority Interest (arising from CET1 capital instruments issued by the consolidated bank subsidiaries and held by third parties)	
Accumulated other comprehensive income (inclusive of interim profit or losses)	
CET1 Capital Before Deductions (A)	0

This worksheet is entitled "Capital Composition" in the ORIMS Forms.

Items highlighted in RED; Perpetual Non-Cumulative Preferred Share/Stock (Issued and Paid Up) and Goodwill and Other Intangible Assets have been removed from this section.

Perpetual Non-Cumulative Preferred Share/Stock (Issued and Paid Up) is now included under Additional Tier 1 Capital.

Goodwill and Other Intangible Assets has been moved from the components of CET1 to the deduction section for CET1.

Deductions (Regulatory Adjustments) to CET1

Old Form

Base capital = Tier 1 + Tier 2

	Less Adjustments To Base Capital
6.22	Equity and other capital requirements in subsidiary companies or associate (where subsidiary is not consolidated with the bank).
6.23	Equity and other capital requirements in non-operating bank or financial holding company (where financial institution is not consolidated with the bank or its subsidiary).
6.24	Equity and other capital requirements in financial institutions held by the bank or its subsidiary companies (where financial institution is not consolidated with the bank or its subsidiary).
6.25	Any undertakings by the bank to absorb designated first level of losses on claims supported by the bank.
6.26	Total Deduction To Base Capital

New Form

These are applicable to CET1, however, each tier has its own set of deductions.

Deductions (Regulatory Adjustments):
Valuation Adjustments
Goodwill
Other intangible assets
Cumulative cash flow hedge reserve (that relates to the hedging of financial instruments that are not fair valued on the balance sheet)
Gains and losses due to changes in own credit risk on fair valued liabilities
Defined benefit pension fund assets (and liabilities)
Deferred tax assets
Investments in own shares (Treasury stock CET1 capital instruments)
Reciprocal cross holdings in CET1 capital instruments issued by any financial sector entities
Gains on sale related to securitization transactions
Non-significant investments in the capital of banking, financial and insurance entities (outside the scope of regulatory consolidation and the bank does not own more than 10% of the issued common share capital of the entity)
Significant investments in the capital of banking, financial and insurance entities (outside the scope of regulatory consolidation and the bank owns more than 10% of the issued common share capital of the enitity or where the entity is an affiliate of the bank)
Other deduction or regulatory adjustments to CET1 as determined by the CBOB
Regulatory adjustments applied to CET1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions

Definition of Additional Tier 1 Capital (AT1)

NEW

Additional Tier 1 capital (prior to regulatory adjustments) consists of the sum of the following elements:

- Instruments issued by the licensee that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in CET1) (includes perpetual non-cumulative preferred share/stock (issued and paid up);
- Stock surplus (share premium) resulting from the issue of instruments included in AT1 capital; and
- 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 CET1.

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Note – Not all preference shares are included in AT1. It must meet the qualifying criteria.

For details on the qualifying criteria, please refer to the Consultative Paper on the Definition of Capital which can be found on the website under Bank Supervision - Regulatory Framework - Basel II and III Implementation - Consultation Documents – Consultation Papers on the Definition of Capital and Minimum Disclosure Requirements.

Additional Tier 1 Capital (AT1)

NEW

Components of AT1

Section II: Additional Tier 1 Capital: Instruments
Perpetual non-cumulative preferred share/stock (issued and paid up)
Additional Tier 1 capital instruments issued (meeting criteria for AT1 and are not included in CET1)
of which: amount that is subject to phase out
Stock surplus (i.e. share premium, if any, meeting the criteria for AT1)
Minority Interest, i.e. Additional Tier 1 capital instruments issued by consolidated bank subsidiaries and held by third parties and are not included in CET1
of which: amount that is subject to phase out
Additional Tier 1 Before Deductions (C)

Deductions to AT1

Deductions (Regulatory Adjustments):
Investment in own Additional Tier 1 instruments
Reciprocal cross holdings in Addtional Tier 1 instruments
Non-significant capital investments in Additional Tier 1 of banking, financial and insurance entities (outside the
Significant capital investments in Additional Tier 1 of banking, financial and insurance entities (outside the
Other deductions from Tier 1 capital as determined by the CBoB
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions
Additional Tier 1 After Deductions (D)

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Definition of Tier 2 Capital

Tier 2 capital (prior to regulatory adjustments) consists of the sum of the following elements:

- Instruments issued by the licensee that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital);
- Contributed surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
- 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; and
- Certain loan loss provisions such as general provisions/general loan-loss reserves.

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For details on the qualifying criteria, please refer to the Consultative Paper on the Definition of Capital which can be found on the website under Bank Supervision - Regulatory Framework - Basel II and III Implementation - Consultation Documents – Consultation Papers on the Definition of Capital and Minimum Disclosure Requirements.

Tier 2 Capital

Old Form

Supplementary Capital - Tier 2
Fixed Asset Revaluation Reserve
Other Assets Revaluation Reserves
General Provisions
Hybrid (Debt/Equity) Instruments
Subordinated Term Debt
Minority Interests (in Tier 2 Capital)
Less Adjustments To Capital
Excess General Provisions
Excess Tier 2 Subordinated Debt
Amortization on Tier 2 Subordinated Debt
Total of (Items 6.9 to 6.14) Less Total of (Items 6.15 to 6.17)
Tier 2 Capital in Excess of the Overall Limit/Excess Tier 2 Capital
Total Eligible Tier 2 Capital (Items 6.18 less 6.19)

New Form

NEW

Section III: Tier 2 Capital: Instruments and Provisions
Directly issued qualifying Tier 2 instruments (i.e. Subordinated term debt meeting criteria of Tier 2)
Stock surplus (i.e. share premium, if any, resulting from the issue of instruments included in Tier 2)
Minority Interest, i.e. Tier 2 instruments issued by consolidated bank subsidiaries and held by third parties (and are not included in CET1 and AT1)
Regulatory reserves
Revaluation Reserves
General provisions
Tier 2 Capital Before Deductions (F)
Deductions (Regulatory Adjustments):
Investments in own Tier 2 capital instruments
Reciprocal cross holdings in Tier 2 capital instruments
Non-significant capital investments in Tier 2 of banking, financial and insurance entities (outside the scope of regulatory consolidation and the bank does not own more than 10% of the issued common share capital of the entity)
Significant capital investments in Tier 2 of banking, financial and insurance entities (outside the scope of regulatory consolidation and the bank owns more than 10% of the issued common share capital of the enitity or where the entity is an affiliate of the bank)
General provisions (i.e. the amount which is in excess of the maximum 1.25% of credit risk-weighted assets eligible for inclusion in Tier 2)
Other deductions from Tier 2 capital as determined by the CBOB
Tier 2 Capital After Deductions (G)

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Summary Schedule of Total Eligible Capital

	Components of Capital Base
A	Elements of Common Equity Tier 1 (CET1) Capital
B	Regulatory Adjustments (Deductions from CET1 Capital)
	CET1 Capital = A - B
C	Elements of Additional Tier 1 (AT1) Capital
D	Regulatory Adjustments (Deductions from AT1 Capital)
	AT1 Capital = C - D
	Total Tier 1 Capital = CET1 Capital + AT1 Capital
F	Elements of Tier 2 (T2) Capital
G	Regulatory Adjustments (Deductions from T2 Capital)
	Total T2 Capital = F – G
	Total Eligible Capital Base = (Tier 1) + (Tier2)

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The overall structure of the Capital Base calculation.

Operational Risk

- There are two methods recognized by The Bahamas for calculating operational risk charges:
  - the Basic Indicator Approach ("BIA"); and
  - the Standardised Approach ("TSA").
- Licensees must choose **ONE** of the approaches and complete the section relative to that approach.
- Once an approach has been chosen, a licensee may not revert to the other approach.

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Operational Risk – Basic Indicator Approach

A) Reporting Period

	Date of the Year-End (dd-mm-yyyy)
Year 1	
Year 2	
Year 3	

B) Basic Indicator Approach (BIA)

Year	Total Gross Income	Total Gross (After Negative GI Adjustment)	Alpha	Capital Charge
0/01/1900		0	15	0
0/01/1900		0	15	0
0/01/1900		0	15	0
Number of Years with Positive Total Gross Income				0
Basic Indicator Approach Capital Charge				0
Operational Risk Equivalent Assets				0.00

Figures automatically calculated

- Dates should be recorded oldest to newest (i.e. 2012, 2013, 2014)
- **Gross income (GI) = Sum of net interest income and net non-interest income.**
- GI should represent data derived from the previous three completed financial years (i.e. the GI figure from the Audited Financial Statements. In the event, the audited figures are not yet available, the un-audited figures may be used.
- Figures for any year in which annual gross income is negative or zero will not be included in the calculation.
- **Operational risk capital charge = average of 15% of positive annual GI from the previous three years.**

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Net Interest Income - Interest income net of interest expense, gross of any provisions (e.g. for unpaid interest).

Net Non-Interest Income - Net non-interest income gross of operating expenses (including fees paid to outsourcing service providers) and should exclude realized profits/losses from the sale of securities in the banking book and extraordinary or irregular items as well as items derived from insurance. Dividend income and other operating income should be included.

NOTE: Both audited and unaudited figures can be used.

NOTE: Licensees should note that unrealized gains/losses from the sale of investments **ARE NOT** included in the calculation of net non-interest income.

An example to illustrate bullet point #4 using the Basic Indicator Approach:
GI for 2012 = 5,000
GI for 2013 = 3,000
GI for 2014 = -1,000

The capital charge for each year would be as follows:-
2012 = 5,000 * 15% which is 750
2013 = 3,000 * 15 % which is 450
2014 = since GI is negative this figure will not be included and the formula would automatically populate a 0 for this year.

The total capital charge would be the sum of the two years divided by 2, as there is only two years of positive GI.
The calculation = (750+450) / 2 = 600.

Note: If a licensee has only been in existence for two years, hence, there is only two years of GI data, the licensee will record the GI data for those years and would input a 0 for the year in which the licensee was not in existence.

Operational Risk – The Standardised Approach

Licensees wishing to use the TSA, must satisfy the Central Bank, at a minimum:

- its board of directors and senior management, as appropriate, are actively involved in the oversight of the operational risk management framework;
- it has an operational risk management system that is conceptually sound and is implemented with integrity; and
- it has sufficient resources in the use of the approach in the major business lines, as well as the control and audit areas.

Licensees must also meet additional criteria as outlined in Annex C of the QIS Instruction Notes for ERS Reporting Forms.

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The QIS Instructions Notes for ERS Reporting Forms can be found on the website under Bank Supervision - Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015.

Operational Risk – The Standardised Approach

0/01/1900	Corporate Finance		18	0
	Trading & Sales		18	0
	Retail Banking		12	0
	Commercial Banking		15	0
	Payment & Settlement		18	0
	Agency Services		15	0
	Asset Management		12	0
	Retail Brokerage		12	0
	Total Business	0		0
Standardised Approach Capital Charge				0
Operational Risk Equivalent Assets				0.00

"Beta" factor

Figures automatically calculated

- GI is allocated to eight (8) primary business lines for each of the three years.
- Each business line has a designated "beta" factor.
- **Capital charge for each business line = GI for that business line x "beta" factor**
- A negative capital charge (resulting from negative gross income) in a business line will be given a **nil** capital charge.

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For a definition of each business line, please refer to the QIS Instruction Notes for ERS Reporting Forms, Annex E – Mapping of the Business Lines.

The QIS Instructions Notes for ERS Reporting Forms can be found on the website under Bank Supervision - Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015.

NOTE: If a Commercial Bank chooses this approach, given the very nature of its business, it is expected that the bank, at a minimum, would have GI data for Retail Banking (individual consumers) and Commercial Banking (businesses).

Retail Banking includes three sub-categories

- **Retail Banking**: Retail lending and deposits, banking services, trust and estates
- **Private Banking**: Private lending and deposits, banking services, trust and estates, investment advice
- **Card Services**: Merchant/commercial/corporate cards, private labels and retail

Commercial Banking: Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange

Credit Risk – Standardised Approach

- The risk weightings of on-balance sheet assets for credit risk will no longer be categorized based on Zone A (OECD) and Zone B countries.
- Under Basel II, there are two broad methodologies for calculating the capital requirements for credit risk; the Standardised Approach (SA) and the Internal Ratings based-Approach (IRB).
- The Central Bank has adopted the SA which is the simpler approach. Licensees **are required** to fill out the Credit Risk – On balance sheet form.
- Under the SA, many of the risk weightings are based on the external rating of the sovereign of that country as assigned by eligible external credit assessment institutions ('ECAI's')*.

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ECAI's – Standard & Poor's , Moody's and Fitch or any other recognized institution.

Credit Risk – Standardised Approach

- In calculating the credit riskiness of on balance sheet items, the SA accounts for allowable credit risk mitigation (CRM).
- Credit Risk Mitigation (CRM) refers to techniques the reporting institution may use to mitigate credit risk.
- Allowable CRM include collateral, netting, guarantees and credit derivatives.
- Exposures should be risk-weighted net of specific provisions.

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For more details on eligible collateral, please refer to the Consultation Paper on the Calculation of the Capital Charge for Credit Risk , Appendix 2, Page 32.

The Consultation Paper can be found on the website under Bank Supervision – Basel II and III Implementation – Consultation Papers on the Calculation of the Capital Charge for Credit Risk and the Guidelines for the Internal Capital Adequacy Assessment Process (ICAAP) for Licensees.
Please refer to the Consultation Paper on the Calculation of the Capital Charge for Credit Risk for additional details.

All other CRM Techniques and financial collateral (i.e. not listed in Appendix 2 of the Consultation Paper on the Calculation of the Capital Charge for Credit Risk) ARE NOT eligible.

Netting – licensees may agree to net loans owed to them against deposits from the same counterparty.

Guarantees – a loan exposure may be guaranteed by a third party

Credit derivatives – licensees may enter into a credit derivative contract to offset various forms of credit risk.

Reporting Credit Risk Mitigation

Under the Basel II framework there are two methods that can be used for recognizing the impact of collateral: The simple approach and the comprehensive approach. Licensees must use the simple approach exclusively. In the simple approach the risk weighting of the collateral instrument collateralizing (or partially collateralizing) the exposure is substituted for the risk weighting of the counterparty for the collateralised portion of the exposure.

Note: To observe the effects of CRM on capital levels, the Central Bank will apply a more conservative treatment when risk weighting the collateral under the simple approach. That is to say, **a fixed risk weight of 50% will be applied to all eligible collateral**. This position is expected to be revisited.

Examples - Credit Risk Mitigation

- **Scenario 1 – Fully Collateralized Loans**

Credit Risk - Standardised Approach

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
12	Retail Portfolio	1000000	333333	666667		500,000
12.1	Individual			0	75	0
12.2	Small Business	1000000	333333	666667	75	500,000
12.3	Other Retail Exposures			0	75	0

- **Scenario 2 – Partially Collateralized Loans**

Credit Risk - Standardised Approach

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
12	Retail Portfolio	1000000	166667	833333		625,000
12.1	Individual			0	75	0
12.2	Small Business	1000000	166667	833333	75	625,000
12.3	Other Retail Exposures			0	75	0

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To record CRM using the Financial Return Template (v.2.4), please see the following examples provided below:

A. Scenario 1 – Fully Collateralized Loans

A bank has an exposure in Small Business loans for $1,000,000 (Section 12.2 CR-ON Balance Sheet form). This has a 75% risk weight.
The Small Business Loans are Collateralized by $1,000,000 of Domestic Public Corporation Bonds (Section 10.1.1) that carry a 20% risk weight. Assume that this is eligible collateral for Credit Risk Mitigation (CRM) purposes.

Note: Although Domestic Public Corporation Bonds carries a 20% risk weight, the Central Bank has exercised discretion in requiring a 50% minimum risk weight for the collateral used for CRM. Risk weights for eligible CRM must be at least 50%.

Calculation:
Exposure (net of eligible CRM) * RWA = ($1,000,000 - $1,000,000)*75% = $0
Eligible CRM * RWA = $1,000,000 * 50% = $500,000
Total RWA = $500,000

In order to get $500,000 in the RWA column of the Financial Return (column K) divide the Total RWA ($500,000) by the risk weight percentage of the exposure

(0.75), that is, ($500,000/0.75) = $666,667. The $666,667 is now the net exposure value, that is, Total (after CRM) column (column I). The **value in the CRM column** will be the exposure amount ($1,000,000) less the net exposure ($666,667), that is ($1,000,000 - $666,667) = $333,333 in the CRM column (column H).

B. Scenario 2 – Partially Collateralized Loans

A bank has an exposure in Small Business loans for $1,000,000 (Section 12.2 CR-ON Balance Sheet form). This has a 75% risk weight.
The Small Business Loans are Collateralized by $500,000 of Domestic Public Corporation Bonds (Section 10.1.1) that carry a 20% risk weight. Assume that this is eligible collateral for Credit Risk Mitigation (CRM) purposes.

Note: Although Domestic Public Corporation Bonds carries a 20% risk weight, the Central Bank has exercised discretion in requiring a 50% minimum risk weight for collateral used for CRM. Risk weights for eligible CRM must be at least 50%.

Calculation:
Exposure (net of eligible CRM) * RWA = $1,000,000 - $500,000*75% = $375,000 (i.e. the uncollateralized portion)
Eligible CRM * RWA = $500,000 * 50% = $250,000 (i.e. the collateralized portion)
Total RWA = $625,000

In order to get $625,000 in the RWA column of the Financial Return (column K) divide the Total RWA ($625,000) by the risk weight percentage of the exposure (0.75), that is, ($625,000/0.75) = $833,333. The $833,333 is now the net exposure value, that is, Total (after CRM) column (column I). The **value in the CRM column** will be the exposure amount ($1,000,000) less the net exposure ($833,333), that is ($1,000,000 - $833,333) = $166,667 in the CRM column (column H).

Credit Risk – Cash Items

NEW

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
1	Cash Items	0	0	0		0
1.1	Notes & Coins	0		0	0	0
1.2	Gold Bullion - In Vault			0	0	0
1.3	Gold Bullion - Other			0	100	0
1.4	Silver Bullion, Precious Metals & Other Gemstones			0	100	0
1.5	Cash Items in the Course of Collection	0		0	20	0
1.6	Exposures Collateralized by Cash Deposits			0	0	0

- Changes to the form: the Adjustments column has been removed and a column for the amount of CRM and the exposure amount after CRM have been added.
- The Cash Items category does not only include Notes & Coins.
- Gold Bullion – In Vault = 0%.
- Gold Bullion – Other = 100%.
- Silver Bullion, Precious Metals & Other Gemstones = 100%.
- Cash Items in the Course of Collection = 20%.
- Exposures collateralized by Cash Deposits have been added. All cash deposits held as collateral for exposures should be recorded in Item #1.6 including **Loans covered by cash with a legal right of set-off.** All other forms of CRM should be recorded in the CRM column.

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Instructions regarding the CRM column – Licensees should only record a collateral value up to 100% of the amount of the exposure.

Instructions regarding collateralized exposures not covered by cash deposits:-

(1) Licensees should record collateralized exposures before taking account of the collateral held in the first column ($000s).

(2) In the CRM column, licensees should slot the portion of exposures covered by collateral according to the risk weighting of the collateral.

(3) The portion of the exposure that is not collateralized is assigned to the risk weight of the original/underlying counterparty in the Total (after CRM) column.

Instructions regarding exposures collateralized by cash deposits - If an exposure is fully collateralized by cash, the exposure should **ONLY** be recorded in Item #1.6. However, if an exposure if partially collateralized by cash, the portion that is covered by cash should be recorded in Item #1.6 and the remainder should be recorded in the respective on-balance sheet asset category (e.g. regulatory retail portfolio, residential mortgages, commercial mortgages etc.)

Credit Risk – Sovereign Securities

Item No.	On Balance Sheet Items	Sovereign Ratings	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
2	Sovereign Securities		0	0	0		0
2.1	Bahamas Government		0		0	0	0
2.2	Other Governments		0	0	0		
2.3	Credit Assessment of Sovereign Claims	AAA to AA-			0	0	0
2.3		A+ to A-			0	20	0
2.4		BBB+ to BBB-			0	50	0
2.5		BB+ to B-			0	100	0
2.6		Below B-			0	150	0
2.7		Unrated			0	100	0

- The Central Bank has exercised national discretion and Claims on The Bahamas Central Government and the Central Bank (denominated in the national currency and funded in that currency) are assigned a risk weighting of 0% (i.e. Bahamas Government Registered Stock, Bridge Bonds, Treasury Bills etc.).
- Claims on Other Governments will carry a risk weight corresponding to the country risk scores of the sovereign as assigned by ECAI's.

Credit Risk – Claims on Sovereigns and the Central Bank

3	**Claims on Sovereigns and the Central Bank**		0	0	0		**0**
3.1	**National Treatment**				0	**0**	**0**
3.2	**Special Organizations**		0	0	0	**0**	**0**
3.3	Credit Assessment of Sovereign Claims	AAA to AA-			0	**0**	**0**
3.4		A+ to A-			0	**20**	**0**
3.5		BBB+ to BBB-			0	**50**	**0**
3.6		BB+ to B-			0	**100**	**0**
3.7		Below B-			0	**150**	**0**
3.8		Unrated			0	**100**	**0**

- National Treatment – Exposures / Loans to the Bahamas Government.
- Special Organizations include Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community)

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Special Organizations carry a risk weight of 0%.

Credit Risk – Claims on Public Sector Entities (PSEs)

Item No.	On Balance Sheet Items		($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
4	Claims on Public Sector Entities (PSEs)		0	0	0		0
4.1	Treatment as Sovereign				0	0	0
4.2	Treatment as Bank (Option 1)		0	0	0		
4.2.1	Credit Assessment of PSEs	AAA to AA-			0	20	0
4.2.2		A+ to A-			0	50	0
4.2.3		BBB+ to BBB-			0	100	0
4.2.4		BB+ to B-			0	100	0
4.2.5		Below B-			0	150	0
4.2.6		Unrated			0	100	0
4.3	Treatment as Corporate				0	100	0

- Claims on domestic PSE's guaranteed by the Government of The Bahamas will be treated as claims on sovereign (i.e. 0%).
- Claims on PSE's not treated as Sovereign will be treated as Claims on Banks or Claims on Corporate.
- For treatment as Claims on Banks, the Central Bank has adopted **Option 1** which stipulates that **all banks incorporated in a given country will be assigned a risk weight one category less favorable than that assigned to claims on the sovereign of that country.**
- **Note should be taken that the risk weightings are already rated one category less favorable than the sovereign rating.**
- Claims on PSE's treated as Claims on Corporate will receive a 100% risk weighting.

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PSEs are defined as:

- local authority that is able to exercise one or more functions of the central government at the local level with explicit guarantee arrangements;
- an administrative body or non-commercial undertaking responsible to, or owned by, a central government or local authority, which performs regulatory and non-commercial functions;
- public corporations;
- public non-financial institutions and
- public financial institutions.

To determine whether a PSE should be treated as Claims on Banks or Claims on Corporate, please refer to Section 5.8; Claims on Public Sector Entities (PSEs) of the QIS Instruction Notes For ERS Reporting Forms which can be found on our website under Bank Supervision – Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015.

Credit Risk – Claims on Multi-Lateral Development Banks (MDBs)

Item No.	On Balance Sheet Items		($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
5	Claims on Multi-Lateral Development Banks (MDBs)		0	0	0		0
5.1	Special MDBs				0	0	0
5.2	Bank (Option 2)						
5.2.1	Credit Assessment of MDBs	AAA to AA-			0	20	0
5.2.2		A+ to A-			0	50	0
5.2.3		BBB+ to BBB-			0	50	0
5.2.4		BB+ to B-			0	100	0
5.2.5		Below B-			0	150	0
5.2.6		Unrated			0	50	0

- A 0% risk weight will be applied to Special MDB's*.
- Claims on other MDB's will be risk weighted based on Option 2 for Claims on Banks which stipulates that the risk weighting will be based on the external credit rating of the bank itself with claims on unrated banks being risk-weighted at 50%.

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A listing of Special MDB's can be found in the QIS Instruction Notes for ERS Reporting Forms which can found on the website under Bank Supervision - Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015.

They are 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 (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), and the Council of Europe Development Bank (CEDB).

All other MDB's should be risk weighted based on the external credit assessments as set out under Option 2 for Banks.

Credit Risk – Claims on Banks

Item No.	On Balance Sheet Items		($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
6	Claims on Banks		0	0	0		0
6.1	Exposures with original maturity of more than three months:		0	0	0		0
6.1.1	Credit assessment of Sovereign	AAA to AA-			0	20	0
6.1.2		A+ to A-			0	50	0
6.1.3		BBB+ to BBB-			0	100	0
6.1.4		BB+to B-			0	100	0
6.1.5		Below B-			0	150	0
6.1.6		Unrated			0	100	0
6.2	Exposures with original maturity of three months or less (in domestic currency):		0	0	0		0
6.2.1	Domestic Currency				0	20	0
6.3	*Exposures with original maturity of three months or less (in foreign currency):*		0	0	0		0
6.3.1	Credit assessment of Sovereign	AAA to AA-			0	20	0
6.3.2		A+ to A-			0	20	0
6.3.3		BBB+ to BBB-			0	20	0
6.3.4		BB+to B-			0	50	0
6.3.5		Below B-			0	150	0
6.3.6		Unrated			0	100	0

To be revised

- Claims on Banks will be assigned risk weightings based on Option 1* .
- **Exposures with original maturity of three months or less (in domestic currency) which will carry a risk weight of 20% due to national discretion.**
- Claims on Securities Firm (Item #7) apply the same risk weight categories and are treated as claims on banks provided these firms are subject to supervisory and regulatory arrangements equivalent to those in The Bahamas.
- Securities Firms that do not meet this criteria will be treated as Claims on Corporates (100%).

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Definition of Option 1 - all banks incorporated in a given country will be assigned a risk weight one category less favorable than that assigned to claims on the sovereign of that country.

The Risk weightings are already rated one category less favorable than the sovereign of that country.

Please note that the risk weightings for Item #6.3 will be revised to mirror the risk weightings for Item #6.1.

The country credit rating to use for a bank (subsidiary or branch) is the country where the bank who has the placement is incorporated.

Instructions regarding credit ratings – licensees must use the chosen ECAI's and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Licensees will not be allowed to "cherry pick" the assessments provided by different ECAI's.

Instructions regarding multiple assessments:
If there is only one assessments by an ECAI chosen by a bank for a particular claim, that assessment should be used to determine the risk weight of the claim.

If there are two assessments by ECAI's chosen by a bank which map into different risk weights, the higher risk weight will be applied.

If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied.

Example for International Banks – If UBS Bahamas has a long-term placement (more than three months) with Credit Suisse in Brazil, you would look for the country credit rating for Brazil. Brazil is rated BB by S&P so the exposure will be risk rated at 100% and would be recorded under Item #6.1.4.
If the placement was short-term (less than three months), the risk weighting will still be 100% as the country is unchanged (Brazil: BB). The only difference is that the exposure will be recorded under Item #6.3.4.

Example for Domestic Banks
If Scotiabank Bahamas has a short-term (less than three months) placement with Commonwealth Bank, the exposure will be risk weighted at 20% due to national discretion. The placement would be recorded under Item #6.2.1.
If the placement was long-term (more than three months), the risk weighting would also be 20% as the Bahamas has exercised national discretion for a Sovereign credit rating of 0% and one category less favorable is 20%. Therefore, the exposure would be recorded under Item 6.1.1.

Credit Risk – Securitizations

11	Securitizations		0	0	0		0
11.1.1	Credit Assessment	AAA to AA- (A-1/P-1)			0	20	0
11.1.2		A+ to A- (A-2/P-2)			0	50	0
11.1.3		BBB+ to BBB- (A-3/P-3)			0	100	0
11.1.4		Below BB-			0	350	0
11.1.5		Unrated			0	Deduction	0

- Securitization - process through which an issuer creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors (i.e. mortgage-backed securities)
- Claims on securitizations are risk weighted based on the below table:

The generic mapping is as follows:

Credit Assessment	AAA to AA-	A+ to A	BBB+ to BBB-	BB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	350%	Deduct from capital[4]	Deduct from capital

Credit Risk – Securitizations

- Where an issue has a specific short term rating, it should be weighted in accordance with the below table:-

Credit Assessment	A-1/P-1	A-2/P-2	A-3/P-3	Below A-3/P-3
Risk Weight	20%	50%	100%	Deduct from capital

- When a bank is required to deduct a securitization exposure from regulatory capital, the deduction must be taken 50% from Tier 1 and 50% from Tier 2 with the exception of 'gain-on-sale' for the purposes of a securitization transaction.

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Where deductions of investments are made from capital, the deductions should be 50% from Tier 1 and 50% from Tier 2 Capital. These deductions should be recorded in Items 21, 36 or 53 of the Capital Composition worksheet.

Credit Risk – Loans and Advances

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
12	Regulatory Retail Portfolio	0	0	0		0
12.1	Individual			0	75	0
12.2	Small Business			0	75	0
12.3	Other Retail Exposures			0	75	0
13	Residential Mortgages	0	0	0		0
13.4	Secured			0	50	0
13.2	Past Due (net of Specific Provisions)	0	0	0	100	0
13.3	Past Due					0
13.4	Specific Provisions					0
14	Commercial Mortgages	0	0	0		0
14.1	Secured			0	100	0

- Loans and Advances should be recorded under Items 12 - 14.
- **Only performing facilities should be recorded under Items 12 , 13.4 (Secured) and 14*.**
- Item 13.2 is automatically calculated (the difference of 13.3 and 13.4).
- Past due exposures (only for residential mortgages) should be recorded gross in Item 13.3 and Specific Provisions should be recorded in Item 13.4 (Specific Provisions).
- Commercial mortgages should be recorded under Item 14 and generally shall be risk weighted at 100%.
- **Note should be taken that real estate is not considered as eligible Credit Risk Mitigation.**

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RED BOX - Item numbering to be corrected

For more guidance on this section, please refer to the QIS Instruction Notes for ERS Reporting Forms which can found on the website under Bank Supervision - Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015.

Residential Mortgages
To be included in residential mortgages, claims must meet the following criteria:- The properties must be either occupied by the borrower or rented to individuals and the loan is not past due for more than 90 days.

Example on how to record performing and non-performing facilities – ABC Bank has a loan portfolio to individuals totaling $1,000,000 but only $800,000 is performing and not past due. The $800,000 would be recorded under Item 12.1. The remainder of $200,000 that is non-performing and past due will be recorded under Item 15.1 or 15.2 as applicable.

Credit Risk – Past Due Exposures (Over 90 days)

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
15	Past Due Exposures (Over 90 days)	0	0	0		0
15.1	*Secured and Past Due (Over 90 days)*					0
15.1.1	Risk Weight 50%			0	50	0
15.1.2	Risk Weight 75%			0	75	0
15.1.3	Risk Weight 100%			0	100	0
15.1.4	Risk Weight 150%			0	150	0
15.2	*Unsecured and Past Due (Over 90 days)*					0
15.2.1	Specific Provisions > 20%			0	100	0
15.2.2	Specific Provisions < 20%			0	150	0

- **All other past due exposures besides residential mortgages should be recorded in Item 15.**
- Exposures that are Secured and Past Due (Over 90 days) are risk weighted (50%, 75%, 100% and 150%) based on the level of collateral held*.
- Exposures that are Unsecured and Past Due (Over 90 days), net of specific provisions, are risk weighted based on the amount of specific provisions assigned to the outstanding amount of the loan.
- **100% risk weight when specific provisions are no less than 20% of the outstanding amount of the loan;**
- **150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan.**

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Classification for the risk weightings; Secured and Past Due Exposures (Over 90 days) can be found in the QIS Instruction Notes for ERS Reporting Forms under Section 5.17; Past Due Exposures.

Examples of the classification are as follows:-
50% = If such loans are past due but specific provisions are no less than 20% of the outstanding amount, the risk weight applicable to the remainder of the loan will be 50%.
100% = In the case of loans secured by (non-recognized forms of collateral, that is) residential property, when such loans past due for more than 90 days they shall be risk weighted at 100%, net of specific provisions.
150% = Past due loans fully secured by collateral not recognized under CRM framework are to be risk weighted at 150%.

In defining the secured portion of the past due loan, eligible collateral and guarantees will be the same as for Credit Risk Mitigation Purposes.

Example of Unsecured and Past Due (Over 90 days) exposure = If unsecured and past due exposures (Over 90 days) total $200,000 and specific provisions total $50,000 (or 25% of past due exposures) a risk weight of 100% will be applied to the net amount of $150,000. Therefore, the $150,000 will be recorded under Item #15.2.1.

If unsecured and past due exposures (Over 90 days) total $200,000 and specific provisions total $10,000 (or 5% of past due exposures) a risk weight of 150% will be applied to the net amount of $190,000. Therefore, the $190,000 will be recorded under Item #15.2.2.

NOTE: If specific provisions are equal to 20% of past due exposures, the net amount of the past due exposures should be recorded under Item #15.2.1.

Credit Risk – Other Exposures (Not Past Due)

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
16	**Other Exposures which are not Past Due Exposures**	0	0	0		0
16.1	Exposures to Individuals not elsewhere reported			0	100	0
16.2	Investments in equity or other capital instruments issued by financial sector entities (other than those subject to capital deduction or 250% risk weight)			0	100	0
16.3	Premises plant and equipment, other fixed assets for own use, and other interest in land			0	100	0
16.4	Investments in capital instruments issued by financial sector entities (other than those subject to capital deduction)			0	100	0
16.5	High Risk Assets			0	150	0
16.6	Other on-balance sheet exposures which are not elsewhere reported			0	100	0

- All other exposures which are not past due and not categorized above are recorded under Item 16.
- High risk assets are defined as investments in venture capital and private equity, including investment funds holding such investments*.

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A venture capital or private equity investment is deemed to be one which, at the time the investment is made, is:
a) in a new or developing company or venture; or **b)** in a management buy-out or buy-in; or
c) made as a means of financing the investee company or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or
d) acquired with a view to, or in order to, facilitate a transaction falling within (a) to (c).

Off-Balance Sheet Assets (Non-Derivatives)

Off-Balance Sheet Items (Non-Derivative Instruments) Indirect Credit Instruments	Risk Weight (%)	Exposures Without CRM ($000s)		Exposures With CRM ($000s)			Risk Weighted Amount
		Notional Principal Amount Before CCF	Credit Equivalent Exposure	Notional Principal Amount Before CCF	Credit Equivalent Exposure pre-CRM	Credit Equivalent Exposure post-CRM	
CCF 0%							
1. Commitments That Are Unconditionally Cancellable Without Prior Notice							
	ALL		0.00		0.00		0.00
CCF 20%							
2. Commitments With Original Maturity Of Less Than 1 Year							
	0		0.00		0.00		0.00
	20		0.00		0.00		0.00
	50		0.00		0.00		0.00
	100		0.00		0.00		0.00
	150		0.00		0.00		0.00
3. Short-Term, Self-Liquidating, Trade-Related Contingencies							
	0		0.00		0.00		0.00
	20		0.00		0.00		0.00
	50		0.00		0.00		0.00
	100		0.00		0.00		0.00
	150		0.00		0.00		0.00

- Changes have been made to the categories of off-balance sheet items, risk weightings along with corrections in the formulas.
- Off-balance sheet items are converted into credit equivalent exposures (on-balance sheet equivalent) through the use of credit conversion factors (CCFs).
- Licensees should report the instruments by recording the portion of exposures without CRM and the portion with CRM separately under the applicable headings.

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Licensees are reminded that all contingent liabilities (as recorded under Item 15 on Form 2: Balance Sheet – Assets) must also be recorded on this form under the applicable categories.

Exposures without CRM
These columns are completed for exposures, which **do not have** any allowable credit risk mitigation.

Exposures with CRM
These columns are completed for exposures which **have** recognized credit risk mitigation.

Example to illustrate bullet point #3
If ABC Bank has total off balance sheet exposures of $500,000 but only $200,000 is covered by recognized credit risk mitigation, the $200,000 should be recorded under Exposures with CRM ($000s) and the $300,000 should be recorded under Exposures Without CRM ($000s). **The licensee should not record the $500,000 on both sides.**

The risk-weighted amount for Exposures without CRM is calculated as follows:
(1) The principal amount (or face value) of the transaction is converted into an on-balance sheet equivalent by multiplying it with a specified credit

conversion factor;
(2) The credit equivalent exposure is automatically calculated;
(3) The resulting credit equivalent amount is multiplied by the risk weight applicable to the counterparty or the type of asset (in very few cases) to determine the risk weighted amount.

NOTE: To determine when the exposure should be risk weighted by the type of asset, please refer to the Consultation Paper on the Calculation of the Capital Charge for Credit Risk, Section 44 which can be found on the website under Bank Supervision – Basel II and III Implementation – Consultation Papers on the Calculation of the Capital Charge for Credit Risk and the Guidelines for the Internal Capital Adequacy Assessment Process (ICAAP) for Licensees.

The risk-weighted amount for Exposures with CRM is calculated as follows:
(1) The principal amount (or face value) of the transaction is converted into an on-balance sheet equivalent by multiplying it with a specified credit conversion factor;
(2) The credit equivalent exposure is automatically calculated;
(3) Banks are required to calculate the Credit equivalent exposures post-CRM using the simple approach for eligible CRM (For more details see Section 8 of the QIS Instructions Notes on the completion of the ERS Forms which can be found on the website under Bank Supervision – Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015). Off-balance sheet netting is not allowed. This amount should be manually inputted in the cell.
(4) The credit equivalent exposure post-CRM is multiplied by the risk weight applicable to the counterparty or the type of asset (in very few cases) to determine the risk weighted amount.

NOTE: To determine when the exposure should be risk weighted by the type of asset, please refer to the Consultation Paper on the Calculation of the Capital Charge for Credit Risk, Section 44 which can be found on the website under Bank Supervision – Basel II and III Implementation – Consultation Papers on the Calculation of the Capital Charge for Credit Risk and the Guidelines for the Internal Capital Adequacy Assessment Process (ICAAP) for Licensees.

NOTE – In instances where an off-balance sheet asset comprises of both a portion that is uncovered, and a portion that is covered by CRM, the risk weighted amount will be the sum of the credit equivalent exposure (exposures without CRM) and the credit equivalent exposure post-CRM multiplied by the risk weight.

Total risk weighted assets is a summation of all the amounts in the risk weighted amount columns.

Total Required Capital for Off-Balance Sheet Assets is equal to the total RWA X the

minimum capital requirement for credit risk.

Off-Balance Sheet Assets (Derivatives)

	Off-Balance Sheet Items (Derivatives)			Exposures Without CRM ($000s)			Exposures With CRM ($000s)				
		Risk Weight (%)	Credit Conversion Factor	Replacement Cost Of Contracts	Notional Principal Amounts	Credit Equivalent Exposure	Replacement Cost Of Contracts	Notional Principal Amounts	Credit Equivalent Exposure pre-CRM	Credit Equivalent Exposure post-CRM	Risk Weighted Amount
A	**Interest Rate-Related Contracts**										
A.1	Residual Maturity 1 Year or Less	20	0			0.00			0.00		0.00
A.2	Residual Maturity > 1 Year to 5 Years	50	0.50			0.00			0.00		0.00
A.3	Residual Maturity > 5 Years	50	1.50			0.00			0.00		0.00
A.4	Contracts with Residual Maturity > 1 Year that are subject to a CCF Floor	50	1.50			0.00			0.00		0.00
A.5	Contracts with Multiple Exchange of Principal	50				0.00			0.00		0.00
A.6	Counterparty Credit Risk	50				0.00			0.00		0.00
A.7	**Total**										0.00
B	**Foreign Exchange & Gold Contracts**										
B.1	Residual Maturity 1 Year or Less	20	1			0.00			0.00		0.00
B.2	Residual Maturity > 1 Year to 5 Years	50	5			0.00			0.00		0.00
B.3	Residual Maturity > 5 Years	50	7.50			0.00			0.00		0.00
B.4	Contracts with Multiple Exchange of Principal	50				0.00			0.00		0.00
B.5	Counterparty Credit Risk	50				0.00			0.00		0.00
B.6	**Total**										0.00

- Off-balance sheet items are converted into credit equivalent exposures (on-balance sheet equivalent) through the use of credit conversion factors (CCFs).
- The risk weights are determined based on the type of contract listing in each row.

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Exposures without CRM
These columns are completed for exposures, which **do not** have any allowable credit risk mitigation.

Exposures with CRM
These columns are completed for exposures which **have** recognized credit risk mitigation.

NOTE: If ABC Bank has total off balance sheet exposures of $500,000 but only $200,000 is covered by credit risk mitigation, the $200,000 should be recorded under the Exposures with CRM ($000s) and the $300,000 should be recorded under Exposures Without CRM ($000s). **The licensee should not record the $500,000 on both sides.**

To calculate the credit equivalent exposure and the risk weighted amount for exposures without CRM:-

1. Multiply the notional amount by the credit conversion factor
2. Add the replacement cost of the contracts to the product of the conversion factor and the notional principal amount.
3. The credit equivalent exposure is automatically calculated.
4. The credit equivalent exposure is multiplied by the risk weight applicable to the counterparty to determine the risk weighted amount.

To calculate the credit equivalent exposure and the risk weighted amount for exposures with CRM:-

1. Follow steps 1 – 3 above.
2. Banks are required to calculate the Credit equivalent exposures post-CRM using the simple approach for eligible CRM (For more details see Section 8 of the QIS Instructions Notes on the completion of the ERS Forms which can be found on the website under Bank Supervision – Regulatory Framework – Downloadable Forms – New ORIMS Forms 2015). Off-balance sheet netting is not allowed. This amount should be manually inputted in the cell.
3. The credit equivalent exposure post-CRM is multiplied by the risk weight applicable to the counterparty to determine the risk weighted amount.

NOTE – In instances where an off-balance sheet asset comprises of both a portion that is uncovered, and a portion that is covered by CRM, the risk weighted amount will be the sum of the credit equivalent exposure (exposures without CRM) and the credit equivalent exposure post-CRM multiplied by the risk weight.

Total risk weighted assets is a summation of all the amounts in the risk weighted amount columns.

Total Required Capital for Off-Balance Sheet Assets is equal to the total RWA X the minimum capital requirement for credit risk.

Questions and Answers

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