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G. MARKET RISK		(All amounts to be rounded off to the nearest '000)								
Description of item	Line no.	Standardised approach				Internal models approach ¹			Total (of col. 1 to 7)	
		General risk	Specific risk	Options	VaR	sVaR	Specific risk add-on	Incremental risk charge ¹		
		1	2	3	4	5	6	7		
Interest rate risk	255									
Equity position risk	256									
Foreign exchange risk	257									
Commodities risk	258									
Other	259									
Total (of items 255 to 259)	260									
Risk-weighted exposure equivalent amount (item 260 multiplied by 12.5) ²	261									
1. Calculated in accordance with the relevant requirements specified in regulation 28(8) read with the relevant requirements specified in this regulation 37.										
2. Based on the higher of the relevant home or host capital requirement.										

H. INTEREST-RATE RISK: BANKING BOOK											
(All amounts to be rounded off to the nearest '000)											
Line no.	Up to 1 month	More than 1 month to 3 months	More than 3 months to 6 months	More than 6 months to 12 months	More than 12 months to 3 years	More than 3 years to 5 years	More than 5 years to 10 years	More than 10 years	Non-rate sensitive items	Total	
Static repricing gap	1	2	3	4	5	6	7	8	9	10	
Assets ¹											
Liabilities ¹ and capital and reserve funds											
Net static gap excluding derivative instruments (item 262 minus item 263)											
Net static gap, including derivative instruments											
1. Excluding derivative instruments.											

I. EQUITY RISK IN THE BANKING BOOK

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

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

1. Including the simplified standardised approach for credit risk.

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

IRB approach for credit risk Market based approach	Line no.	Exposure value	Risk weighting	Risk weighted exposure ¹	Capital requirement
Simple risk weight method (total of items 269 and 270)	268		2	3	4
Equities - listed	269		300%		
Equities - unlisted	270		400%		

IRB approach for credit risk Internal models approach	Line no.	Exposure value	Risk weighting floor	Risk weighted exposure ¹	Capital requirement
Internal models approach (total of items 272 and 273)	271		2	Without limit ²	With limit ³
Equities - listed	272		200%	3	4
Equities - unlisted	273		300%		5
Memorandum item: Diversified amount	274				

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

2. Means the relevant risk weighted exposure amount prior to the application of the specified risk weighting floor, if relevant.

3. Means the relevant risk weighted exposure amount after the application of the specified risk weighting floor, when relevant.

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

IRB approach for credit risk PD/LGD approach	Line no.	Exposure value	In respect of which the 1,5 scaling factor applies	Average risk weighted exposure ¹	Capital requirement
Total (of items 276 and 277)	275		2	3	4
Total of performing categories	276				
Total of default categories	277				

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

J. 1 OPERATIONAL RISK

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

Line no.	Summary information relating to required capital and reserve funds and risk weighted exposure	Gross income			Loans and advances ¹				Relevant risk exposure	Percentage requirement	Capital requirement
		Financial year -3	Financial year -2	Financial year -1	Year -3	Year -2	Year -1	Year			
278	Basic indicator approach	1	2	3	4	5	6		7	8	9
279	Standardised approach ¹ : gross income derived from- (total of items 280 to 287)									15%	
280	Corporate finance									18%	
281	Trading and sales									18%	
282	Retail brokerage									12%	
283	Commercial banking									15%	
284	Retail banking									12%	
285	Payment and settlement									18%	
286	Agency services									15%	
287	Asset management									12%	
288	Alternative standardised approach ¹ (total of items 289 to 292)										
289	Commercial banking ^{1,2}									15%	
290	Retail banking ^{1,2}									12%	
291	Commercial banking and retail banking ^{1,3}									15%	
292	Business lines other than commercial banking and retail banking ^{1,4}									18%	
293	Advanced measurement approach										
294	Capital requirement in respect of operational risk (total of items 278, 279, 288 and 293)										
295	Risk weighted exposure equivalent amount										

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

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

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

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

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 137)	296				
Adjustments ^{1, 2} (total of items 298 to 304)	297				
Income derived from insurance	298				
Operating expenses, including fees paid by the reporting bank to service providers in respect of outsourcing	299				
Realised profits/losses on sale of securities held in the banking book	300				
Impairment	301				
Extraordinary or irregular items	302				
Adjusted prior period errors	303				
Other adjustments (please specify)	304				
Gross income (item 296 minus item 297)	305				
Hash total	306				

1. To the extent that these items are included in item 296 above.

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

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

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

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

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

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

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

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

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

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

CAPITAL ADEQUACY AND LEVERAGE**Page no.**

1.	Form BA 700	-	Capital adequacy and leverage	809
2.	Regulation 38	-	Directives and interpretations for completion of monthly/ quarterly return concerning capital adequacy and leverage (Form BA 700)	821

CAPITAL ADEQUACY AND LEVERAGE

(Confidential and not available for inspection by the public)

Name of bank/ controlling company

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

BA700Monthly* in the case of solo reporting
Quarterly* in the case of consolidated reporting

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

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

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

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

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

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

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

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

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

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

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

Summary information in respect of leverage	Line no.	Current reporting month 1	Current quarter ¹ 2
Leverage ratio (item 77, column 1, divided by item 260, column 1)	25		
Specified minimum leverage ratio²	26		4%

1. The average of the relevant month-end leverage ratios for the reporting month and the two months preceding the reporting month.

2. Refer to regulation 38(17).

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

Common Equity Tier 1 capital and reserve funds	Line no.	Balance at the end of the reporting period 1	Balance at the end of the previous reporting period 2	Movement during the reporting period (col 1 minus col 2) 3
Common Equity Tier 1 capital and reserve funds attributable to common shareholders (total of items 28 to 31)	27			
Paid in capital¹	28			
Retained earnings	29			
Less: unappropriated profits ²	30			
Accumulated other comprehensive income/reserves³	31			
of which:				
Unrealised gains and losses on available for sale items	32			
Gains and losses on derivatives held as cash flow hedges	33			
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	34			
Actuarial reserve	35			
Unrealised gains and losses from a foreign currency hedge of a net investment in a foreign operation	36			
Property revaluation reserve	37			
Share-based payment reserve	38			
Other reserves (please specify)	39			
Minority interest recognised in common equity tier 1 capital and reserve funds⁴	40			
Total common equity tier 1 capital and unimpaired reserve funds prior to regulatory adjustments (item 27 plus item 40)	41			

1. Refer to regulation 38(13).

2. Refer to regulation 38(10).

3. The full amount prior to the application of any relevant filter or deduction.

4. Sum of relevant amounts reflected on the form BA 600 related to subsidiaries that issued capital held by third parties.

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

Common Equity Tier 1 capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
		1	2	3
Total of specified adjustments to and deductions from common equity tier 1 capital and reserve funds² (total of items 43 to 53)	42			
Goodwill, net of related deferred tax liability	43			
Intangible assets, other than goodwill, net of related deferred tax liability	44			
Deferred tax assets, excluding temporary differences, net of related deferred tax liabilities	45			
Investments in own shares, excluding amounts already derecognised in terms of Financial Reporting Standards	46			
Reciprocal cross holdings in common equity	47			
Shortfall of eligible provisions compared to expected loss ¹	48			
Cash flow hedge reserve	49			
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	50			
Defined benefit pension fund assets	51			
Securitisation gain on sale (expected future margin income)	52			
Other regulatory adjustments (please specify)	53			
Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 41 less item 42)	54			
Investments in the capital of financial entities where the bank does not own more than 10% of the issued common share capital (amount above the 10% threshold)	55			
Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 54 less item 55)	56			
Investments in the common stock of financial entities (amount above 10% threshold)	57			
Mortgage servicing rights (amount above 10% threshold)	58			
Deferred tax assets arising from temporary differences (amount above 10% threshold)	59			
Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 56 less items 57 to 59)	60			
Regulatory adjustments to be applied to common equity tier 1 capital and reserve funds due to insufficient additional Tier 1 capital and reserve funds to cover specified deductions	61			
Common equity tier 1 capital and reserve funds after specified adjustments and deductions (item 60 less item 61)	62			
Amount exceeding the 15% threshold ³	63			
Qualifying common equity tier 1 capital and reserve funds (item 62 less item 63)	64			

1. Relates to a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk.

2. Refer to regulation 38(5)(a)(i).

3. Refer to regulation 38(5)(b).

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

Additional Tier 1 capital and reserve funds and Total Tier 1 capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
		1	2	3
Additional Tier 1 capital and unimpaired reserve funds prior to adjustments and deductions (total of items 66, 70 and 72)	65			
Additional Tier 1 capital instruments issued ¹	66			
of which:				
classified as equity in terms of Financial Reporting Standards	67			
classified as liabilities in terms of Financial Reporting Standards	68			
directly issued capital instruments subject to phase out from additional Tier 1 capital	69			
Instruments recognized as additional Tier 1 capital issued by subsidiaries to third parties ²	70			
of which:				
instruments issued by subsidiaries subject to phase out	71			
Additional tier 1 unimpaired reserve funds	72			
Total of specified adjustments to and deductions from additional tier 1 capital and reserve funds	73			
of which:				
specified adjustments to and deductions from additional tier 1 capital and reserve funds ³	74			
specified adjustments to and deductions from tier 2 capital and reserve funds that are deducted from additional Tier 1 capital and reserve funds due to insufficient tier 2 capital and reserve funds to allow the relevant adjustment or deduction	75			
Qualifying additional tier 1 capital and reserve funds (item 65 less item 73)	76			
Total qualifying tier 1 capital and reserve funds (item 64 plus item 76)	77			

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

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

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

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

Tier 2 capital and reserve funds and Total capital and reserve funds	Line no.	Balance at the end of the reporting period	Balance at the end of the previous reporting period	Movement during the reporting period (col 1 minus col 2)
		1	2	3
Tier 2 capital and unimpaired reserve funds prior to adjustments and deductions (total of items 79, 81 and 83)	78			
Tier 2 capital instruments issued¹	79			
of which:				
directly issued instruments subject to phase out from Tier 2 capital	80			
Instruments recognised as Tier 2 capital issued by subsidiaries to third parties ²	81			
of which:				
instruments issued by subsidiaries subject to phase out	82			
Tier 2 unimpaired reserve funds	83			
of which:				
general allowance for credit impairment: standardised approach ³	84			
excess amount in respect of eligible provisions: IRB approach ⁴	85			
Total of specified adjustments to and deductions from tier 2 capital and reserve funds⁵	86			
Qualifying tier 2 capital and reserve funds (item 78 less item 86)	87			
Total qualifying capital and reserve funds (item 77 plus item 87)	88			
of which:				
allocated to support market risk	89			

1. Refer to regulation 38(14).

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

3. The portion of general allowance for credit impairment which relates to exposures subject to the standardised approach for credit risk may be included in tier 2 unimpaired reserve funds up to a maximum amount of 1,25 per cent of item 47, column 12, of the form BA 200. Refer to regulation 23(22)(c).

4. The surplus amount of eligible provisions calculated in accordance with the provisions of regulation 23(22)(d) in respect of exposures subject to the IRB approach may be included in tier 2 unimpaired reserve funds up to a maximum amount of 0,6 per cent of item 156, column 10, of the form BA 200.

5. Refer to regulation 38(5)(a)(iii).

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

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

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

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

Reconciliation between qualifying capital and reserve funds and accounting equity and reserves	Line no.	Balance sheet amount ¹	Amounts included under regulatory scope of consolidation	Amounts included for regulatory purposes
		1	2	3
Share capital and premium	98			
Retained earnings	99			
Other reserve funds (total of items 101 to 107)	100			
unrealised gains and losses on available for sale items	101			
gains and losses on derivatives held as cash flow hedges	102			
gains and losses resulting from converting foreign currency subsidiaries to the parent currency	103			
actuarial reserve	104			
unrealised gains and losses from a foreign currency hedge of a net investment in a foreign operation	105			
property revaluation reserve	106			
other reserves	107			
Minority interests	108			
Regulatory adjustments: (total of items 110 to 122)	109			
Goodwill	110			
Intangible assets other than goodwill	111			
Mortgage servicing rights	112			
Deferred tax assets	113			
Investments in own shares, excluding amounts already derecognised in terms of Financial Reporting Standards)	114			
Reciprocal cross holdings in common equity	115			
Shortfall of provisions to expected losses	116			
Cash flow hedge reserve	117			
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	118			
Defined benefit pension fund assets	119			
Securitisation gain on sale (expected future margin income)	120			
Investments in financial entities	121			
Other	122			
Qualifying common equity tier 1 capital and reserve funds	123			
Additional Tier 1 instruments	124			
Minority interests	125			
Regulatory adjustments	126			
Qualifying tier 1 capital and reserve funds	127			
Tier 2 instruments	128			
Minority interests	129			
General allowance for credit impairments	130			
Regulatory adjustments	131			
Total	132			

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

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

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

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

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

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

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

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

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

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

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

1. Operation in the Republic, unconsolidated submission only.
 2. To the extent not already deducted elsewhere.

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

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

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

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

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

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

1. Refer to regulation 38(8)(f).

2. Based on the inverse of the maximum percentage reported in item 257, columns 1 to 3.

3. Report "y" if item 258 exceeds item 250, or "n" if item 258 does not exceed item 250.

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

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

1. Refer to regulation 38(17)(b)(iii)(B).

2. Amounts should be net of specific provisions and valuations adjustments.

3. Based on gross value (assume no netting or CRM).

4. Based on the relevant value determined in terms of the requirements specified in these Regulations, including any relevant requirement related to netting.

5. Based on the potential future exposure calculated in terms of the current exposure method specified in these Regulations, including any relevant requirement related to netting.

6. Based on the relevant notional amount.

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

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

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

- (a) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to credit risk:
 - (i) The standardised approach, using one of the alternative frameworks prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6) to 23(9);
 - (ii) Subject to the prior written approval of the Registrar and such conditions as may be specified in writing by the Registrar, the IRB approach, using one of the alternative frameworks prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) to 23(14);
 - (iii) Subject to the prior written approval of the Registrar and such conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) and (ii) above.
- (b) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to counterparty credit risk:
 - (i) the current exposure method specified in regulation 23(17);
 - (ii) the standardised method specified in regulation 23(18);
 - (iii) subject to the prior written approval of and such further conditions as may be specified in writing by the Registrar the internal model method specified in regulation 23(19);
 - (iv) subject to the relevant requirements specified in regulation 23(15) and the prior written approval of and such conditions as may be specified in writing by the Registrar, a combination of the approaches envisaged in subparagraphs (i) to (iii) above;

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

(3) For purposes of calculating-

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

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

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

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

- (e) internal control systems are inadequate;

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

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

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

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

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

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

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

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

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

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

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

may be specified in writing by the Registrar a bank or controlling company may exclude from this deduction investments made to resolve or provide financial assistance to reorganise a distressed institution;

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

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

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

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

Provided that-

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

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

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

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

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

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

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

(a) The external credit assessment-

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

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

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

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

(b) Notwithstanding any provision to the contrary specified in these Regulations or any other law, in addition to the aforesaid external credit assessment that shall be publicly available-

(i) the eligible external credit assessment institution's relevant procedures, methodologies, assumptions, and the key elements underlying the aforesaid assessment shall be publicly available, on a non-selective basis, and free of charge;

(ii) the relevant loss and cash-flow analysis and sensitivity of ratings to changes in the underlying rating assumptions shall be publicly available.

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

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

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

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

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

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

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

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

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

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

(v) when-

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

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

(a) General conditions

A bank-

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

(b) Specific conditions

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

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

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

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

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

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

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

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

(c) *Granularity*

When the Registrar is of the opinion that the credit risk inherent in a traditional or synthetic securitisation scheme is higher than the credit risk inherent in a well diversified portfolio of similar rated corporate exposure, owing to higher default correlations in the portfolio of assets or risk that was securitised or resecutised, 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 resecutisation exposure than the risk weights specified in these Regulations.

(8) *Minimum required capital and reserve funds*

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

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

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

- (i) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to risks other than market risk; and
- (ii) allocated qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, relating to market risk,

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

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

- (i) the relevant minimum required specified percentage of eight per cent of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure, provided that-
 - (A) qualifying common equity tier 1 capital and reserve funds to risk weighted exposure shall at no time be no less than 4,5 per cent;
 - (B) qualifying tier 1 capital and reserve funds, that is, the sum of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds, to risk weighted exposure shall at no time be no less than 6 per cent;

and

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

and

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

and

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

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

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

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

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

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

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

and

- (v) a countercyclical capital buffer, which countercyclical buffer-
 - (A) aims to ensure that the specified minimum capital requirement for banks take into account the macro-financial environment in which the banks operate;
 - (B) shall be an extension of the conservation buffer when implemented, that is-
 - (i) when implemented, the countercyclical buffer shall be phased in between 1 January 2016 and 1 January 2019 in a manner similar to the conservation buffer specified in paragraph (f) below, provided that in the case of excessive credit growth during the specified transition period, the Governor and the Registrar may decide to accelerate the build up of the capital conservation buffer and the countercyclical buffer or implement a larger countercyclical buffer requirement;
 - (ii) a bank shall, for example, be subject to restrictions on distributions when the bank does not meet the relevant specified aggregate capital requirement;
 - (C) when implemented, shall be fully met with qualifying common equity tier 1 capital and reserve funds;
 - (D) shall in all relevant cases be applied at a solo and consolidated level;
 - (E) shall comply with the requirements specified in paragraph (g) below;
- and
- (vi) the relevant additional minimum required percentage specified in writing by the Registrar from time to time for systemically important banks and/or controlling companies identified and specified in writing by the Registrar of qualifying common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds to risk weighted exposure,
 - (A) which systemically important banks and/or controlling companies, and the related additional minimum required percentage, as a minimum, shall be based on factors such as;
 - (i) size, which shall be based on the aggregate amount of exposures specified in regulation 23 read with the relevant requirements specified in subregulation (17);
 - (ii) interconnectedness;

(iii) substitutability and financial institution infrastructure; and

(iv) complexity,

which factors may be assigned equal weights;

(B) which additional loss-absorbency requirements-

(i) shall be phased-in in parallel with the aforesaid capital conservation buffer and countercyclical buffer, that is, between 1 January 2016 and 31 December 2018;

(ii) and any subsequent amendments thereto shall become a minimum standard with effect from 1 January 2019;

and

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

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

(B) board-approved business strategy;

(C) risk profile and control environment;

(D) future capital needs;

(E) desired level of capital;

(F) stress-testing results,

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

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

(f) Matters related to the capital conservation buffer

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

- (i) when a bank's capital conservation buffer has been reduced or drawn down, the bank shall rebuild the buffer, for example, by way of-
 - (A) a reduction in the bank's discretionary distributions of earnings, such as a reduction in dividend payments, share buy-backs or bonus payments; or
 - (B) the issuance of further capital to shareholders as an alternative to conserving internally generated capital,

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

- (ii) in the absence of raising capital in order to rebuild its capital buffer, the bank shall increase the share of earnings retained the closer the bank's respective levels of qualifying capital and reserve funds move toward the minimum capital requirement specified from time to time, that is, a bank that is in the process of reducing or depleting its capital buffer-
 - (A) shall not rely on future predictions of recovery or growth in earnings, for example, to maintain substantial distributions of earnings to shareholders, other capital providers or employees;
 - (B) shall not distribute available capital to signal financial strength;
- (iii) from 1 January 2016, when a bank's specified capital adequacy ratios are reduced due to write-offs against the capital conservation buffer, the Registrar shall impose capital constraints on the bank that shall include capital distribution constraints, in accordance with the provisions of table 1 below, until the bank's conservation buffer is restored:

Table 1

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

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

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

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

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

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

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

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

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

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

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

(g) *Matters related to the countercyclical buffer*

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

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

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

For example-

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

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

Table 2

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

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

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

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

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

Provided that-

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

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

Provided that-

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

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

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

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

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

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

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

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

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

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

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

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

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

Provided that-

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

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

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

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

Table 3

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

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

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

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

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

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

Provided that-

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

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

(b) When-

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

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

Table 4

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

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

(15) Tier 2 unimpaired reserve funds

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

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

In the case of-

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

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

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

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

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

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

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

(17) *Matters related to leverage*

(a) In order to-

- (i) prevent the build-up of excessive on-balance-sheet and off-balance-sheet leverage in banks and banking groups; and
- (ii) mitigate the risks associated with deleveraging that may occur during a period of market uncertainty, such as the amplification of downward pressure on asset prices, material declines in bank capital and contraction in credit availability that may damage the broader financial system and the economy,

every bank and every controlling company shall calculate a non risk-based leverage ratio in accordance with the relevant requirements specified in this subregulation (17), to supplement the bank or controlling company's risk-based capital requirements.

(b) For purposes of this subregulation (17) and the calculation of a bank or controlling company's relevant leverage ratio-

- (i) qualifying capital and reserve funds means the sum of common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds as reported in item 77, column 1, of the form BA 700;

(ii) non-risk-sensitive exposure-

(A) shall in the case of on-balance-sheet exposures include all relevant-

- (i) on-balance-sheet non-derivative exposures included in the form BA 100, net of specific provision and/ or other credit valuation adjustment;

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

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

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

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

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

Provided that-

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

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

(18) *Repayment of capital*

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

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

Line items relating to the summary information of capital adequacy

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

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

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

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

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

Line items relating to required capital adequacy ratios and amounts

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

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

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

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

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

Line items relating to additional Tier 1 capital and reserve funds

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

Line items relating to additional Tier 1 capital and reserve funds

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

Line items relating to Tier 2 capital and reserve funds

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

Line items relating to reconciliation in respect of unappropriated profits

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

Line items relating to specified regulatory adjustments and deductions

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

Line items relating to capital distribution and income

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

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

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

CHAPTER III**CORPORATE GOVERNANCE****39. Process of corporate governance**

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

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

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

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

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

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

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

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

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

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

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

- (C) continuously monitors the utilisation of credit lines;
 - (D) measures its current exposure gross and net of collateral in all relevant cases, including in the case of margin lending;
 - (E) manages all relevant risk exposures at a counterparty and bank-wide level;
- (f) shall in the case of risk mitigation, including matters related to collateral and margin agreements with counterparties, be sufficiently robust to ensure that the bank continuously-
 - (i) devotes sufficient resources to the orderly operation of margin agreements with OTC derivative and securities financing counterparties, as measured by, among other things, the timeliness and accuracy of the bank's outgoing calls and response time to incoming calls;
 - (ii) controls, monitors and reports-
 - (A) all relevant risk exposures related to margin agreements, such as the volatility and liquidity of the securities exchanged as collateral;
 - (B) any potential concentration risk to particular counterparties or types of collateral;
 - (C) the reuse of both cash and non-cash collateral, including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties, and
 - (D) all relevant matters related to the surrendering of rights on collateral posted to counterparties;
- (g) shall be sufficiently robust to 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.
- (h) shall in the case of country risk and transfer risk be sufficiently robust-
- (i) to identify and monitor exposures on an individual country basis in addition to an end-borrower or end-counterparty basis;
 - (ii) to ensure that country exposures are accurately monitored and reported in the bank's information systems, risk management systems and internal control systems;
 - (iii) to continuously ensure adherence to the bank's established country exposure limits, and any other relevant limit that may be specified by the bank or Registrar;
 - (iv) to monitor and evaluate developments in country risk and in transfer risk, and apply appropriate countermeasures;
 - (v) to raise appropriate provision for loss against country risk and transfer risk in addition to any relevant required loan-specific provision or impairment;
- (i) shall in the case of liquidity risk be sufficiently robust to ensure that-
- (i) the bank conducts comprehensive cash flow forecasting;
 - (ii) the bank duly specifies, implements and maintains appropriate limits in respect of its respective funding sources, including all relevant products, counterparties and markets;
 - (iii) the bank conducts robust liquidity scenario stress testing, including stress tests in respect of such bank specific or sector specific scenarios as may be specified in writing by the Registrar;

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

This means, *inter alia*-

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

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

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

- (A) an appropriate strategy that ensures that the bank maintains adequate capital based on the nature, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities, including the bank's activities relating to risk mitigation;
 - (B) an internal capital adequacy assessment process that responds to changes in the business cycle within which the bank conducts business;
 - (v) shall, with respect to new or complex products or activities, understand the underlying assumptions regarding business models, valuation and risk management practices, and shall duly evaluate the bank's potential risk exposure should the aforesaid assumptions fail;
 - (vi) shall, on a periodic basis, conduct relevant stress tests, particularly in respect of the bank's main risk exposures, in order to identify events or changes in market conditions that may have an adverse impact on the bank.
- (7) When a bank wishes to adopt the IRB approach for the measurement of the bank's exposure to credit risk as envisaged in regulation 23(10), the board of directors or a designated committee thereof, that is, a subcommittee of the board of directors, and the relevant senior management of the bank, shall approve all material aspects of the bank's rating and risk estimation processes, provided that-
- (a) the board of directors and any board-appointed committee-
 - (i) shall possess-
 - (A) a general understanding of the bank's risk rating system;
 - (B) a detailed comprehension of the relevant risk-management reports submitted to the board or board-appointed committee;
 - (ii) shall ensure that the bank establishes and maintains an independent credit risk control unit, which credit risk control unit-
 - (A) shall be responsible for-
 - (i) the design or selection, implementation and performance of the bank's internal rating systems;
 - (ii) the testing and monitoring of internal risk grades;
 - (iii) the production and analysis of summary reports from the bank's rating system, which reports shall include-

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

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

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

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

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

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

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