Capital Adequacy

Regulations and Guidelines

Presented by: Central Bank of The Bahamas

Date: 31 May, 2022

Agenda

- Overview
- Capital Requirements and Buffers
- Industry Analysis
- ICAAP
- Operational Risk
- Credit Risk – Standardised Approach
- Credit Risk Mitigation (CRM)
- Lombard Lending
- Leverage Ratio
- Q & A

Overview

- In 2017 the Basel Committee issued its *"Basel III: Finalizing Post-Crisis Reform".*
- A discussion paper was issued in August 2018 with the proposed changes.
- A consultation document was issued in November 2020.

Basel's Amendments

- Enhance the Standardised Approach.
- Constrain the use of the Internal Models Approach.
- Implement the leverage ratio and capital floor.

Central Bank's Amendments

- Require SFIs to use only the Standardised Approach.
- Introduce the Leverage Ratio.
- Updates to the Credit Risk Weighting.

Capital Requirements and Buffers

Previous Criteria

- Minimum Capital Adequacy Ratio = 8% of RWA
- CAR = $\frac{Total\ Eligible\ Capital}{Credit\ RWA + Market\ RWA + Operational\ RWA}$
- Minimum Tier 1 Ratio = 6%
- Minimum CET1 Ratio = 4.5%

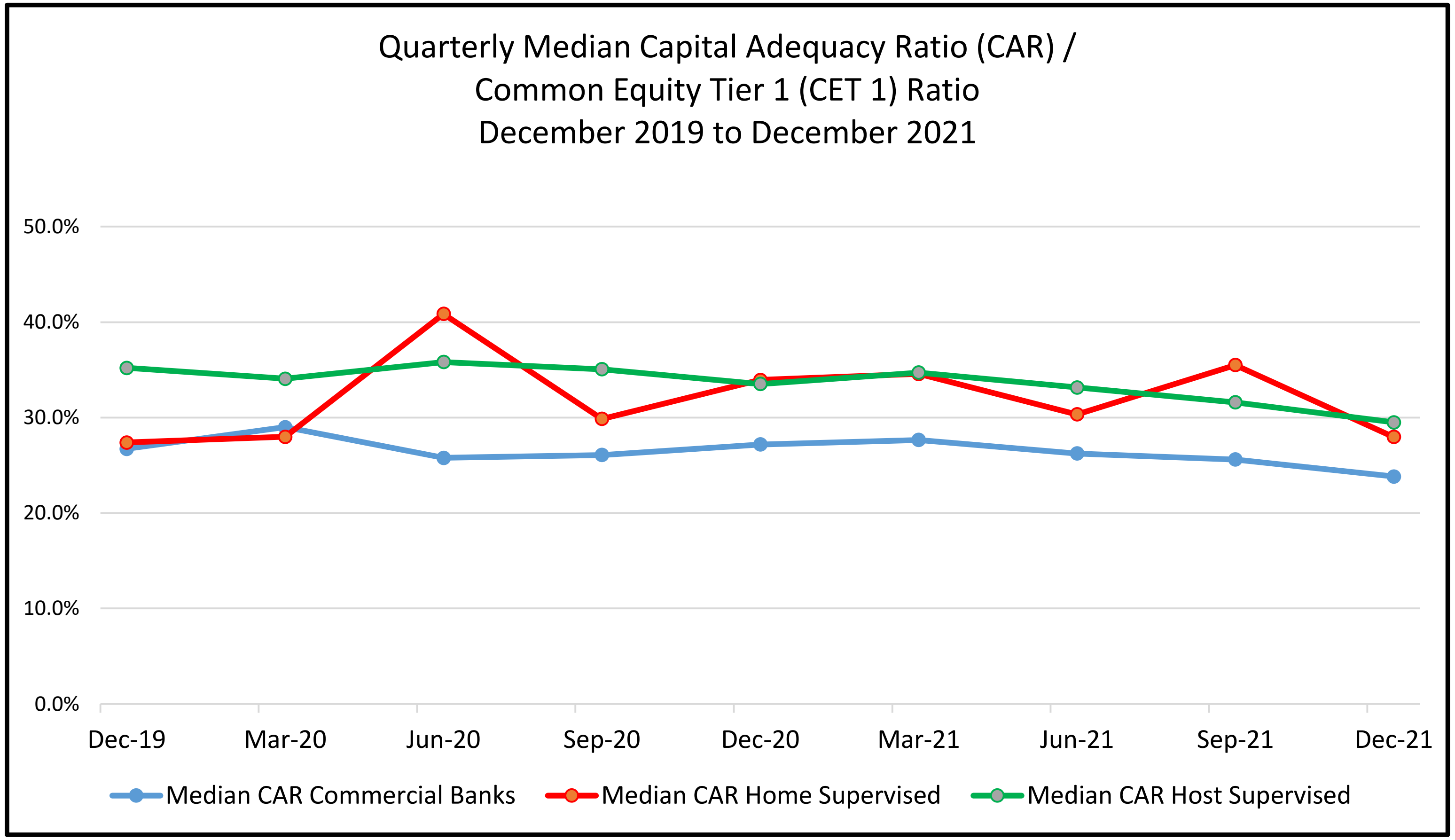
Amended Criteria

- Minimum Capital Adequacy Ratio = 8% of RWA
- Total eligible capital changed to CET1 capital ONLY
- Additional CET1 capital inclusive of the conservation buffer, the systemic risk buffer, and any other Pillar 2 capital add-ons.

AT A GLANCE

	Commercial Bank	Home SFI	Host SFI
CAR	8%	8%	8%
CCB	5%	4%	2.5%
SRB	4%	0%	0%
Total	17%	12%	10.5%

Industry Analysis



- Data collected for both Sept. 2021 and Dec. 2021
- Median CAR (indust.) = 27.7%
- Median CAR (comm) = 23.8%
- Median CAR (Home) = 28.0%
- Median CAR (Host) = 29.5%

Internal Capital Adequacy Assessment Process (ICAAP)

- Must be approved by the Board of Directors no less than every three years.
- Should a SFI be in breach of the minimum capital requirement, the SFI must advise Central Bank of intended actions to restore target requirement.

- **ICAAP must include following features:**
  - Capital projection
  - Assessment of **all** material risk
  - Description of key assumptions and methodologies used
  - Adequate monitoring and reporting
  - Internal control review
  - Independent Review

- **SFI must maintain following:**
  - Capital Management Plan
  - Internal Target and Trigger Ratio
  - At **least** one CET1 and Leverage Ratio Buffer

Capital Composition

- Template only reflects CET1 capital Instruments and Reserves.
- Reports are based on financial year end as opposed to calendar year end.

	Common Equity Tier 1 (CET1) Capital: Instruments and Reserves
1.1	Ordinary Shares/common stock (issued and paid up that relate to directly issued qualifying CET1 capital instruments)
1.2	Stock Surplus (Share Premiums or additional paid-in capital arising from Item (1.1) above)
1.3	Accumulated Other Comprehensive Income (inclusive of interim other comprehensive income)
1.4	General or Statutory Reserves (as disclosed on the balance sheet)
1.5a	Beginning Retained Earnings
1.5b	Current Year Net Profit (Loss) net of expected dividends
1.6	Ending Retained Earnings
	Minority Interest (arising from CET1 capital instruments issued by the consolidated bank's subsidiaries and held by the third party)
1.7	CET1 Capital Before Deductions

	Deductions (Regulatory Adjustments):
8	Valuation Adjustments
9	Goodwill
10	Other intangible assets
11	Cumulative cash flow hedge reserve (that relates to the hedging of financial instruments that are not fair valued on the balance sheet)
12	Gains and losses due to changes in own credit risk on fair valued liabilities
13	Negative amounts resulting from the calculation of expected losses
14	Defined benefit pension fund assets (and liabilities)
	Deferred tax assets
15	Investments in own shares (Treasury stock CET1 capital instruments)
16	Reciprocal cross holdings in CET1 capital instruments issued by any financial sector entities
17	Non-significant investments in the equity (CET1 instruments) 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)
18	Significant investments in the equity (CET1 instruments) 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 entity or where the entity is an affiliate of the bank)
19	Any increase in equity that results from securitised assets
20	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

Capsum

- Provides reporting for the Capital Base based on:
  - Credit Risk
  - Operational Risk
  - Market Risk
- Calculated using the **standardised approach.**
- Capital Adequacy Ratio is **automatically** calculated and is assessed as either:
  - Complaint
  - Non-Compliant
  - Critically Non-compliant
- Compliance is assessed against the capital risk weighted ratio set under the prudential norms.

Capsum - Market Risk

- Market Risk are those associated with on-balance sheet and off-balance sheet exposures arising from changes in market price.

Minimum Requirement expressed in terms of :

  - General Market Risk
  - Specific Risk

- Risk Weighted Assets determined using the **standardised approach.**
- Risk weight multiplier of **12.5%** applied to **all SFIs.**
- Summation of the risk charges will create the Total Market Risk Capital Charge.

Scalars	
Interest Rate Risk	1.30
Equity Position Risk	3.5
Foreign Exchange	1.20
Commodities Risk	1.90

Capsum- Market Risk

Market Risk				
Using simple standardized approach				
1. Interest Rate Risk	1.30	0.00	0.00	
a. Specific Risk		0.00		
b. General Market Risk		0.00		
c. Interest Rate Options		0.00		
2. Equity Position Risk	3.50	0.00	0.00	
a. Specific Risk		0.00		
b. General Market Risk		0.00		
3. Foreign Exchange Risks	1.20	0.00	0.00	
4. Commodities Risks	1.90	0.00	0.00	
Total Capital Required For Market Risk		0.00	0.00	
Multiplier			12.50	
Total Market Risk Adjusted Risk-Weighted Assets				0.00

Scaling Factor

Multiplier

Operational Risk

- SFIs must apply **only** the **standardised approach** for measuring operational risk. The methodology will replace **all** existing approaches.
- Capital Requirements are based on a measure of an SFI's **gross income** and **historical losses.**
- Methodology based on **Business Indicator (BI), Business Indicator Component (BIC)** and the **Internal Loss Multiplier (ILM).**
- The measure of income (business indicator) is calculated as an average over **three** years.
- A BI marginal coefficient of **12%** will be applied to **all** SFIs, and the ILM will be equal to **one.**

Operational Risk Reporting Requirements

- SFIs must disclose any operational loss event **greater than** $100,000 **immediately.**
- Minimum Loss Information must include:
  1. Total Gross Loss Amount(s)
  2. Total Business Activities / Lines Affected
  3. Date of Occurrence
  4. Date of Discovery
  5. Date of Accounting
  6. Information on Recoveries of Gross Loss and Drivers of Loss Events (if available)

Statement of Operational Risk

Minimum Loss Information Data

B) Basic Indicator Approach (BIA)				
Year	Total Gross Income ($000s)	Total Gross (After Negative GI Adjustment)	Alpha	Capital Charge
1/0/1900		0	15	0
1/0/1900		0	15	0
1/0/1900		0	15	0
Number of Years with Positive Total Gross Income				0
Basic Indicator Approach Capital Charge				0
Operational Risk Equivalent Assets				0.00

Removed

C) Standardised Approach (TSA)				
Year	Business line	Total Gross Income ($000s)	Beta	Capital Charge
1/0/1900	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

- 4 Components:
  - Minimum Loss Information Data.
  - Historical Losses Events.
  - Business Indicator and Subcomponents.
  - Capital Required for Operational Risk.
- Complete the **Gross Income** eight business lines over a three year period.
- BIA, Beta, and Capital Charge removed.
- All SFIs are required to complete sections I –IV.

Statement of Operational Risk

Historical Loss Events

A. Operational Risk Loss Event under $20,000	
1	Total amount of gross operational losses
2	Total amount of loss recovery
2a	of which: Insurance recovery
3	Total amount of net operational losses
4	Number of operational loss events
B. Operational Risk Loss Event between $20,000 and $100,000	
5	Total amount of gross operational losses
6	Total amount of loss recovery
6a	of which: Insurance recovery
7	Total amount of net operational losses
8	Number of operational loss events
C. Operational Risk Loss Event over $100,000 Threshold	
9	Total amount of gross operational losses
10	Total amount of loss recovery
10a	of which: Insurance recovery
11	Total amount of net operational losses
12	Number of operational loss events

- Table used to disclose aggregate losses incurred over a 10 year period.
- SFIs with less than 10 years are required to complete all relevant years (must advise the Central Bank).
- Multiple events linked to a single root event should be reported as a single loss.

Statement of Operational Risk

AN EXAMPLE

In 2021 Company Alpha experienced:

1. 17 July - $15k Cheque Fraud
2. 8 November - $75k Phishing Scam

Date of Discovery:

1. Cheque Fraud: 21 July
2. Phishing Scam: 19 November

Date of Accounting:

1. Cheque Fraud: 5 August
2. Phishing Scam: 21 November

Alternative:
Phishing Scam occurred in November which led to credit fraud. Company lost 90k in the phishing scam and 12k as a result of credit fraud.

Historical Loss Events

A. Operational Risk Loss Event under $20,000	
1	Total amount of gross operational losses
2	Total amount of loss recovery
2a	of which: Insurance recovery
3	Total amount of net operational losses
4	Number of operational loss events
B. Operational Risk Loss Event between $20,000 and $100,000	
5	Total amount of gross operational losses
6	Total amount of loss recovery
6a	of which: Insurance recovery
7	Total amount of net operational losses
8	Number of operational loss events
C. Operational Risk Loss Event over $100,000 Threshold	
9	Total amount of gross operational losses
10	Total amount of loss recovery
10a	of which: Insurance recovery
11	Total amount of net operational losses
12	Number of operational loss events

Statement of Operational Risk

Business Indicator and Subcomponents

- Table used to calculate the BI under the standardised approach.
- Table to be completed using current period **(T)** and the previous 2 periods **(T-1 and T-2)**.
- BI composed of:
  - Interest, Lease and Dividend
  - Services
  - Financial Component

		Year T	Year T-1	Year T-2	3 Year Average
	A) Business Indicator				
1.	Interest, Lease and Dividend	0	3028000	2336000	2,118,490
1.1	Interest Income	1160000	990000	1535000	838,000
1.2	Interest Expenses	2220000	182000	889000	
1.3	Interest Earning Assets (Balance Sheet Item)	132000	110000	490000	244,000
1.4	Dividend Income	515000	2110000	1200000	1,275,000
2.	Services	1035000	1166100	641900	2,002,000
2.1	Fee and commission income	900000	960100	821900	894,000
2.2	Fee and commission expense	115000	489000	589000	397,667
2.3	Other operating income	880000	1535000	909000	1,108,000
2.4	Other operating expense	630000	840000	500000	656,667
3.	Financial Component	930817	908712	799000	879,510
3.1	Net P&L on the trading book	413817	439000	399000	417,272
3.2	Net P&L on the banking book	517000	469712	400000	462,237
4.	Gross Total Business (BI)				5,000,000
4.1	Exempted Excluded Divested Activities				1
4.1.1	Supervisory Approval Obtained?				Yes
4.2	Net Total Business Indicator (BI)				4,999,999

Statement of Operational Risk

Operational Risk Capital Requirement

	Total ($000s)
1.Business Indicator Component (BIC)	600,000
2.Internal Loss Multiplier (ILM) will be equal to 1	1
3.Operational Risk Capital Charge	600,000
4.Operational Risk Equivalent Assets	7,500,000

Example: SFI’s Total Income is $5 million

BI Bucket 1 = BIC = $5million * 12% = $0.6million

Operational Risk Capital Charge = $0.6million * 1 = $0.6million

Operational Risk Equivalent Asset = $0.6million * 12.5 = $7.5million

Credit Risk: Standardised Approach

- All SFIs must **only** apply the Standardised Approach.
- External Credit Assessment Institutions (ECAIs) should be used by all SFIs. These include:
    - S+P 500;
    - Fitch;
    - Moody’s; and
    - CariCRIS.
- Risk weights will be applied to a SFI’s on- and off-balance sheet assets.
- Exposures are to be risk weighted net of specific provisions.

Credit Risk Mitigation (CRM)

- Allowable Credit Risk Mitigation (CRM) techniques include:
  - Collateralization;
  - Netting; and
  - Guarantees.
- Double-counting is **not** allowed.
- Only the simple method must be applied to banking book exposures where recognized credit risk mitigation techniques have been used.

Lombard Lending

- A loan granted by a SFI to its client and secured by some or all of the marketable securities held by the client in a custody account with that SFI.
- SFIs may use all or the most favorable risk weights associated with the underlying collateral.
- The risk weight on the underlying exposure or collateral, will receive either —
  - (a) 20% or
  - (b) the risk weight that would apply had the SFI lent separately to the borrower against each security as a separate collateral.
- Securities issued by the borrower or an affiliate of the borrower must **not** be included in the collateral risk weight calculation.

Credit Risk: On-Balance Sheet

Public Sector Entities (PSEs)

4	Claims on Public Sector Entities (PSEs)		0	0	0	
4.1	Treatment as Sovereign		0	0	0	
4.1.1	Treatment as Bahamas Sovereign					0
4.1.2	Credit Assessment of PSEs	AAA to AA-				0
4.1.3		A+ to A-				20
4.1.4		BBB+ to BBB-				50
4.1.5		BB+ to B-				100
4.1.6		Below B-				150
4.1.7		Unrated				100
4.2	Treatment as Bank		0	0	0	
4.2.1	Credit Assessment of PSEs	AAA to AA-				20
4.2.2		A+ to A-				30
4.2.3		BBB+ to BBB-				50
4.2.4		BB+ to B-				100
4.2.5		Below B-				150
4.2.6		Unrated				
4.2.7		Grade "A"				40
4.2.8		Grade "B"				75
4.2.9		Grade "C"				100
4.3	Treatment as Corporate		0	0	0	
4.3.1	Credit Assessment of PSEs	AAA to AA-				20
4.3.2		A+ to A-				50
4.3.3		BBB+ to BB-				100
4.3.5		Below BB-				150
4.3.6		Unrated				100

NEW

- The Central Bank continues to use national discretion to allow a 0% risk weight for exposures to The Bahamas Government.
- Expansion of the Treatment as Non-Bahamas Sovereign exposures.
- Expansion of the Treatment as Bank Unrated exposures.
- Expansion of the Treatment as Corporate exposures.

Credit Risk: On-Balance Sheet

Multilateral Development Banks (MDBs)

Removed

5	Claims on Multi-Lateral Development Banks (MDBs)		0	0	0	
5.1	Special MDBs				0	0
5.2	Bank (Option 2)					
5.2.1	Credit Assessment of MDBs	AAA to AA-				20
5.2.2		A+ to A-				50
5.2.3		BBB+ to BBB-				50
5.2.4		BB+ to B-				100
5.2.5		Below B-				150
5.2.6		Unrated				50

Old Risk Weighting

5	Claims on Multi-Lateral Development Banks (MDBs)		0	6	0	
5.1	Treatment as MDBs					
5.1.1	Credit Assessment of MDBs	AAA to AA-				20
5.1.2		A+ to A-				100
5.1.3		BBB+ to BBB-				100
5.1.4		BB+ to B-				100
5.1.5		Below B-				100
5.1.6		Unrated				100

New Risk Weighting

- Removal of the treatment of special MDBs with a risk weight of 0%.
- All MDBs are to be risk weighted according to their credit assessment.
- Highly rated MDBs that meet the eligibility criteria (outlined by the Basel Committee) and are rated AAA to AA- will be risk weighted at 20%.
- All other MDB exposures will be risk weighted at 100%.

Credit Risk: On-Balance Sheet

Claims on Banks

- All banks incorporated in a given country will be assigned a risk weight according to their credit assessment.
- The country credit rating to use for a bank (subsidiary or branch) is where the placement is incorporated.

New Risk Weights

6	Claims on Banks		0	0	0	
6.1	Exposures with original maturity of more than three months:		0	0	0	
6.1.1	Credit assessment of Banks	AAA to AA-				20
6.1.2		A+ to A-				30
6.1.3		BBB+ to BBB-				50
6.1.4		BB+ to B-				100
6.1.5		Below B-				150
6.1.6		Unrated				
6.1.7		Grade "A"				40
6.1.8		Grade "B"				75
6.1.9		Grade "C"				100
6.2	Exposures with original maturity of three months or less (in domestic currency):		0	0	0	
6.2.1	Domestic Currency					20
6.3	Exposures with original maturity of three months or less:		0	0	0	
6.3.1	Credit assessment of Counterparty	AAA to AA-				20
6.3.2		A+ to A-				20
6.3.3		BBB+ to BBB-				20
6.3.4		BB+ to B-				50
6.3.5		Below B-				150
6.3.6		Unrated				
6.3.7		Grade "A"				20
6.3.8		Grade "B"				50
6.3.9		Grade "C"				100

Credit Risk: On-Balance Sheet

Claims on Securities Firms

7	Claims on Securities Firm		0	0	0	
7.1.1	Credit assessment of Counterparty	AAA to AA-				20
7.1.2		A+ to A-				30
7.1.3		BBB+ to BBB-				50
7.1.4		BB+ to B-				100
7.1.5		Below BB-				150
7.1.6		Unrated				
7.1.7		Grade "A"				40
7.1.8		Grade "B"				75
7.1.9		Grade "C"				100

NEW

- These are institutions (i.e. authorized agents).
- Treated the same as claims on banks provided these firms are subject to supervisory and regulatory arrangements comparable to those under this Framework.
- Otherwise such claims would follow the rules for claims on corporates.

Credit Risk: On-Balance Sheet

Claims on Corporates

8	Claims on Corporates		0	0	0	
8.1	Corporates		0	0	0	
8.1.1	Credit assessment of Counterparty	AAA to AA-				20
8.1.2		A+ to A-				50
8.1.3		BBB+ to BB-				100
8.1.5		Below BB-				150
8.1.6		Unrated				100

NEW

- Exposures to corporates include exposures to securities firms that do not qualify for treatment under banks.
- Claims on Corporate will no longer have a fixed risk weight of 100%.
- Venture capital and private equity investments are exempted.

Credit Risk: On-Balance Sheet

Investments (Shares and Securities)

10	Investments (Shares and Securities)		0	0	0	
10.1	Domestic Securities				0	
10.1.1	Public Corporation Bonds				0	20
10.1.2	Other Domestic Securities				0	100
10.2	Foreign Securities				0	100
10.3	Other Investments		0	0	0	
10.3.1	Credit Assessment	Risk Weight 0%			0	0
10.3.2		Risk Weight 20%			0	20
10.3.3		Risk Weight 30%			0	30
10.3.4		Risk Weight 40%			0	40
10.3.5		Risk Weight 50%			0	50
10.3.6		Risk Weight 75%			0	75
10.3.7		Risk Weight 100%			0	100
10.3.8		Risk Weight 150%			0	150
10.3.9		Other High Risk Assets - Deduction			0	Deduction

NEW

- Other investments (including Lombard lending) must be risk weighted according to their credit assessment.
- Investment funds must be included unless they invest in high risk assets, in which case they are categorized as such.

Credit Risk: On-Balance Sheet

Securitization

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

NEW

- Exposures to securitization vehicles are highly complex.
- Due to very few banks reporting this type of exposure, the Central Bank will not create a framework at this time.
- We encourage SFIs to focus on the simplest and least risky tranches of such vehicles.
- All exposures below a credit assessment of A+ to A- (A-2/P-2) are a CET1 deduction.

Credit Risk: On-Balance Sheet

Retail Portfolio & Residential Mortgages (Residential Real Estate)

12	Retail Portfolio	0	0	0	
12.1	Individual			0	75
12.2	Small and Medium Enterprises (SMEs)			0	75
12.3	Other Retail Exposures			0	75
13	Residential Mortgages (Residential Real Estate)	0	0	0	
13.1	Loan to Value (LTV) ≤ 60%			0	25
13.2	Loan to Value (LTV) ≤ 80%			0	50
13.3	Loan to Value (LTV) > 80%			0	100

NEW

- Only exposures that meet certain criteria can be classified as Retail Exposures.
- Residential Real Estate exposure means an exposure secured by a mortgage on residential property that is or will be occupied for housing purposes.
- Residential Real Estate exposures are tied to a Loan to Value (LTV) ratio.

Credit Risk: On-Balance Sheet

Commercial Mortgages (Commercial Real Estate)

14	Commercial Mortgages (Commercial Real Estate)	0	0	0	
14.1	Not Materially Dependent on Cash Flow:			0	
14.1.1	Loan to Value (LTV) ≤ 60%			0	60
14.1.2	Loan to Value (LTV) > 60%			0	100
14.2	Materially Dependent on Cash Flow:			0	
14.2.1	Loan to Value (LTV) ≤ 60%			0	70
14.2.2	60% < Loan to Value (LTV) ≤ 80%			0	90
14.2.3	Loan to Value (LTV) > 80%			0	110

NEW

- Exposures are separated between those materially dependent and non-materially dependent on cash flow.
- The Central Bank may apply supervisory intervention measures to SFIs (originating stand-alone commercial real estate exposures) exceeding a LTV of 80%.
- Mortgages on commercial real estate must be covered by fit for purpose insurance.

Credit Risk: On-Balance Sheet

Land Acquisition, Development, and Construction

15	Land Acquisition, Development and Construction	0	0	0	
15.1	Residential Land and Construction Exposures	0	0	0	
15.1.1	Loan to Value (LTV) ≤ 60%				25
15.1.2	60% < Loan to Value (LTV) ≤ 80%				50
15.1.3	Loan to Value (LTV) > 80%				100
15.2	Uncompleted Commercial Land, Development and Construction Exposure			0	100
15.3	Completed Commercial Land, Development and Construction Exposure				
15.3.1	Not Materially Dependent on Cash Flow:	0	0	0	
15.3.1.1	Loan to Value (LTV) ≤ 60%			0	60
15.3.1.2	Loan to Value (LTV) > 60%			0	100
				0	
15.3.2	Materially Dependent on Cash Flow:	0	0	0	
15.3.2.1	Loan to Value (LTV) ≤ 60%			0	70
15.3.2.2	60% < Loan to Value (LTV) ≤ 80%			0	90
15.3.2.3	Loan to Value (LTV) > 80%			0	110

- Residential borrowing for land and construction is not notably more (or less) risky than borrowings for a completed structure so risk weights are the same as Residential Mortgages.
- Uncompleted commercial land acquisition, development and construction exposure must be risk-weighted at 100%.
- Completed commercial structures includes not only physical completion but also occupancy by tenants the risk weight will align with Commercial Mortgages.

Credit Risk: On-Balance Sheet

Other Exposures which are not Past Due Exposures

17	Other Exposures which are not Past Due Exposures			
17.1	Exposures to Individuals not elsewhere reported			100
17.2	Investments in equity or other capital instruments issued by financial sector entities (other than those subject to capital deduction or 250% risk weight)			100
17.3	Premises plant and equipment, other fixed assets for own use			100
17.4	Commercial property held other than for the SFI's own operations			300
17.5	High Risk Assets (e.g. crypto-asset, venture capital, private equity etc.)			Deduction
17.6	Other on-balance sheet exposures which are not elsewhere reported			100
17.7	Intangible assets and goodwill			Deduction

NEW

- A section for commercial property held other than for the SFI's own operation was added with a risk weighting of 300%.
- High risk assets are now considered a CET1 deduction.

Credit Risk: An Example

Small Business Loan Amount = $1M

Secured by: Domestic Public Corporation Bonds valued at $1M

Item No.	On Balance Sheet Items	($000s)	CRM	TOTAL (after CRM)	Risk Weight (%)	RWA
12	Retail Portfolio	1000000	733,333	266,667		200,000
12.1	Individual			0	75	0
12.2	Small Business	1000000	733,333	266,667	75	200,000
12.3	Other Retail Exposures			0	75	0

Uncollateralised = Exposure (Net of Eligible CRM) * RWA

Collateralised = Eligible CRM * RWA

Step 1: Calculate the total Risk Weighted Asset (RWA)
= Uncollateralised Portion + Collateralised Portion

Step 2: Calculate the Total (after CRM)
= RWA / Risk Weight

Step 3: Calculate the CRM
= Exposure – Total (after CRM)

Credit Risk: Off-Balance Sheet

Non-Derivative

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 10%							
1.Commitments That Are Unconditionally Cancellable Without Prior Notice							
	10		0.00		0.00		0.00
	20		0.00		0.00		0.00
NEW	50		0.00		0.00		0.00
	75		0.00		0.00		0.00
	100		0.00		0.00		0.00
	150		0.00		0.00		0.00

- Off-balance-sheet items under the standardised approach will be converted into credit exposure equivalents through the use of credit conversion factors (CCF).
- Removal of the CCF of 0% and replacing it with the CCF of 10%.
- A risk weight of 10% and 75% was added to each category.

Credit Risk: Off-Balance Sheet

Derivative

Off-Balance Sheet Items (Derivatives)		Risk Weight (%)	Credit Conversion Factor	Exposures Without CRM ($000s)			Exposures With CRM ($000s)				Risk Weighted Amount
				Replacement Cost (Current Exposure)	Notional Principal Amounts	Credit Equivalent Exposure	Replacement Cost (Current Exposure)	Notional Principal Amounts	Credit Equivalent Exposure pre-CRM	Credit Equivalent Exposure post-CRM	
A	Interest Rate-Related Contracts										
A.1	Residual Maturity 1 Year or Less	100	0			0.00			0.00		0.00
A.2	Residual Maturity > 1 Year to 5 Years	100	0.50			0.00			0.00		0.00
A.3	Residual Maturity > 5 Years	100	1.50			0.00			0.00		0.00
A.4	Contracts with Residual Maturity > 1 Year that are subject to a CCF Floor	100	1.50			0.00			0.00		0.00
A.5	Contracts with Multiple Exchange of Principal	100				0.00			0.00		0.00
A.6	Counterparty Credit Risk	100				0.00			0.00		0.00
A.7	Total										0.00

NEW

- Off-balance sheet derivative form is the sum of the risk-weighted amounts of all market-related exposure.
- All risk weights are now set to 100%.

Leverage Ratio

Summary Comparison of Accounting Assets vs leverage ratio Exposure Measure

Item No.	
1	Total consolidated assets (latest published financial statement)
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure
4	Adjustments for derivative financial instruments
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)
7	Other Adjustments
8	Leverage Ratio Exposure

Only Negative

Only Positive

- Reported annually based on the latest available published financial statements.
- All other adjustments can be either positive or negative.

Leverage Ratio

Leverage Ratio Common Disclosure

Item No.	
1	On-Balance Sheet Exposures
1.1	On-Balance Sheet Assets
1.2	Derivatives
1.3	Securities Financing Transactions (SFTs)
	Less:
1.4	Items deducted from CET1 Capital (including specific provisions)
1.5	All other regulatory adjustments (in determining CET1 Capital)
1.6	Total on-balance sheet exposures (including Derivatives and SFTs)

- This table provides a breakdown of the main leverage ratio regulatory elements.
- Derivatives and securities financing transactions (SFTs) are included in the exposure measure as part of total assets.
- Most of the table is automatically populated.
- SFIs are to manually input data into items 1.3 and 1.5.

Leverage Ratio

Leverage Ratio Common Disclosure

2	Off-Balance Sheet Exposures
2.1	Off-balance sheet exposure at gross notional amount
2.2	(Adjustments for conversion to credit equivalent amounts)
2.3	Total Off-balance sheet exposures
3	Capital and Total Exposures
3.1	CET1 Capital
3.2	Total Exposures
4	Leverage Ratio
4.1	Leverage Ratio (%)

Leverage Ratio=

$$\frac{\text{CET 1 Capital}}{\text{Exposure Measure}}$$

Leverage Ratio Requirement:

- Commercial Banks 6%.
- Home Supervised Financial Institutions 4%.
- Host Supervised Financial Institutions 4%.

Note:

- SFIs will need to maintain their ratio at all time and to report quarterly.
- The total exposure value (3.2) is based on a quarterly reporting so it will differ from Table 1.

Questions and Answers

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