J. 2 OPERATIONAL RISK (All amounts to be rounded off to the nearest '000)

Reconciliation of gross income	**Line no.**	**Financial year -3**	**Financial year -2**	**Financial year -1**
		1	**2**	**3**
Gross operating income (item 125)	280			
Adjustments[1, 2] (total of items 282 to 288)	281			
Income derived from insurance	282			
Operating expenses, including fees paid by the reporting bank to service providers in respect of outsourcing	283			
Realised profits/losses on sale of securities held in the banking book	284			
Impairment	285			
Extraordinary or irregular items	286			
Adjusted prior period errors	287			
Other adjustments (please specify)	288			
Gross income (item 280 minus item 281)	289			

1. To the extent that these items are included in item 280 above.

2. Report any relevant expense or other amount to be deducted from gross operating income as a negative amount.

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

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

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

(a) is to ensure that foreign operations of South African banks are prudently managed;

(b) is to obtain selected information relating to the foreign operations of South African banks in order to evaluate the risks that such operations are exposed to, which risks may pose a treat to the safety and soundness of the banking group in respect of which the said operation is a member, including selected information in respect of each relevant foreign operation's-

(i) on-balance sheet assets and liabilities;

(ii) off-balance sheet items;

(iii) profit or loss situation;

(iv) capital adequacy;

(v) exposure to credit risk

(vi) exposure to market risk;

(vii) exposure to operational risk;

(viii) exposure to equity risk arising from positions held in its banking book;

(c) is to evaluate the adequacy of risk management and internal controls of the said foreign operation;

(d) is to obtain an understanding of the activities conducted by the said foreign operation;

(e) is to ensure that the said foreign operation, based on its risk profile, is adequately capitalised.

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

(a) relating to the completion on a solo basis of the respective risk-based returns by a bank in the Republic; or

(b) for the calculation on a solo basis of the relevant minimum required amount of capital and reserve funds of a bank in the Republic,

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

(i) based on the circumstances prevailing in each relevant country the said foreign operation shall apply and interpret any relevant definition contained in these Regulations, provided that in cases of uncertainty or when a conflict in interpretation may arise the said bank or foreign operation shall in writing refer the matter to the Registrar for a directive to be issued in terms of the provisions of section 6(6) of the Act;

(ii) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar a foreign operation of a bank in the Republic may complete the required information based on the rules and regulations of a relevant host supervisor when the said rules and regulations-

(A) are deemed by the Registrar to be equivalent in all material respects to the relevant requirements specified in these Regulations; or

(B) result in more complete or accurate information.

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

CAPITAL ADEQUACY

Page no.

CAPITAL ADEQUACY **BA700**

(Confidential and not available for inspection by the public)
Name of bank/ controlling company ....
Month*/ quarter* ended..............................(yyyy-mm-dd)

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

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

Summary of information in respect of capital adequacy	Line no.	Risk exposure					
		Credit	**Operational**	**Market**	**Equity**	**Other**	**Total**
		1	2	3	4	5	6
Required capital adequacy ratio							
Minimum prescribed capital adequacy ratio (percentage)	1						8.00%
Additional systemic requirement specified by the Registrar	2						1.50%
Minimum required capital adequacy ratio (total of items 1 and 2)	3						9.50%
Risk weighted exposure							
Risk weighted exposure equivalent amount prior to concentration risk	4						
Risk equivalent amount in respect of concentration risk	5						
Aggregate risk weighted exposure equivalent amounts (total of item 4 and 5)	6						
Minimum required capital and reserve funds							
Minimum required capital and reserve funds based on risk-weighted exposure (item 3 multiplied with item 6)	7						
Additional bank specific capital requirement specified by the Registrar[1]	8						
Subtotal *(total of items 7 and 8)*	9						
Minimum amount of required capital and reserve funds in accordance with section 70 of the Act	10						
Minimum required capital and reserve funds in respect of the reporting bank[2]	11						
		Primary capital and reserve funds		**Secondary capital and reserve funds**		**Tertiary capital**	**Total** (of col. 1 to 3)
Qualifying capital and reserve funds		1		2		3	4
Issued capital and reserve funds	12						
Non-qualifying amounts in respect of capital and reserve funds	13						
Prescribed deductions against capital and reserve funds	14						
Aggregate amount of qualifying capital and reserve funds (item 12 less items 13 and 14)	15						
Excess / (shortfall) (item 15 column 4 less item 11 column 6)	16						
						Prescribed limit or ratio	**Ratio of reporting bank**
Memorandum items:						1	2
Total capital adequacy ratio[3]	17					≥ 9.50%	
Primary share capital and reserve funds adequacy ratio[4]	18					≥ 7%	
Non-redeemable non-cumulative preference shares and hybrid debt instruments as % of total primary capital and reserve funds[4]	19					≤ 25%	
Secondary capital and reserve funds and tertiary capital as % of primary share capital and reserve funds[4]	20					≤ 100%	
Subordinated term debt as % of primary share capital and reserve funds[4]	21					≤ 50%	
Hybrid debt instruments as % of primary share capital and reserve funds[4]	22					≤ 15%	

1. **Including any relevant required amount relating to an imposed capital floor.**
2. **Greater of item 9 or item 10.**
3. **Refer to regulation 38(8)(b).**
4. **Refer to regulation 38(9).**

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

Qualifying capital and reserve funds	**Line no.**	**Balance at the end of the reporting period**	**Balance at the end of the previous reporting period**	**Balance at the end of the previous financial year**	**Movement during the reporting period** (col 1 minus col 2)	**Movement for the current year to date** (col 1 minus col 3)
		1	**2**	**3**	**4**	**5**
Net qualifying primary share capital and reserve funds (item 36 plus item 37 less items 40 and 43)	23					
Issued primary share capital[1] (total of items 25 to 27)	24					
Ordinary shares	25					
Non-redeemable non-cumulative preference shares	26					
Preferred securities	27					
Primary unimpaired reserve funds (total of items 29 to 32)	28					
Share premium	29					
Retained earnings	30					
Current year appropriated profits	31					
Other appropriated general or special reserve funds (total of items 33 to 35)	32					
other - specify	33					
other - specify	34					
other - specify	35					
Total primary share capital and unimpaired reserve funds before deductions, specified approved amounts and non qualifying amounts (total of items 24 and 28)	36					
Specified approved amounts related to consolidated supervision (total of items 38 and 39)	37					
Surplus capital in insurance entity	38					
Minority interests	39					
Issued primary share capital instruments not qualifying due to prescribed limits[2] (total of items 41 and 42)	40					
Non-redeemable non-cumulative preference shares	41					
Preferred securities	42					
Deductions against primary share capital and primary unimpaired reserve funds[3] (total of items 44 to 59)	43					
Goodwill	44					
Establishment costs	45					
Capital requirement in respect of foreign branches	46					
Accumulated losses	47					
Instruments issued in respect of which no value was received	48					
Financial assistance provided to persons acquiring qualifying instruments	49					
Qualifying capital instruments held in banks or other regulated institutions	50					
Specified increases in capital arising from securitisation schemes, such as any gain-on-sale arising from the recognition of future margin income	51					
Acknowledgement of debt issued to fund qualifying instruments	52					

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

Qualifying capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Balance at the end of the previous financial year	Movement during the reporting period (col 1 minus col 2)	Movement for the current year to date (col 1 minus col 3)
		1	2	3	4	5
Fifty percent of amount by which expected loss exceeds eligible provisions[4]	53					
Fifty per cent of specified investments in commercial entities	54					
Fifty per cent of first loss credit enhancement provided in respect of a securitisation scheme	55					
Fifty per cent of an unrated second loss position in an ABCP programme when the bank also retained or provided the first loss position	56					
Fifty per cent of any equity or other capital instrument held in any majority owned or controlled financial entity, or significant minority owned or controlled financial entity, not consolidated[5]	57					
Fifty per cent of any equity or other capital instrument held in any majority owned or controlled insurance entity, or significant minority owned or controlled insurance entity, not consolidated	58					
Other deductions (total of items 60 and 61)	59					
other - specify	60					
other - specify	61					

1. **Refer to regulation 38(13).**
2. **Refer to regulation 38(9).**
3. **Refer to, amongst others, the relevant provisions contained in regulations 23(6)(j), 23(8)(j), 23(11)(q) and 23(13)(e).**
4. **Relates to a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk.**
5. **To the extent not already deducted elsewhere.**

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

Qualifying capital and reserve funds	**Line no.**	**Balance at the end of the reporting period**	**Balance at the end of the previous reporting period**	**Balance at the end of the previous financial year**	**Movement during the reporting period** (col 1 minus col 2)	**Movement for the current year to date** (col 1 minus col 3)
		1	**2**	**3**	**4**	**5**
Net qualifying secondary capital and reserve funds (item 79 less items 80 and 84)	62					
Issued secondary capital (total of items 64 to 68)	63					
Prescribed categories of hybrid-debt instruments[1]	64					
Perpetual cumulative preference shares	65					
Prescribed categories of cumulative debt instruments other than term debt instruments	66					
Fifty per cent of ordinary shares or preference shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of assets	67					
Prescribed categories of term debt instruments[2]	68					
Non qualifying primary share capital instruments eligible to qualify as secondary capital[3] (total of items 70 and 71)	69					
Non-redeemable non-cumulative preference shares (item 41)	70					
Preferred securities (item 42)	71					
Secondary unimpaired reserve funds (total of items 73 to 76)	72					
Fifty per cent of revaluation surplus i.t.o regulation 12	73					
General allowance for credit impairment, after deferred tax: Standardised approach[4]	74					
Excess amount in respect of eligible provisions: IRB approach[5]	75					
Other reserve funds (total of items 77 and 78)	76					
other - specify	77					
other - specify	78					
Total secondary capital and unimpaired reserve funds before deductions and non qualifying amounts (total of items 63, 69 and 72)	79					

1. **Refer to regulation 38(14)(a).**
2. **Refer to regulation 38(14)(b).**
3. **Issued primary share capital instruments not qualifying due to a prescribed limit. Refer to regulations 38(9) and 38(11).**
4. **The portion of general allowance for credit impairment which relates to exposures subject to the standardised approach for credit risk may be included in secondary unimpaired reserve funds up to a maximum amount of 1,25 per cent of item 52, column 12, of the form BA200. Refer to regulation 23(22)(c).**
5. **The surplus amount of eligible provisions calculated in accordance with the provisions of regulation 23(22)(d) in respect of exposures subject to the IRB approach may be included in secondary unimpaired reserve funds up to a maximum amount of 0,6 per cent of item 202, column 3, of the form BA200.**

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

Qualifying capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Balance at the end of the previous financial year	Movement during the reporting period (col 1 minus col 2)	Movement for the current year to date (col 1 minus col 3)
		1	2	3	4	5
Issued secondary capital instruments, secondary reserve funds and other instruments not qualifying due to prescribed limits[1] or haircuts[2] (total of items 81 to 83)	80					
Prescribed categories of term debt instruments	81					
Haircut in respect of term debt instruments[2]	82					
Other instruments or reserve funds	83					
Deductions against secondary capital and secondary unimpaired reserve funds[3] (total of items 85 to 95)	84					
Issued instruments in respect of which no value was received	85					
Financial assistance provided to persons acquiring qualifying instruments	86					
Qualifying capital instruments held in banks or other regulated institutions	87					
Acknowledgement of debt issued to fund qualifying instruments	88					
Fifty percent of amount by which expected loss exceeds eligible provisions[4]	89					
Fifty per cent of specified investments in commercial entities	90					
Fifty per cent of first loss credit enhancement provided in respect of a securitisation scheme	91					
Fifty per cent of an unrated second loss position in an ABCP programme when the bank also retained or provided the first loss position	92					
Fifty per cent of any equity or other capital instrument held in any majority owned or controlled financial entity, or significant minority owned or controlled financial entity, not consolidated[5]	93					
Fifty per cent of any equity or other capital instrument held in any majority owned or controlled insurance entity, or significant minority owned or controlled insurance entity, not consolidated	94					
Other deductions (total of items 96 to 98)	95					
other - specify	96					
other – specify	97					
other – specify	98					
Net qualifying tertiary capital (item 100 less items 102 and 103)	99					
Tertiary capital (item 101)	100					
Issued subordinated term debt instruments[6]	101					
Tertiary capital not qualifying due to prescribed limits[1]	102					
Deductions against tertiary capital[3]	103					

1. **Refer to regulation 38(9).**
2. **Refer to regulation 38(14)(b).**
3. **Refer to, amongst others, the relevant provisions contained in regulations 23(6)(j), 23(8)(j), 23(11)(q) and 23(13)(e).**
4. **Relates to a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk.**
5. **To the extent not already deducted elsewhere.**
6. **Refer to regulation 38(16).**

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

Qualifying capital and reserve funds	**Line no.**	**Balance at the end of the reporting period**	**Balance at the end of the previous reporting period**	**Balance at the end of the previous financial year**	**Movement during the reporting period** (col 1 minus col 2)	**Movement for the current year to date** (col 1 minus col 3)
		1	**2**	**3**	**4**	**5**
Aggregate amount of qualifying primary and secondary capital and reserve funds and qualifying tertiary capital (total of items 23, 62 and 99)	104					
of which: allocated to support risks other than market risk (total of items 106 and 107)	105					
of which: Qualifying primary share capital and reserve funds	106					
Qualifying secondary capital and reserve funds	107					
of which: allocated to support market risk (total of items 109 to 111)	108					
of which: Qualifying primary share capital and reserve funds	109					
Qualifying secondary capital and reserve funds	110					
Qualifying tertiary capital (item 99)	111					
Other non qualifying amounts not specified elsewhere	112					

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

Memorandum items: Reconciliation in respect of unappropriated profits	**Line no.**	**Current reporting period**	**Previous reporting period**	**Financial year**
		1	**2**	**3**
Balance in respect of unappropriated profits	113			
Month / year to date movements in respect of: Current profits/ (loss)	114			
Payment of dividends	115			
Transfers from appropriated profits	116			
Transfers to appropriated profits	117			
Balance in respect of unappropriated profits (total of items 113, 114 and 116, less items 115 and 117)	118			
Balance in respect of fair value reserves	119			
Balance in respect of cash flow hedging reserves	120			
Other (total of items 122 and 123)	121			
other - specify	122			
other - specify	123			
Total unappropriated reserve funds (total of items 118 to 121)	124			

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

Memorandum items: **Reconciliation between qualifying capital and reserve funds and accounting equity and reserves**	Line no.	**Primary capital and reserve funds**	**Secondary capital and reserve funds**	**Tertiary capital**	**Non qualifying capital and reserve funds**	**Total included in BA100** (total of columns 1 to 4)
		1	**2**	**3**	**4**	**5**
Share capital and premium	125					
Retained earnings	126					
Other reserve funds (total of items 128 to 135)	127					
Foreign currency translation reserve	128					
Share based payments reserve	129					
Cash flow hedging reserve	130					
Available for sale reserve	131					
Surplus resulting from a revaluation of specified assets	132					
General credit risk reserve	133					
Other (specify)	134					
Other (specify)	135					
Minority interests	136					
Subordinated debt instruments qualifying as capital	137					
General allowance for credit impairment qualifying as capital	138					
Prescribed deductions against capital and reserve funds	139					
Total (of items 125 to 127 and 136 to 138, less item 139)	140					

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) The standardised approach prescribed in regulation 28(7);

(ii) Subject to the fulfilment of certain quantitative and qualitative requirements, the prior written approval of the Registrar and such further conditions as may be specified in writing by the Registrar, the internal model approach prescribed in regulation 28(8); or

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

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

(i) The basic indicator approach prescribed in regulation 33(7);

(ii) Subject to the prior written approval of the Registrar and such conditions as may be determined by the Registrar, the standardised or alternative standardised approach prescribed in regulation 33(8);

(iii) Subject to the prior written approval of the Registrar and such conditions as may be determined by the Registrar, the advanced measurement approach prescribed in regulation 33(9);

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

(e) shall, based on-

(i) the approach adopted by the bank for the measurement of the bank's exposure to credit risk, as envisaged in paragraph (a) above;

(ii) such conditions as may be specified in writing by the Registrar,

use one of the alternative approaches specified below to determine the bank's exposure in respect of securitisation schemes:

(A) the standardised approach prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6)(h) and 23(8)(h) respectively;

(B) the IRB approach prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) and 23(13) respectively.

(3) For the purposes of calculating-

(a) the minimum amount of qualifying primary and secondary capital and reserve funds relating to risks other than market risk and that a bank is required to maintain, based on such conditions as may be specified in writing by the Registrar from time to time, the bank-

(i) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14), risk weight such average daily balance or month-end balance of assets as may be specified in the respective returns or in writing by the Registrar;

(ii) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14), risk weight such average daily balance or month-end balance of off-balance sheet items as may be specified in the respective returns or in writing by the Registrar;

(iii) shall in accordance with the relevant requirements specified in regulation regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(19), risk weight such average amount or month-end balance of the bank's exposure in respect of unsettled transactions held in the bank's banking book as may be specified in the respective returns or in writing by the Registrar;

(iv) shall in accordance with the relevant requirements specified in regulation 23(3) read with the relevant requirements specified in regulations 23(6) to 23(14) and regulations 24(6) to 24(8), risk weight such average amount or month-end balance of the bank's large exposures or concentration risk as may be specified in the respective returns or in writing by the Registrar;

(b) the minimum amount of qualifying primary and secondary capital and reserve funds and tertiary capital relating to market risk that a bank is required to maintain, the bank shall in accordance with the relevant requirements specified in regulation 28 risk weight all relevant daily positions held in the bank's trading book and all relevant positions held in the bank's banking book;

(4) When the Registrar is of the opinion that a bank's-

(a) calculated aggregate risk exposure does not sufficiently reflect-

(i) the bank's actual risk profile;

(ii) the factors external to the bank, such as the effect of business cycles;

(iii) the risk relating to a particular type of exposure such as credit risk, market risk or operational risk;

(iv) the risk relating to a group of exposures such as corporate exposure or retail exposure,

(b) qualifying capital and reserve funds are likely to be overstated due to, for example, reserves that are subject to material volatility as a result of short-term fair value gains or adjustment;

(c) policies, processes and procedures relating to its risk assessment are inadequate;

(d) policies, processes and procedures relating to compensation or remuneration are inadequate;

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

(e) internal control systems are inadequate;

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

(i) to maintain additional capital, calculated in such a manner and subject to such conditions as may be specified in writing by the Registrar;

(ii) to deduct from its qualifying capital and reserve funds such amount calculated in such a manner and subject to such conditions as may be specified in writing by the Registrar;

(iii) to strengthen the bank's risk management policies, processes or procedures;

(iv) to duly align the bank's compensation or remuneration policies, processes or procedures with the bank's relevant exposure to risk;

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

(5) Assets or amounts representing deductions against the reporting bank's capital and reserve funds, which assets or amounts, in terms of the provisions of section 70 of the Act shall be deducted from the respective categories of capital and unimpaired reserve funds, shall be recorded against the appropriate line items specified in the form BA 700.

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

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

(a) The external credit assessment-

(i) shall be issued by an eligible external credit assessment institution-

(A) which credit assessment shall be publicly available, that is, the credit assessment shall be published by the relevant external credit assessment institution in an accessible form and shall be included in the external credit assessment institution's transition matrix, instead of being made available only to the parties involved in the securitisation scheme or resecuritisation exposure;

(B) which credit assessment institution shall have demonstrated its expertise relating to the assessment of securitisation or resecuritisation exposures, which expertise is likely to be evidenced by strong market acceptance;

(ii) shall be based on the total amount of credit exposure arising from all relevant payments due, that is, for example, when the outstanding amount relates to both principal and interest amounts, the credit assessment shall be based on the timely repayment of both the relevant principal amount and the relevant interest amount;

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

(i) the bank shall not apply credit assessments issued by one eligible credit assessment institution in respect of one or more tranches relating to a particular securitisation scheme or resecuritisation exposure, and credit assessments issued by another eligible credit assessment institution in respect of other positions relating to the same securitisation structure or resecuritisation exposure;

(ii) a bank shall in no case apply an external credit assessment for the calculation of the bank's minimum required amount of capital and reserve funds when the said assessment is in any manner influenced by or based on any form of unfunded support provided by that bank, irrespective whether the position is held in the bank's banking book or trading book.

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

(iii) a bank's capital requirement related to an acquired ABCP position envisaged in subparagraph (ii) above, which position is held in the bank's trading book, shall in no case be less than the required amount of capital and reserve funds related to a similar position held in the bank's banking book;

(iv) a bank shall recognise any overlap in exposure in accordance with the relevant requirements specified in regulation 23(6)(h)(ix).

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

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

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

(v) when-

(A) two or more eligible external credit assessment institutions assess the credit risk associated with a particular securitisation exposure differently, the bank shall risk weight the said exposure in accordance with the relevant requirements specified in regulation 23(5)(b)(i);

(B) an external credit assessment assigned to a particular securitisation exposure is based on protection provided directly to the special purpose institution by an eligible protection provider, the bank-

(i) shall apply the risk weight associated with the said external credit assessment to the relevant exposure;

(ii) shall, in order to avoid any double counting of the protection obtained by the special-purpose institution, disregard the said credit protection;

(C) protection is obtained by a special-purpose institution from a protection provider other than an eligible protection provider, the bank shall treat the relevant securitisation exposures as unrated;

(D) credit protection is obtained by the bank in respect of a particular securitisation exposure within a particular securitisation structure, the bank shall treat the relevant exposure as an unrated protected exposure in accordance with the relevant requirements specified in regulations 23(7), 23(9), 23(12) or 23(14).

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

(a) General conditions

A bank-

(i) acting in a primary role and subsequently investing in commercial paper issued by a special-purpose institution shall have in place adequate risk-management systems and controls to ensure that the bank does not accumulate disproportionate levels of aggregate exposure to commercial paper issued by the special-purpose institution;

(ii) that acted in a primary role and subsequently invests in a disproportionate level of commercial paper issued by a special-purpose institution is likely to contravene, amongst other things, the conditions relating to an effective and verifiable transfer of risk and sufficient market discipline as envisaged in the exemption notice relating to securitisation schemes.

(b) Specific conditions

(i) Subject to the provisions of subregulation (2)(e) and based on-

(A) the approach adopted by a bank for the measurement of the bank's exposure to credit risk, as envisaged in subregulation (2)(a) above,

(B) the economic substance and not the legal form of a position obtained or exposure incurred by the bank in respect of a traditional or synthetic securitisation scheme,

(C) such conditions as may be specified in writing by the Registrar,

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

(i) the extension by the reporting bank of any credit enhancement facility to a special-purpose institution;

(ii) the provision of any credit protection;

(iii) an investment by the bank in commercial paper issued by a special-purpose institution;

(iv) the retention of any subordinated exposure;

(v) the extension of any liquidity facility to a special-purpose institution;

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

(ii) Irrespective whether a bank adopted the standardised approach or IRB approach for the measurement of the bank's exposure in respect of credit risk and securitisation schemes or resecuritisation exposure, the bank-

(A) shall not exclude from the calculation of its required amount of capital and reserve funds any assets transferred to a special-purpose institution unless the said transfer of assets, amongst other things, complies with the relevant conditions specified in paragraph 4(2) of the exemption notice relating to securitisation schemes, provided that the bank shall comply with the relevant capital requirements specified in these Regulations in respect of any relevant risk exposure retained by the bank;

(B) shall not, when the bank calculates its required amount of capital and reserve funds, recognise any risk mitigation in respect of a synthetic securitisation scheme unless the said risk mitigation, amongst other things, complies with the relevant conditions specified in paragraph 5(2) of the exemption notice relating to securitisation schemes.

(iii) Irrespective whether a bank adopted the standardised approach or IRB approach for the measurement of the bank's exposure relating to credit risk and securitisation schemes or resecuritisation exposure, and irrespective whether the relevant position or instrument is held in a bank's banking book or trading book, the bank shall on a continuous basis-

(A) have a comprehensive understanding of the risk characteristics of its individual securitisation and resecuritisation exposure, and the risk characteristics of the pools underlying its securitisation or resecuritisation exposure, irrespective whether the relevant position or instrument constitutes and on-balance-sheet or off-balance-sheet position;

(B) be able to access performance information on the underlying pools, including relevant information related to-

(i) the exposure type;

(ii) the percentage of loans or exposure 30 days, 60 days and 90 days past due;

(iii) default rates;

(iv) prepayment rates;

(v) loans or exposure in foreclosure;

(vi) property type;

(vii) occupancy;

(viii) average credit score or other measures of creditworthiness;

(ix) average loan-to-value ratio;

(x) industry and geographic diversification;

(C) have a thorough understanding of all structural features of the relevant securitisation or resecuritisation transaction that may materially impact the performance of the bank's exposure to the transaction, such as-

(i) the contractual waterfall and waterfall related triggers;

(ii) credit enhancements;

(iii) liquidity enhancements;

(iv) market value triggers; and

(v) deal-specific definitions of default.

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

(c) *Granularity*

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

(8) *Minimum required capital and reserve funds*

(a) For the purposes of determining in form BA 700 the minimum amount of-

(i) allocated qualifying primary and secondary capital and reserve funds required to support risks other than market risk and required to be maintained by a bank in terms of section 70 of the Act, a bank shall calculate the said minimum amount, amongst others, in accordance with the relevant provisions specified in subregulation (3)(a) read with the provisions of subregulations (2)(a), (2)(b), (2)(d) and (2)(e) above;

(ii) allocated qualifying primary and secondary capital and reserve funds and tertiary capital required to support market risk and required to be maintained by a bank in terms of section 70 of the Act, a bank shall calculate the said minimum amount, amongst others, in accordance with the relevant provisions specified in subregulation (3)(b) read with subregulation (2)(c) above.

(b) The percentage, contemplated in section 70 of the Act, of the amount of a bank's assets and other risk exposures, as adjusted through the application of the relevant specified risk weights, proxies or factors, and which is to be used, as contemplated in the said section of the Act, to calculate the minimum amount of allocated qualifying primary and secondary capital and reserve funds and tertiary capital that the bank is required to maintain in terms of that section shall be a minimum of 8 per cent, or such a higher percentage as may be determined by the Registrar in consultation with the Governor of the Reserve Bank, which percentage or any relevant component thereof, amongst others, shall be inserted in items 1 to 3 and 17 to 22 of the form BA 700.

(c) The Registrar may with the consent of the Minister determine or amend risk-weight percentages or risk components in respect of assets and other risk exposures, including assets and other risk exposures identified to exist in a country other than the Republic, which assets or risk exposures may or may not specifically be specified or referred to in these Regulations.

(d) A bank shall maintain the minimum amount of-

(i) allocated qualifying primary and secondary capital and reserve funds relating to risks other than market risk; and

(ii) allocated qualifying primary and secondary capital and reserve funds and tertiary capital relating to market risk,

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

(e) Notwithstanding, and without derogating from, the provisions of paragraphs (a) to (d) of this subregulation (8), in accordance with, *inter alia,* the relevant requirements specified in the form BA700, regulations 39(1) to 39(6), and regulation 39(16) of these Regulations, a bank shall have in place robust policies, processes and procedures to ensure that the bank continuously maintains-

(i) the relevant minimum required specified percentage of eight per cent qualifying primary, secondary and tertiary capital and reserve funds to risk weighted exposure; plus

(ii) the relevant additional minimum required percentage specified from time to time for systemic risk of qualifying primary, secondary and tertiary capital and reserve funds to risk weighted exposure; plus

(iii) the relevant additional bank specific minimum required percentage specified from time to time for idiosyncratic risk of qualifying primary, secondary and tertiary capital and reserve funds to risk weighted exposure; plus

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

(A) board-approved risk appetite or tolerance for risk;

(B) board-approved business strategy;

(C) risk profile and control environment;

(D) future capital needs;

(E) desired level of capital;

(F) stress-testing results,

such additional buffer of qualifying primary, secondary and tertiary capital and reserve funds to risk weighted exposure as the board of directors and the senior management of that bank may determine.

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

(9) *Qualifying capital and reserve funds*

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

(a) the aggregate amount of primary and secondary capital and reserve funds and tertiary capital that the bank is required to maintain manage its business in such as way that-

(i) its primary capital adequacy ratio, at no stage, is less than 7 percent;

(ii) the ratio of non-redeemable non-cumulative preference shares and hybrid-debt instruments forming part of the total amount of primary share capital and primary unimpaired reserve funds of the bank at no time exceeds 25 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank, that is-

(A) at least 75 per cent of the minimum required amount of primary share capital and primary unimpaired reserve funds of the bank shall consist of ordinary shares and primary reserve funds that accrued for the benefit of ordinary shareholders;

(B) the bank shall take into account any non-redeemable non-cumulative preference shares, primary reserve funds that accrued for the benefit of non-redeemable non-cumulative preference shareholders and hybrid-debt instruments forming part of the primary share capital and primary unimpaired reserve funds of the bank to a maximum of 25 per cent of the minimum required amount of primary share capital and primary unimpaired reserve funds;

(iii) the ratio of hybrid-debt instruments forming part of the total amount of primary share capital and primary unimpaired reserve funds of the bank at no time-

(A) during the period 1 January 2012 to 31 December 2012 exceeds 15 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank;

(B) during the period 1 January 2013 to 31 December 2013 exceeds 10 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank;

(C) during the period 1 January 2014 to 31 December 2014 exceeds 5 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank;

Provided that after 1 January 2015 no amount obtained from the issue of any hybrid-debt instrument shall form part of the total amount of primary share capital and primary unimpaired reserve funds of the bank.

(iv) the ratio of subordinated term debt instruments qualifying as secondary capital in terms of the provisions of section 1(1) of the Act read with subregulation (14)(b) below at no time exceeds 50 per cent of the sum of the bank's primary share capital and primary unimpaired reserve funds, that is, the bank shall take into account any subordinated term debt qualifying as secondary capital to an amount not exceeding 50 per cent of the sum of the bank's primary share capital and primary unimpaired reserve funds;

(b) the aggregate amount of allocated qualifying capital and reserve funds required to support risks other than market risk, including any relevant required amount of capital and reserve funds in respect of credit risk and operational risk, ensure that-

(i) the ratio of non-redeemable non-cumulative preference shares and hybrid-debt instruments forming part of the total amount of primary share capital and primary unimpaired reserve funds at no time exceeds 25 per cent of the total amount of primary share capital and primary unimpaired reserve funds, that is-

(A) at least 75 per cent of the minimum required amount of primary share capital and primary unimpaired reserve funds shall consist of ordinary shares and primary reserve funds that accrued for the benefit of ordinary shareholders;

(B) the bank shall take into account any non-redeemable non-cumulative preference shares, primary reserve funds that accrued for the benefit of non-redeemable non-cumulative preference shareholders and hybrid-debt instruments forming part of the total amount of primary share capital and primary unimpaired reserve funds to a maximum of 25 per cent of the minimum required amount of primary share capital and primary unimpaired reserve funds;

(ii) the ratio of hybrid-debt instruments forming part of the total amount of primary share capital and primary unimpaired reserve funds at no time-

(A) during the period 1 January 2012 to 31 December 2012 exceeds 15 per cent of the total amount of primary share capital and primary unimpaired reserve funds;

(B) during the period 1 January 2013 to 31 December 2013 exceeds 10 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank;

(C) during the period 1 January 2014 to 31 December 2014 exceeds 5 per cent of the total amount of primary share capital and primary unimpaired reserve funds of the bank;

Provided that after 1 January 2015 no amount obtained from the issue of any hybrid-debt instrument shall form part of the total amount of primary share capital and primary unimpaired reserve funds of the bank.

(iii) the ratio of subordinated term debt instruments qualifying as secondary capital in terms of the provisions of section 1(1) of the Act read with subregulation (14)(b) below at no time exceeds 50 per cent of the sum of the bank's allocated and qualifying primary share capital and allocated and qualifying primary unimpaired reserve funds, that is, the bank shall take into account any subordinated term debt qualifying as secondary capital to an amount not exceeding 50 per cent of the sum of the bank's allocated and qualifying primary share capital and allocated and qualifying primary unimpaired reserve funds;

(c) the aggregate amount of allocated qualifying capital and reserve funds required to support market risk, ensure that-

(i) the ratio of allocated and qualifying primary share capital and reserve funds to allocated and qualifying secondary capital and reserve funds is at no time less than 50:50, that is, at least 50 per cent of the minimum required amount of allocated and qualifying primary and secondary capital and reserve funds shall consist of allocated and qualifying primary share capital and reserve funds, provided that, subject to such conditions and such period as may be specified in writing by the Registrar, the Registrar may in respect of a particular bank, controlling company or the banking sector as a whole specify a ratio of allocated and qualifying primary share capital and reserve funds to allocated and qualifying secondary capital and reserve funds other than 50:50;

(ii) the ratio of allocated and qualifying primary share capital and reserve funds to allocated and qualifying secondary capital and reserve funds and tertiary capital is at no time less than 50:50, that is, at least 50 per cent of the minimum required amount of allocated and qualifying primary and secondary capital and reserve funds and tertiary capital shall consist of allocated and qualifying primary share capital and reserve funds, provided that-

(A) tertiary capital shall be allowed solely to support any capital requirement relating to market risk, that is, tertiary capital shall in no circumstances be taken into consideration in order to support any capital requirement of the reporting bank relating to risks such as operational risk, credit risk or counterparty risk, including counterparty credit risk relating to derivative instruments held in either the bank's banking book or trading book;

(B) subject to such conditions and such period as may be specified in writing by the Registrar, the Registrar may in respect of a particular bank, controlling company or the banking sector as a whole specify a ratio of allocated and qualifying primary share capital and reserve funds to allocated and qualifying secondary capital and reserve funds and tertiary capital other than 50:50;

(C) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, the sum of a bank's allocated and qualifying secondary capital and reserve funds and tertiary capital required to support market risk may be taken into account to an amount not exceeding 250 per cent of the sum of the bank's allocated and qualifying primary share capital and reserve funds required to support market risk provided that after the deduction against the relevant categories of capital and reserve funds of such amounts as may be specified in regulations 23(6)(j), 23(8)(j), 23(11)(q) or 23(13)(e), the sum of the bank's secondary capital, secondary unimpaired reserve funds and tertiary capital relating to banking and trading activities or all relevant risk exposures shall in no case be taken into account to an amount in excess of the sum of the bank's qualifying primary share capital and reserve funds relating to banking and trading activities or all relevant risk exposures.

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

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

(11) *Conditions relating to instruments not qualifying as primary share capital due to a prescribed limit or ratio*

Any capital obtained through the issue of non-redeemable non-cumulative preference shares or prescribed categories of preferred securities such as hybrid-debt instruments, which capital would otherwise rank as primary share capital of the reporting bank but subsequently is disqualified to rank as primary share capital of the reporting bank as a result of a limit or ratio imposed in respect of qualifying amounts in terms of subregulation (9), shall qualify as secondary capital of the reporting bank.

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

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

(a) cumulative preference shares may subject to paragraph (b) below rank as secondary capital to the extent of 100 per cent thereof;

(b) cumulative preference shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of specified assets may rank as secondary capital to the extent of 50 per cent thereof;

(c) ordinary shares or preference shares other than cumulative preference shares issued in pursuance of the capitalisation of reserves resulting from a revaluation of specified assets may rank as secondary capital to the extent of 50 per cent thereof; and

(d) debt instruments such as debentures, hybrid-debt instruments or any interest-bearing written acknowledgement of debt, issued in accordance with the conditions set forth in subregulation (14) below, may rank as secondary capital to the extent of 100 per cent thereof.

(13) *Conditions for issue of instruments, including preferred securities such as specified hybrid-debt instruments, of which the proceeds rank as primary share capital*

In the case of-

(a) any instrument, the relevant proceed shall rank as primary share capital only when all the conditions specified below are met.

The instrument-

(i) shall be issued and fully paid;

(ii) shall be subordinated to all claims from other elements of funding, including depositors, general creditors, senior creditors and any subordinated debt issued by the bank the proceeds of which subordinated debt qualify as secondary or tertiary capital of the bank, that is, only instruments that represent the most subordinated claim on a *pari passu* basis in the case of liquidation shall be included as primary share capital;

(iii) shall be able to absorb losses on a going-concern basis;

(iv) shall, unless specifically otherwise specified in this subregulation (13), have no specified maturity date or incentive for the bank to redeem the instrument;

(v) shall be free from any mandatory fixed charges or dividend payment;

(vi) shall be non-cumulative, that is, any potential dividend or cost associated with the instrument shall be non-cumulative;

(vii) shall provide the bank with full flexibility regarding dividend or similar payment;

(viii) shall, unless specifically otherwise provided in this subregulation (13), entitle the owner of the instrument to a claim against the residual assets that is proportional with the said owner's share of the issued capital instruments;

(ix) is neither directly or indirectly secured or covered by any form of guarantee or commitment issued by the issuer or a related person of the issuer, or subject to any arrangement that may legally or economically enhance the seniority of the claim;

(x) unless specifically otherwise provided in this subregulation (13), constitutes equity of the issuer in terms of financial reporting standards issued from time to time;

(b) preferred securities, such as hybrid-debt instruments, that is, instruments that combine certain features of equity instruments and debt instruments, contemplated in section 1(1) of the Act-

(i) the reporting bank or controlling company shall obtain the prior written approval of the Registrar before the instruments are issued;

(ii) the features of the instruments shall be duly disclosed in the annual financial statements and other relevant disclosures to the general public;

(iii) the main features of the instruments shall be such that they are likely to be easily understood by investors and the general public;

(iv) the said instruments-

(A) shall not be payable to bearer;

(B) shall be paid in full by the investors on the date of issue and the proceeds of the instruments shall be available to the issuing bank or controlling company without any limitation;

(C) shall be free from any mandatory fixed charges;

(D) shall be non-cumulative, that is, any interest or other servicing cost shall be non-cumulative;

(E) may provide the issuer with an option to settle any relevant interest or other servicing cost through the issue of ordinary shares in lieu of cash settlement;

(F) shall enable the bank or controlling company to absorb losses on a going concern basis;

(G) shall be issued without a maturity date;

(H) may make provision for a call option in terms of which the issuing bank or controlling company may redeem the instruments after a minimum initial period of five years, provided that the instruments shall be replaced with instruments of a similar or better quality unless the Registrar determines that the bank is duly capitalised;

(I) may be redeemed only at the option of the bank or controlling company concerned and with the prior written approval of the Registrar;

(J) may in addition to any call option make provision for one step-up in the initial rate payable in terms of the instrument but only after a minimum initial period of ten years, provided that the instrument shall not contain any other feature or clause that creates an incentive to redeem the instrument. Normally the call option and step-up feature may be regarded as synthetic redemption features embedded in the instrument. The said step-up in the initial rate shall be restricted to an increase over the initial rate of not more than-

(i) 100 basis points, less the swap spread referred to below; or

(ii) 50 per cent of the initial credit spread, less the swap spread referred to below.

The swap spread shall be determined at the pricing date of the instrument and shall relate to the differential in pricing at that date between the initial reference instrument or rate and the stepped-up reference instrument or rate;

(K) shall be subordinated to claims from depositors, general creditors, senior creditors and any subordinated debt issued by the bank the proceeds of which subordinated debt qualify as secondary or tertiary capital of the bank, that is, any claim by a holder of the instrument in respect of the principal amount or any relevant interest or other servicing costs shall be subordinated to any claim from a depositor, general creditor, senior creditor or the holder of any subordinated debt of which the proceeds qualify as secondary or tertiary capital of the bank, provided that the instrument-

(i) may rank *pari passu* with the rights of a holder of any non-redeemable non-cumulative preference share of which the proceeds qualify as primary share capital;

(ii) may rank senior only in respect of the rights of an ordinary shareholder;

(L) issued by the bank to investors shall contain the wording "the proceeds obtained through the issue of this instrument qualify as primary share capital for the issuing bank in terms of the provisions of the Banks Act, 1990. Any direct or indirect acquisition of this instrument by a bank or controlling company, as defined in the Banks Act, 1990, or by a non-bank subsidiary of a bank or controlling company, shall constitute a deduction against the primary share capital of the acquiring bank or controlling company in question, in an amount equal to the book value of the said investment in the instrument".

(v) the amount obtained by way of the issue of the instruments and which may rank as primary share capital shall be reduced by any direct or indirect funding provided by the reporting bank, or a bank within the reporting banking group, to the person investing in the said instruments;

(vi) no asset of the bank or controlling company shall be pledged or otherwise encumbered as security for any liability in respect of the instrument;

(vii) the bank's liabilities in respect of the instruments shall not be protected by any guarantee issued by the bank or any related entity of the bank;

(viii) no arrangement shall exist that legally or economically enhances the seniority of the ranking of the instruments;

(ix) the bank or controlling company, as the case may be, may waive any payment in respect of the instruments, subject only to the prior waiver of distributions in respect of any ordinary shares or non-redeemable non-cumulative preference shares the proceeds of which qualify as primary share capital, and the bank shall have full access to the waived payments.

(14) *Conditions for the issue of debt instruments of which the proceeds rank as secondary capital*

The issue of debt instruments contemplated in section 1(1) of the Act shall be subject to the conditions specified below.

In the case of-

(a) hybrid-debt instruments, that is, instruments that combine certain features of equity instruments and debt instruments-

(i) the reporting bank or controlling company, as the case may be, shall obtain the prior written approval of the Registrar before the instruments are issued;

(ii) the features of the instruments shall be duly disclosed in the annual financial statements and other relevant disclosures to the general public;

(iii) the main features of the instruments shall be such that they are likely to be easily understood by investors and the general public;

(iv) the said instruments-

(A) shall not be payable to bearer;

(B) shall be paid in full by the investors on the date of issue and the proceeds of the instruments shall be available to the issuing bank or controlling company without any limitation;

(C) may be cumulative;

(D) shall enable the bank or controlling company to absorb losses on a going concern basis;

(E) shall be issued without a maturity date;

(F) may make provision for a call option in terms of which the issuing bank or controlling company may redeem the instruments after a minimum initial period of five years, provided that the instruments shall be replaced with instruments of a similar or better quality, unless the Registrar determines that the bank is duly capitalised;

(G) may be redeemed only at the option of the bank concerned and with the prior written approval of the Registrar;

(H) may in addition to any call option make provision for one step-up in the initial rate payable in terms of the instrument after a minimum initial period of ten years. Normally the call option and step-up feature may be regarded as synthetic redemption features embedded in the instrument. The said step-up in the initial rate shall be restricted to an increase over the initial rate of not more than-

(i) 100 basis points, less the swap spread referred to below; or

(ii) 50 per cent of the initial credit spread, less the swap spread referred to below.

The swap spread shall be determined at the pricing date of the instrument and shall relate to the differential in pricing at that date between the initial reference instrument or rate and the stepped-up reference instrument or rate;

(I) shall be subordinated to claims from depositors, general creditors, senior creditors and any subordinated term debt issued by the bank the proceeds of which subordinated term debt qualify as secondary or tertiary capital of the bank, that is, any claim by a holder of the instrument in respect of the principal amount or any relevant interest or other servicing costs shall be subordinated to any claim from a depositor, general creditor, senior creditor or the holder of any subordinated term debt of which the proceeds qualify as secondary or tertiary capital of the bank;

(J) issued by the bank to investors shall contain the wording "the proceeds obtained through the issue of this instrument qualify as secondary capital for the issuing bank in terms of the provisions of the Banks Act, 1990. Any direct or indirect acquisition of this instrument by a bank or a controlling company, as defined in the Banks Act, 1990, or by a non-bank subsidiary of a bank or controlling company, shall constitute a deduction against the secondary capital of the acquiring bank or controlling company in question, in an amount equal to the book value of the said investment in the instrument".

(v) the amount obtained by way of the issue of the instruments and which may rank as secondary capital shall be reduced by any direct or indirect funding provided by the reporting bank or a bank within the reporting banking group to the person investing in the said instruments;

(vi) no asset of the bank or controlling company shall be pledged or otherwise encumbered as security for any liability in respect of the instrument;

(vii) the bank's liabilities in respect of the instruments shall not be protected by any guarantee issued by the bank or any related entity of the bank;

(viii) no arrangement shall exist that legally or economically enhances the seniority of the ranking of the instruments;

(ix) the bank may waive any payment in respect of the instruments, subject only to the prior waiver of distributions in respect of any ordinary shares, non-redeemable non-cumulative preference shares or hybrid-debt instruments in respect of which the proceeds qualify as primary share capital, and the bank shall have full access to the waived payments.

(b) any term debt instrument-

(i) the reporting bank shall obtain the prior written approval of the Registrar before the debt instrument is issued;

(ii) the debt instrument shall not be payable to bearer;

(iii) no asset of the bank issuing the debt instruments shall be pledged or otherwise encumbered as security for any liability by virtue of the debt instrument;

(iv) the debt instrument shall be issued for a minimum original term to maturity of more than five years;

(v) the debt instrument may be redeemed before maturity only at the option of the bank concerned and with the prior written approval of the Registrar;

(vi) notwithstanding the provisions of any other Act, in the event of the winding-up of the bank concerned, the capital amount and any related interest cost of the debt instrument shall not be repaid until the claims of other creditors have been fully satisfied;

(vii) which term-debt instrument makes provision for an interest rate step-up, such an interest rate step-up shall take effect only after a minimum period of more than five years from the issue date of the said instrument;

(viii) issued by the bank to investors, the said instrument shall contain the wording "the proceeds obtained through the issue of this instrument qualify as secondary capital for the issuing bank in terms of the provisions of the Banks Act, 1990. Any direct or indirect acquisition of this instrument by a bank or a controlling company, as defined in the Banks Act, 1990, or by a non-bank subsidiary of a bank or controlling company, shall constitute a deduction against the secondary capital of the acquiring bank or controlling company in question, in an amount equal to the book value of the said investment in the instrument"; and

(ix) the amount obtained by way of the issue of the debt instrument and which may in terms of section 1(1) of the Act rank as secondary capital, except in the case of such debt instruments that are to be converted into shares representing capital that may in terms of this section rank as primary or secondary capital, shall during the fifth year preceding the maturity of such debt instruments be reduced by an amount equal to 20 per cent of the amount so obtained and, annually thereafter, by an amount that in each successive year is increased by 20 per cent of the amount so obtained.

(15) *Secondary unimpaired reserve funds*

(a) The funds contemplated in paragraph (a) of the definition of 'secondary unimpaired reserve funds' in section 1(1) of the Act shall be funds obtained from actual earnings or by way of recoveries and which have been set aside as a general or special reserve and which are available for the purpose of meeting liabilities of or losses suffered by the bank.

(b) The percentage contemplated in paragraph (b) of the definition of 'secondary unimpaired reserve funds' in section 1(1) of the Act shall be 100 per cent of the portion of the revaluation surplus that brings the book value of the assets up to the original cost of such assets, that is, accumulated depreciation, and 50 per cent of the surplus amount above the original cost of such assets.

(c) The conditions contemplated in paragraph (d) of the definition of 'secondary unimpaired reserve funds' in section 1(1) of the Act shall be the conditions *mutatis mutandis* set forth in subregulation (14).

(16) *Conditions for issue of debt instruments of which the proceeds rank as tertiary capital*

The issue of debt instruments contemplated in section 1(1) of the Act shall be subject to the conditions specified below.

(a) The reporting bank shall obtain the prior written approval of the Registrar before the debt instruments are issued.

(b) The debt instruments shall be issued for a minimum original term to maturity of more than two years.

(c) The debt instrument shall not be payable to bearer.

(d) The debt may be repaid before maturity only at the option of the bank concerned and with the prior written approval of the Registrar.

(e) No asset of the borrowing bank may be pledged or otherwise encumbered as security for any liability by virtue of the debt.

(f) Notwithstanding the provisions of any other Act, in the event of the winding-up of the bank concerned, the capital amount and any related interest cost of the debt instrument shall not be repaid until the claims of depositors and other creditors have been fully satisfied.

(g) The debt instrument issued by the bank to investors shall contain the wording "the proceeds obtained through the issue of this instrument qualify as tertiary capital for the issuing bank in terms of the provisions of the Banks Act, 1990. Any direct or indirect acquisition of this instrument by a bank or a controlling company, as defined in the Banks Act, 1990, or by a non-bank subsidiary of a bank or controlling company, shall constitute a deduction against the tertiary capital of the acquiring bank or controlling company in question, in an amount equal to the book value of the said investment in the instrument".

(h) In the event of the borrowing bank's qualifying capital falling below or being likely to fall below the prescribed minimum amount, the Registrar may require that interest and capital payments in respect of the subordinated debt be deferred for such a period of time and subject to such conditions, if any, as the Registrar may determine.

(17) *Repayment of capital*

(a) A bank shall not without the prior written approval of the Registrar or otherwise than in accordance with conditions approved by the Registrar in writing repay any of its primary share capital or, before the maturity thereof, redeem any of the instruments issued that qualify as secondary capital or tertiary capital.

(b) A written application by a bank under paragraph (a) for the permission of the Registrar-

(i) to repay any of its primary share capital shall contain written confirmation by the board of directors of the bank that-

(A) the capital-adequacy ratio of the bank concerned shall be at least one percentage point higher than the relevant percentage determined in terms of subregulation (8)(b) after the repayment of the said primary share capital without relying on new capital issues;

(B) the remaining primary share capital shall be sufficient to ensure continued compliance by the relevant bank with the relevant requirements specified in subregulation (9), including, amongst others, that the bank's primary capital adequacy ratio shall exceed 7 per cent;

(C) the repayment of primary share capital is consistent with the bank's strategic and operating plans;

(D) the repayment of primary share capital takes into account any possible acquisitions, increased capital requirements of subsidiary companies or branches of the said bank and the possibility of exceptional losses;

(E) the repayment of primary share capital is included in the bank's ALCO process regarding the management of liquidity risk;

(F) all shares acquired back by the bank from the repayment of capital shall immediately be cancelled;

(ii) to repay any of its secondary capital before the maturity thereof shall contain written confirmation by the board of directors of the bank that-

(A) the bank shall simultaneously with the redemption of instruments issue further secondary capital that shall be of a quantity and quality similar to or higher than the instruments to be redeemed when the period that lapsed since the issue date of the instruments to be redeemed is or will be less than or equal to five years;

(B) the capital adequacy ratio of the bank concerned shall be at least one percentage point higher than the relevant percentage determined in terms of subregulation (8)(b) after the repayment of the said secondary capital without relying on new capital issues;

(C) the repayment of secondary capital is included in the bank's ALCO process regarding the management of liquidity risk;

(iii) to repay any of its tertiary capital before the maturity thereof shall contain written confirmation by the board of directors of the bank that-

(A) the bank shall simultaneously with the redemption of instruments issue further tertiary capital that shall be of a quantity and quality similar to or higher than the instruments to be redeemed when the period that lapsed since the issue date of the instruments to be redeemed is or will be less than or equal to two years;

(B) the repayment of tertiary capital is included in the bank's ALCO process regarding the management of liquidity risk.

(c) The provisions of this subregulation (17), to the extent that they are relevant, shall *mutatis mutandis* apply to a controlling company.

(18) Matters specifically related to solo reporting and consolidated reporting

When-

(a) a bank or controlling company completes the form BA 700 on a consolidated basis, the said bank or controlling company-

(i) shall in accordance with the relevant directives specified in regulation 36 and on the form BA 600, instead of items 1 to 22 of the form BA 700, complete the relevant items and columns of the form BA 600 that relate to the consolidated required amount of capital and reserve funds, the consolidated amount of qualifying capital and reserve funds and capital adequacy;

(ii) shall in accordance with the relevant directives specified in subregulation (19) below complete all the relevant required information specified in items 23 to 140 of the form BA 700;

(b) a bank completes the form BA 700 on a solo basis, the said bank shall complete all the relevant required information specified in items 1 to 140 of the form BA 700;

Provided that any difficulty experienced in the completion of the forms BA 600 and BA 700 shall be referred to the Registrar for an appropriate directive.

(19) Instructions relating to the completion of the form BA700 are furnished with reference to the headings and item descriptions of certain columns and line item numbers appearing on the form BA700, as follows:

Columns relating to the summary information of capital adequacy, items 1 to 22

Column number	Description
1 of item 4	This item shall reflect the relevant required aggregate amount of risk weighted credit exposure respectively reported in the specified items of the forms specified below. Item 94, column 3, of the form BA 200; **plus** Item 202, column 3, of the form BA 200; **plus** Item 2, column 1, of the form BA 500; **plus** Item 3, column 1, of the form BA 500; **less** Item 93, column 3, of the form BA 200; **less** Item 201, column 3, of the form BA 200.
2 of item 4	This item shall reflect the relevant required risk weighted exposure equivalent amount related to operational risk reported in item 28, column 9, of the form BA 400.
3 of item 4	This item shall reflect the relevant required risk weighted exposure amount related to market risk calculated in the manner specified below. Item 32, column 3, of the form BA 320; **plus** Item 33, column 3, of the form BA 320, **multiplied by** 12,5 or such imputed variable as may be applicable from time to time.
4 of item 4	This item shall reflect the relevant required aggregate amount of risk weighted credit exposure related to equity instruments held in the bank's banking book, as reported in the relevant items of the form BA 340 specified below. Item 1, column 3, of the form BA 340; **plus** Item 2, column 3, of the form BA 340; **plus** Item 3, column 3, of the form BA 340; **plus** Item 6, column 4, of the form BA 340; **plus** Item 36, column 6, of the form BA 340.
5 of item 4	This item shall reflect the relevant required risk weighted exposure equivalent amount in respect of assets or risks other than credit risk, operational risk, market risk or risk related to equity instruments held in the bank's banking book, including any relevant amount of risk weighted exposure related to items reported in- Item 104, column 3, of the form BA 200; Item 222, column 3, of the form BA 200; and any other relevant amount of risk weighted exposure related to an asset or exposure specified in writing by the Registrar.

Column number	Description
1 to 6 of item 5	These items shall be completed based on, amongst others- • the relevant provisions of section 73 of the Act read with the relevant provisions of regulations 24(6) to 24(8) of these Regulations; and • directives issued in writing by the Registrar from time to time, which directives may include matters relating to the completion of items 64 to 77, column 10, and items 285 to 300, column 24, of the form BA210.
1 of item 12	This item shall be equal to the sum of items 36 and 37, column 1.
2 of item 12	This item shall be equal to item 79, column 1.
3 of item 12	This item shall be equal to item 100, column 1.
1 of item 13	This item shall be equal to item 40, column 1.
2 of item 13	This item shall be equal to item 80, column 1.
3 of item 13	This item shall be equal to item 102, column 1.
1 of item 14	This item shall be equal to item 43, column 1.
2 of item 14	This item shall be equal to item 84, column 1.
3 of item 14	This item shall be equal to item 103, column 1.
2 of item 17	This item shall reflect the quotient of the amount reported in item 15, column 4, divided by the amount reported in item 6, column 6
2 of item 18	This item shall reflect the quotient of the amount reported in item 15, column 1, divided by the amount reported in item 6, column 6
2 of item 19	This item shall reflect the quotient of (the sum of amounts reported in items 26 and 27, column 1, less the sum of amounts reported in items 41 and 42, column 1), divided by the amount reported in item 15, column 1.
2 of item 20	This item shall reflect the quotient of (the sum of amounts reported in item 15, column 2, and item 15, column 3), divided by the amount reported in item 15, column 1.
2 of item 21	This item shall reflect the quotient of (the amount reported in item 68, column 1, less the amount reported in item 81, column 1), divided by the amount reported in item 15, column 1.
2 of item 22	This item shall reflect the quotient of (the amount reported in item 27, column 1, less the amount reported in item 42, column 1), divided by the amount reported in item 15, column 1.

Columns relating to qualifying capital and reserve funds, items 23 to 111

Column number	Description
1 of item 23	This item shall be equal to the amount reported in item 15, column 1, and the amount reported in item 140, column 1.
1 of item 43	This item shall be equal to the amount reported in item 14, column 1, and the amount reported in item 139, column 1.
1 of item 62	This item shall be equal to the amount reported in item 15, column 2, and the amount reported in item 140, column 2.
1 of item 84	This item shall be equal to the amount reported in item 14, column 2, and the amount reported in item 139, column 2.
1 of item 99	This item shall be equal to the amount reported in item 15, column 3, and the amount reported in item 140, column 3.
1 of item 103	This item shall be equal to the amount reported in item 14, column 3, and the amount reported in item 139, column 3.

Columns relating to the reconciliation of unappropriated reserve funds, items 113 to 124

Column number	Description
1 of item 113	This item shall reflect the balance in respect of unappropriated profits at the beginning of the reporting period.
2 of item 113	This item shall reflect the balance in respect of unappropriated profits at the beginning of the previous reporting period.
3 of item 113	This item shall reflect the balance in respect of unappropriated profits at the beginning of the current financial year.

Line item number

1 This item shall reflect the prescribed minimum required percentage of capital and reserve funds relating to assets and other risk exposures, envisaged in section 70 of the Act read with the relevant provisions of subregulation (8)(b).

2 This item shall reflect any additional percentage requirement of capital and reserve funds specified in writing by the Registrar in respect of potential systemic risk.

5 Based on the relevant requirements specified in section 73 of the Act and such further requirements as may be specified in writing by the Registrar this item shall reflect the relevant risk equivalent amount related to any capital requirement in respect of concentration risk.

8	This item shall reflect any additional capital requirement specified in writing by the Registrar in respect of the reporting bank, including any relevant amount related to an imposed capital floor.
118	Any negative amount in respect of unappropriated reserve funds shall be deducted from primary capital and reserve funds in accordance with the relevant requirements specified in, amongst others, regulation 23(6)(j).
119 to 123	These items shall reflect the relevant required amounts in respect of reserve funds other than retained earnings, not yet appropriated, such as reserves related to cash flow hedging.

CHAPTER III

CORPORATE GOVERNANCE

39. Process of corporate governance

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

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

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

(a) capital risk;

(b) compliance risk;

(c) concentration risk;

(d) counterparty risk;

(e) country risk and transfer risk;

(f) credit risk, and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves;

(g) currency risk;

(h) detection and prevention of criminal activities;

(i) equity risk arising from positions held in the bank's banking book;

(j) interest-rate risk;

(k) liquidity risk;

(l) market risk (position risk) in respect of positions held in the bank's trading book;

(m) operational risk;

(n) reputational risk;

(o) risk arising from exposure to a related person;

(p) risk arising from the outsourcing of material tasks or functions;

(q) risk arising from all relevant payment and settlement services, processes or systems;

(r) risk relating to procyclicality;

(s) risks arising from or related to inappropriate compensation practices for directors and executive officers;

(t) risks related to securitisation or resecuritisation structures;

(u) risks related to stress testing;

(v) risks related to the inappropriate valuation of instruments, assets or liabilities;

(w) solvency risk;

(x) strategic risk;

(y) technological risk;

(z) translation risk;

(aa) any other risk regarded as material by the bank.

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

(a) to identify;

(b) to measure;

(c) to monitor;

(d) to control;

(e) to appropriately price;

(f) to appropriately mitigate; and

(g) to appropriately communicate or report,

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

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

(a) shall be adequate for the size and nature of the activities of the bank, including the bank's activities relating to risk mitigation, trading and exposure to counterparty credit risk, and shall periodically be adjusted in the light of the changing risk profile or financial strength of the bank, financial innovation or external market developments;

(b) shall be duly aligned with, and, where appropriate, provide specific guidance for the successful implementation of and the continued adherence to, the business strategy, goals and objectives, and the risk appetite or tolerance for risk, of the bank;

(c) shall duly specify relevant limits and allocated capital relating to the bank's various risk exposures;

(d) shall be sufficiently robust-

(i) to determine and monitor the total indebtedness of any person to whom the bank granted credit;

(ii) to ensure that the bank raises appropriate and timely credit impairments and maintains adequate allowances or reserves for potential losses in respect of its loans or advances;

(iii) to identify and manage material interrelationships between the bank's relevant risk exposures;

(iv) to ensure the bank's continued compliance with the relevant documented set of internal policies, controls and procedures;

(v) to ensure that the bank captures the economic substance and not merely the legal form of the bank's various exposures to risk;

(vi) to ensure that the bank conducts sufficiently robust and independent due diligence in respect of the bank's respective investment in or exposure to instruments, products or markets, and that the bank, for example, does not merely or solely rely on an external credit rating when investing in a particular product or instrument;

(vii) to ensure that the bank regularly conducts appropriate stress-testing or scenario analysis;

(viii) to ensure that the bank maintains sufficient liquidity and capital adequacy buffers to remain solvent during prolonged periods of financial market stress and illiquidity;

(ix) to clearly delineate accountability and all relevant lines of authority across the bank's various business units, lines or activities, and ensure that a clear separation exists between all relevant business units, lines or activities, and any relevant risk or control function;

(x) to ensure that, prior to its initiation, all relevant risk management, control and business units or lines appropriately review and assess proposed new activities, investment in new instruments or the introduction of new products, to ensure that the bank will be able to continuously manage and control the relevant activity, investment or product;

(xi) to ensure that the bank is able to appropriately aggregate or consolidate all relevant risks or exposure to risk;

(xii) to ensure ongoing, accurate, appropriate and timely communication or reporting of the bank's relevant risk exposures and any material deviation from approved policies, processes or procedures to the senior management and the board of directors;

(xiii) to ensure that the bank's board of directors and senior management receive timely and appropriate information regarding the condition of the bank's respective asset portfolios, including matters related to the relevant classification of credit exposure, the level of impairment or provisioning, and major problem assets;

(xiv) to enable the proactive management of all relevant risks;

(xv) to ensure that any breach of an internal limit is duly escalated and addressed;

(xvi) to timeously detect potential criminal activities and prevent undue exposure to criminal activities;

(xvii) to ensure proper oversight of any relevant outsourced function.

(e) shall in the case of the bank's exposure to counterparty credit risk-

(i) duly take into account the market risk, liquidity risk, legal risk and operational risk normally associated with counterparty credit risk;

(ii) ensure that the bank-

(A) duly takes into account the creditworthiness of all relevant counterparties;

(B) duly takes into account any relevant settlement and pre-settlement risk;

(C) continuously monitors the utilisation of credit lines;

(D) measures its current exposure gross and net of collateral in all relevant cases, including in the case of margin lending;

(E) manages all relevant risk exposures at a counterparty and bank-wide level;

(f) shall be sufficiently robust to timeously identify material concentrations in any one of the risk exposures specified in subregulation (3), including concentrations relating to or arising from-

(i) an individual or single counterparty, borrower or person;

(ii) a group of related or connected counterparties, borrowers or persons;

(iii) credit exposures in respect of counterparties or persons in the same industry, economic sector or geographic region;

(iv) credit exposures to counterparties or persons, the financial performance of which is dependent on the same activity or commodity;

(v) indirect credit exposures arising from the bank's risk mitigation activities such as exposure to a single collateral type or a single credit protection provider;

(vi) interest-rate risk in the bank's banking book;

(vii) liquidity risk;

(viii) funding sources;

(ix) trading exposure or risk, including interest-rate risk and price risk;

(x) equity positions held in the bank's banking book;

(xi) specific assets or instruments held in either the banking book or trading book, including structured products;

(xii) off-balance-sheet exposures, including guarantees, liquidity lines or other commitments;

(xiii) correlation between any of the aforesaid risks, counterparties, instruments, assets, liabilities or commitments.

(g) shall in the case of country risk and transfer risk be sufficiently robust-

(i) to identify and monitor exposures on an individual country basis in addition to an end-borrower or end-counterparty basis;

(ii) to ensure that country exposures are accurately monitored and reported in the bank's information systems, risk management systems and internal control systems;

(iii) to continuously ensure adherence to the bank's established country exposure limits, and any other relevant limit that may be specified by the bank or Registrar;

(iv) to monitor and evaluate developments in country risk and in transfer risk, and apply appropriate countermeasures;

(v) to raise appropriate provision for loss against country risk and transfer risk in addition to any relevant required loan-specific provision or impairment;

(h) shall in the case of liquidity risk be sufficiently robust to ensure that-

(i) the bank conducts comprehensive cash flow forecasting;

(ii) the bank duly specifies, implements and maintains appropriate limits in respect of its respective funding sources, including all relevant products, counterparties and markets;

(iii) the bank conducts robust liquidity scenario stress testing, including stress tests in respect of such bank specific or sector specific scenarios as may be specified in writing by the Registrar;

(iv) the bank develops and maintains robust and multifaceted contingency funding plans;

(v) the bank maintains a sufficient cushion of liquid assets to meet contingent liquidity needs;

(i) shall in relevant cases include prudent contingency plans specifying, for example, how the bank will respond to funding, capital and other pressures that may arise when access to securitisation markets is reduced, including matters related to the valuation of all relevant instruments or positions held;

(j) shall include sound compensation processes, practices and procedures, and board-approved compensation policies, which compensation processes, practices, procedures and policies-

(i) shall be linked to longer-term capital preservation, and the financial strength of the bank.

This means, *inter alia-*

(A) that variable compensation payments, for example, shall be appropriately deferred and payment shall not be finalised over short periods whilst risks are realised over long periods; and

(B) that the mix of cash, equity and other forms of compensation shall be duly aligned with the bank's exposure to risk.

(ii) shall incorporate and promote appropriate risk-adjusted performance measures, that is, compensation shall acknowledge all relevant risks so that remuneration is balanced between the profit earned and the degree of risk assumed in order to generate the profit;

(iii) shall not be unduly linked, for example, to short-term accounting profit generation;

(iv) shall ensure that staff engaged in the relevant financial and risk control areas have appropriate authority and are compensated in a manner that is independent of the business areas they oversee, and commensurate with their function in the bank;

(v) shall promote adequate disclosure to stakeholders, that is, the bank shall disclose clear, comprehensive and timely information regarding the bank's compensation practices-

(A) to facilitate constructive engagement with all relevant stakeholders, including shareholders;

(B) to enable stakeholders to evaluate the quality of support for the bank's strategy, objectives and risk appetite;

(k) shall be subject to adequate internal controls and appropriate internal audit coverage;

(l) shall ensure appropriate board and senior management oversight and involvement;

(m) shall include adequate internal controls to produce any data or information which might be required on a consolidated basis;