



# **BERMUDA MONETARY AUTHORITY**

## **BANKING DEPARTMENT**

### **GUIDANCE NOTES**

# **GUIDANCE ON COMPLETION OF THE PRUDENTIAL INFORMATION RETURN FOR BANKS**

**Issued December 2008**

**Note:** This document should be read in conjunction with the Authority's "Revised Framework for Regulatory Capital Assessment" published December 2008.

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## **DEFINITIONS AND GENERAL GUIDANCE**

The purpose of this document is to provide guidance, through the provision of detailed instructions and definitions, to banks and deposit companies licensed in Bermuda to enable them to correctly complete the Basel II Capital Adequacy Return (the “Return”). This document should be read in conjunction with the Authority’s handbook, “Revised Framework for Regulatory Capital Assessment”.

Throughout the return, areas where data should be inputted are indicated visually in the sheets by the use of white boxes – no data should be entered elsewhere and every box should be completed, entering zero where appropriate.

This return is to be completed as at the end of March, June, September and December each year by institutions licensed under the Banks and Deposit Companies Act 1999 on an unconsolidated and consolidated basis.

The companies to be included in the consolidation will be those agreed between the reporting institution and the Bermuda Monetary Authority (the “Authority”) in accordance with the Authority’s paper on Consolidated Supervision.

In this instruction guide and its corresponding Return, the following expressions have the defined meaning as set out in the general guidance below:

### **Valuation**

Outstanding liabilities and holdings of assets should normally be reported at the value outstanding in the reporting institution’s books (i.e. book value), in accordance with the reporting institution’s usual accounting practices. For positions held in the trading book, the reporting institution should report on a mark to market basis. For off-balance sheet items (contingents, guarantees, acceptances, etc) the principal amount should be shown.

### **Specific provisions**

All loans, advances, bills and securities are to be included in this return net of any specific or earmarked general provisions made. Off-balance sheet items should also be reported net of specific provisions.

### **Accruals**

In general, the return should be completed on an accrual rather than a cash basis. Such accruals should be shown, where possible, against the relevant category of counterparty for assets and liabilities.

### **Maturity of commitments**

Certain on and off-balance sheet items are to be reported according to their maturity. The reporting requirements for this return are on the basis of a residual maturity of one year or less or more than one year. Reporting institutions with overseas offices may discuss the implications of

this requirement with the Authority if the reporting of exactly one year maturities is treated differently in the countries in which they are operating.

The maturity of an off-balance sheet commitment should be determined in accordance with the following:

- *Original and remaining maturity:* The maturity of an off-balance sheet commitment should be measured as from the date when the commitment was entered into based on original maturity, i.e. from the date of firm offer, until the final date by which it must be drawn down in full. The maturity of an on-balance sheet commitment should be on the basis of residual maturity.
- *Renegotiations of the term of a commitment:* In the case where the terms of a commitment have been renegotiated the maturity should be measured as from the date of the renegotiation until the end of the period of the renegotiated commitment providing the renegotiation involves a full credit assessment of the customer and lender's right, without notice, to withdraw the commitment. Where these conditions are not met the original starting date of the commitment must be used to determine its maturity rather than the date of renegotiation.
- *A commitment to provide a loan (or purchase an asset) which has a maturity of over one year but which must be drawn down within a period of one year or less:* Such commitments should be treated as having a maturity of one year or less so long as any undrawn portion of the facility is automatically cancelled at the end of the draw-down period.
- *A commitment to provide a loan (or purchase an asset) to be drawn down in a number of tranches, some one year or less and some over one year:* The whole commitment should be considered as having a maturity of over one year.
- *Commitments for fluctuating amounts:* Where a commitment provides for a customer to have a facility limit which varies during the period of the commitment, e.g. for seasonal reasons, the amount of the commitment should at all times be taken as the maximum amount that can be drawn under the commitment for the remaining period of the commitment.
- *Forward commitments:* A forward commitment is where the reporting institution is committed to granting a facility at a future date. The original maturity of the commitment is to be measured from the date the commitment is entered into until the final date by which the facility must be drawn in full.

## **Group companies**

The definition used in this return of “group companies” in relation to a company covers:

- (i) Its parent company and any co-subidiaries of that parent;
- (ii) Its subsidiaries; and
- (iii) Other companies in which such companies hold 20% or more of the voting rights or ordinary share capital.

## **Related parties**

Related parties are defined as other group companies (see definition of group companies above), excluding those companies which are included in the consolidation of this particular Return; directors, controllers and their associates; and non-group companies with which directors and controllers are associated.

A pension fund or other trust fund of the group should not necessarily be classified as related for the purposes of this return. However, it should be treated as a related party if a director/controller of the reporting institution is both a director of the fund and is involved in decision-making on whether or not an exposure to that fund should be undertaken.

Directors, controllers, and their associates are as defined in Section 7 of the Banks and Deposit Companies Act 1999.

In addition, a director (including an alternate director) or controller of the reporting institution is deemed to be associated with another company, whether registered or resident in Bermuda or overseas, if he holds the office of a director (or alternative director) with that company (whether in his own right, or as a result of a loan granted to, or financial interest taken in, that company by the reporting institution, or even by virtue of a professional interest unconnected with the reporting institution), or if he and/or his associates together hold 10% or more of the equity share capital of that company. For the purpose of this item, include as a director an employee of the reporting institution who is not a director but who is appointed a director of another company. (This definition should be consistent with that adopted for Large Exposure Reporting.)

## **Netting**

### **On-balance sheet**

Debit balances on accounts with the reporting bank may only be offset against credit balances on other accounts with that bank where all the following criteria are met:

- (a) There is formal agreement with the customer(s) to do so, or where a legal right of set-off exists. Such arrangements should, to the best of the reporting institution's knowledge, be enforceable in a liquidation of the customer(s);
- (b) Both the debit and credit balances are denominated in the same currency. Thus, for example, a debit balance in Bermuda dollars may not be offset against a credit balance in another currency;
- (c) The debit and credit balances relate to the same customer, or to customers in the same company group, e.g. a parent company and its subsidiary. For a group facility, the facility should be advised in the form of a net amount and controlled by the reporting institution on that basis. Such an arrangement should be preferably supported by a full cross guarantee structure;

### **Off-balance sheet**

Pending further consideration, net amounts due in respect of foreign exchange transactions may be reported only if the net amount derived is pursuant to the application of a bilateral agreement

(between two counterparties) based upon netting by novation. Netting by novation is where obligations between counterparties to deliver given amounts on a given date are automatically amalgamated with all other obligations to deliver the same currency on the same value date and netted. Such netting should have the effect of legally discharging performances of the original obligation and substituting the single net amount as the sole remaining obligation between the parties for the relevant value date.

## **Double counting**

Double counting of exposures arising from the same contract or transaction should be avoided. For example, only the undrawn portion of a loan commitment should be reported as an off-balance sheet exposure; the actual amount which has been lent will be reported as a balance sheet asset in the relevant portfolio. Trade-related contingencies such as shipping guarantees for which the exposures have already been reported as letters of credit issued or loans against import bills are not required to be reported as trade-related contingencies. In certain cases, credit exposures arising from derivative contracts may already be reflected, in part, on the balance sheet. For example, the reporting institution may have recorded current credit exposures to counterparties (i.e. mark-to-market values) under foreign exchange and interest rate related contracts on the balance sheet, typically as either sundry debtors or sundry creditors. To avoid double counting, such exposures should be excluded from the balance sheet assets and treated as off-balance sheet exposures for the purposes of this return.

## **Contact Information**

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## **SECTIONS A & B – SUMMARY SCHEDULE AND SUMMARY INFORMATION**

All columns and fields in section A & B are derived based on data collected from the other sections of the Return and summary data is presented here for the purpose of presenting the credit, operating and market risk capital charges and calculation of the risk asset ratio.



# SECTION C – STANDARDIZED APPROACH TO CREDIT RISK

## PART 1: OVERVIEW – ON BALANCE SHEET PORTION

### Introduction

Parts 1 and 2 of Section C of the Return cover the reporting institution's on balance sheet exposures while parts 3 and 4 cover the off-balance sheet exposures in the banking book, including OTC derivative contracts.

There are two approaches to calculating the capital requirements for credit risk. The standardized approach, which measures credit risk in a standardized manner supported by external credit enhancements, is considered appropriate for all banks and deposit companies licensed in Bermuda.

### Guidance on columns

*Columns 1, 2 and 3: Exposure before credit risk mitigation ("CRM")*

Report on-balance sheet items denominated in Bermuda dollars, US dollars and any other currencies at current book value in columns 1, 2 and 3 respectively (i.e. current outstanding amount including accrued interest and net of any specific provision or associated depreciation). All three columns are to be reported in Bermuda dollars.

*Column 4: Total (1) + (2) + (3)*

This column is equal to the sum of columns 1, 2 and 3 in Bermuda dollars.

*Column 5: CRM*

Report here CRM. CRM refers to techniques the reporting institution may use to mitigate credit risk and hence reduce the capital requirement of a credit exposure. Where an asset is not covered by any recognised CRM techniques, the amounts reported before CRM and after CRM will be the same. Four types of CRM techniques are recognized for this purpose:

- collateral;
- netting;
- guarantees; and
- credit derivatives

In order to be recognized, a CRM technique should satisfy the relevant operational requirements as set out in paragraph 79 to 83 of the "Revised Framework for Regulatory Capital Assessment".

Under the standardized approach, there are two methods that can be used for recognizing the impact of collateral. Institutions must choose between the "simple" and "comprehensive" approaches and use that chosen method exclusively.

Netting, guarantees and credit derivatives are always handled using the same approach, being the “comprehensive” approach for netting and the “simple” approach for guarantees and credit derivatives.

*Column 6: Total exposure after CRM*

This column is equal to column 4 (*Total exposure before CRM*) less column 5 (*CRM*). In cases where CRM techniques cannot be used to reduce the credit risk associated with an asset, the exposure amount after CRM to be reported in this column will equate to the exposures before CRM amount reported in column 4.

*Column 7: Risk weight*

Risk-weights are generally stated in the PIR in accordance with the weightings detailed in “Revised Framework for Regulatory Capital Assessment”.

*Column 8: Risk weighted assets (“RWA”)*

Generally, the RWA is a derived field in the form, calculated by multiplying column 6 (*Total exposures after CRM*) by column 7 (*Risk Weight*). In some cases, however, the RWA must be entered manually. The RWA amount for some asset types may consist of several discrete asset exposures, each potentially attracting different risk weights.

## PART 2: DETAILED GUIDANCE – ON BALANCE SHEET PORTION

### 100 Cash

Item	Description of Item	Guidance
100.1	Notes and coins	Notes and coins are allocated a risk weight of 0%.
100.2	Gold and precious metals	Gold is allocated a risk weight of 0%. However, the treatment of other precious metals (silver, platinum and palladium) should be discussed with the Authority.
100.3	Cash items in the course of collection	Cash items in the course of collection refer to the amount of cheques, drafts and other items drawn on other banks that will be paid for the account of the reporting institution immediately upon presentation and that are in the process of collection. Such items are allocated a risk weight of 20%.

### 110 Claims on Sovereigns and Multilateral Development Banks (“MDBs”)

Item	Description of Item	Guidance						
110.1 to 110.5	Claims on sovereigns and MDBs	Claims on the Government of Bermuda that are both denominated and funded in Bermuda dollars are allocated a lower risk weight, one category lower than the applicable weighting.						
		Claims on other sovereigns (overseas central governments) and foreign currency claims on Bermuda government should be weighted based on ratings assigned by eligible external credit assessment institutions (“ECAI”s) or country risk scores. See Table 4 for country risk scores.						
		The generic mapping for claims on sovereigns is as follows:						
		Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
		Risk Weight	0%	20%	50%	100%	150%	100%
110.6	High Quality MDBs	High quality MDBs qualify for 0% weighting. See listing of high quality MDBs on paragraph 31 of “Revised Framework for Regulatory Capital Assessment”.						
		In the case of other MDBs, risk weights reflect external credit assessments, as for banks, but with no preferential treatment for short-term claims.						

## 120 Claims on Public Sector Entities (“PSEs”)

Item	Description of Item	Guidance					
120.1 to 120.4	Claims on Bermuda PSEs	<p>Principally regional governments and local authorities, but also bodies which carry out non-commercial functions on behalf of, and are responsible to, regional governments or local authorities may be classified as PSEs. Also include bodies owned by the central or regional government or local authorities which perform regulatory or other non-commercial functions.</p> <p>Small Business Development Corporation, Bermuda Housing Corporation, West End Development Corporation and Bermuda Land Development Corporation should also be regarded as Public Sector entities.</p> <p>Claims on Bermuda PSEs receive a risk-weighting one category less favorable than the weighting of the relevant sovereign and reporting institutions should seek the Authority's approval before allocating a central government risk weight to any PSE. Claims on Bermuda PSEs should be weighted in accordance with Table 1.</p> <p>The generic mapping is as follows:</p>					
		Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ and below	Unrated
		Risk Weight	20%	50%	100%	150%	150%
	Claims on foreign PSEs	<p>Claims on foreign PSEs must be weighted at 100% other than where the supervisory authority in the jurisdiction concerned permits ‘one category less favourable’ treatment <b>and</b> that supervisory authority applies supervisory arrangements equivalent to those in Bermuda (‘equivalent regulator’). An ‘equivalent regulator’ for the purposes of this document is considered by the Authority to regulate banks under a Basel II regime in a manner that is broadly equivalent to the Authority’s regulation. The Authority has not published a list of regulators that it deems to be equivalent. The Authority will only assess regulators where a bank requests it.</p>					

### 130 Claims on Corporates

Item	Description of Item	Guidance					
130.1 to 130.4	Claims on Corporates	Claims on corporates including claims from insurance companies should be weighted in accordance with Table 1.					
		No claim on unrated corporate may be given a risk weight preferential to that assigned to its sovereign of incorporation.					
		The generic mapping is as follows:					
		Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
		Risk Weight	20%	50%	100%	150%	100%
		Where an institution prefers, it may alternatively weight all its corporates at 100% without regard to external ratings. The Authority requires a single consistent approach to be adopted and applied.					

### 140 Claims on Banks and Securities Firms

Item	Description of Item	Guidance					
140.1	Maturity more than 3 months	Claims on banks should be weighted in accordance with the relevant column in Table 1.					
		The generic mapping is as follows:					
		Credit Assessment	AAA to AA-	A+ to BBB-	BB+ to B-	Below B-	Unrated
		Risk Weight	20%	50%	100%	150%	50%
140.2	Maturity less than 3 months	Claims should be weighted in accordance with the relevant column in Table 1.					
		The generic mapping is as follows:					
		Credit Assessment	AAA to BBB-		BB+ to B-		Below B- Unrated
		Risk Weight	20%		50%		150% 20%

The preferential risk weight that is one category more favorable for claims with an original maturity of three months or less, is subject to a floor of 20%. (and does not apply where short term claims are expected to be rolled over – i.e. the effective maturity is longer than 3 months). This is applicable to both rated and unrated banks, but cannot be applied to any bank rated at 150%.

**Note:**

A securities firm is an entity engaged in investment activity as defined under the Investment Business Act 2003 and which is subject to equivalent supervision which includes the application of a risk-based capital test. Otherwise such claims would follow the rules for claims on corporates.

## 150 Securitisations

Item	Description of Item	Guidance						
150.1 to 150.4	Securitisations	Claims on securitisations should be weighted in accordance with Table 2.						
		The generic mapping is as follows:						
		Credit Assessment	AAA to AA-	A+ to A	BBB+ to BBB-	BB+ to BB-	Below BB-	Unrated
		Risk Weight	20%	50%	100%	350%	Deduct from capital	100%
		Where an issue has a specific short term rating, it should be weighted in accordance with Table 3. The generic mapping is as follows:						
		Credit Assessment	A-1/P-1	A-2/P-2	A-3/P-3	Below A-3/P-3		
		Risk Weight	20%	50%	100%	Deduct from capital		

## 160 Retail Loans

Item	Description of Item	Guidance
160.1	Claims in regulatory retail portfolio	<p>Claims on small businesses or individuals that satisfy the criteria as set out below may be considered as retail claims in a retail portfolio and may be risk weighted at 75% (except for past due loans, which need to be reported in item 190). In addition to meeting the four criteria (orientation, product, granularity and low value) provided in paragraph 38 of the “Revised Framework for Regulatory Capital Assessment”, a claim should also meet the following conditions in order to qualify as retail:</p> <ul style="list-style-type: none"> <li>i) The maximum aggregated unsecured (not secured by tangible security) loans to one party cannot exceed a maximum threshold of \$1 million.</li> <li>ii) The repayment of small business loans of up to \$1 million must be dependent on income from business and not salary of the borrower.</li> <li>iii) Installments may not exceed 50% of income.</li> </ul> <p>The exposure can take the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and leases (e.g. installment loans, auto loans and leases, student and educational loans, personal finance) and small business facilities and commitments.</p> <p>Securities (such as bonds and equities), whether listed or not, are specifically excluded from this category.</p>
160.2	Claims falling outside the regulatory retail portfolio	<p>Claims on small businesses or individuals that are not past due (past due loans to be reported in item 190) but do not satisfy the criteria for inclusion as regulatory retail exposures should be reported in item 160.2 and are risk weighted at 100%.</p>

## 170 Residential Mortgages

To be included in “Residential Mortgages”, claims must meet the following criteria:

- The properties must be either occupied by the borrower or rented to individuals.
- LTVs should be assessed on a regular basis, making use of relevant indices and market information where appropriate, with more frequent monitoring to be carried out where the market is subject to significant changes in conditions.
- Past due loans as described in paragraph 46 of the “Revised Framework for Regulatory Capital Assessment” (past due for more than 90 days), may not be included in this section and need to be reported separately in item 190.

Item	Description of Item and Risk Weighting	Guidance
170.1	Residential Mortgages: 35%	<p>Claims or lending that is fully secured by mortgages on residential property that is or will be occupied by the borrower, or that is rented and secured on that property by a first mortgage charge is risk weighted at 35%.</p> <p>A claim or lending is fully secured by residential property if the loan represents 80% or less of the value of the property.</p> <p>First mortgage charge means a first fixed (legal or equitable) charge or a first floating charge. In the case of the latter, reporting institutions must ensure (by, for example, including a negative pledge to this effect in the documentation) that no prior ranking charges can be taken over the assets concerned.</p> <p>Any existing loans where the lender has taken a Memorandum of Deposit of Deeds (MODD) rather than a mortgage charge may be given concessionary treatment. However, after 31 December 2008, all new loans must be secured by a first legal mortgage in order to qualify for the concession.</p>
170.2	Residential Mortgages: 50%	Residential Mortgages that meet the above criteria except for either: mortgages for which the institution's systems do not hold adequate LTV information; or mortgages in jurisdictions other than those where the local regulator is deemed equivalent, has adopted Basel II, has evaluated the local market and deemed a weight of 35% to be appropriate. Those mortgages in the above two categories are assigned a risk weighting of 50% that will apply to the whole of those exposures.
170.3	Residential Mortgages: 75%	Residential mortgages that meet the above criteria and are secured by residential properties with loan-to-value ratios higher than 80% are assigned a risk weight of 75% that will apply on that portion above the 80% LTV.
170.4	Residential Mortgages: 100%	Residential Mortgages that do not meet any of the above criteria are assigned a risk weight of 100%.



## 180 Commercial Mortgages

Item	Description of Item and Risk Weighting	Guidance
180.1	Commercial Mortgages: 50%	<p>Commercial property lending generally qualifies for a standard 100% weighting, except where the Authority is satisfied that an established well-developed market exists and that the conditions set out below apply. A risk weight of 50% shall be applied to mortgages on office and/ or multipurpose commercial premises and/ or multi-tenanted commercial property for tranches that do not exceed the lower of 50% of market value or 60% of mortgage lending value of the property securing the loan (except for past due loans, which need to be reported in item 190).</p> <p>Or</p> <p>where the Authority is satisfied that an established well developed market exists and the following apply:</p> <ul style="list-style-type: none"> <li>a) Losses stemming from commercial real estate lending up to the lower of 50% of the market value or 60% of loan to value based on mortgage lending value must not exceed 0.5% of the outstanding loans in any single year: and</li> <li>b) Overall losses stemming from commercial real estate lending must not exceed 0.3% of the outstanding loans in any single year.</li> </ul>
180.2	Commercial Mortgages: 100%	Commercial property generally shall be weighted at 100% unless they meet the criteria set out in 180.1.

## 190 Past Due Loans

Item	Description of Item	Guidance
190.1	Secured	<p>For the purpose of defining the secured portion of the past due loan, eligible collateral and guarantees are treated as for credit risk mitigation purposes see paragraphs 77-93 of the “Revised Framework for Regulatory Capital Assessment”.</p> <p>Exceptionally, where a past due loan is fully secured by non-recognized forms of collateral (notably real estate) see Annex 2.7 (eligible financial collateral) of the Revised Framework for Regulatory Capital Assessment, a 100% risk weight may apply <b>and</b> where provisions amount to at least 15% of the outstanding amount of the loan. Such collateral must be subject to independent professional valuation, with a value equivalent to at least 120% of the amount of the loan.</p>

		When residential mortgage loans are past due for more than 90 days, they must be risk weighted at 100%, net of specific provisions. If such loans are past due but specific provisions are no less than 20% of their outstanding amount, the risk weight applicable to the remainder of the loan can be reduced to 50%.
190.2	Unsecured and past due 90 days	<p>The unsecured portion of any loan that is past due for more than 90 days, net of specific provisions, including partial write-offs, will be risk-weighted as follows:</p> <ul style="list-style-type: none"> <li>▪ 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan;</li> <li>▪ 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the loan.</li> </ul>

## 200 Other Balance Sheet Exposures

Item	Description of Item and Risk Weighting	Guidance
200.1	Tangible fixed assets 100%	Premises, plant and equipment, other fixed assets for own use, and other interests in realty. Included are investments in land, premises, plant and equipment and all other fixed assets of the reporting institution which are held for its own use, including any fixed asset held by the institution as lessee under a finance lease. Other interest in land which is not occupied or used in the operation of the reporting institution's business should also be reported here.
200.2	Equity 100%	Investments in equity of other entities and holdings of investment funds. Included are investments in commercial entities, other than those where a deduction from capital base is required. Investment funds should be included unless they invest in high risk assets, in which case they are categorised as such, or they are fixed income (only debt investments, not equity) in which case they are categorised as per Annex 2.7 of the "Revised Framework For Regulatory Capital Assessment".
200.3	High Risk Assets 150%	<p>Investments in venture capital and private equity, including investments in investment funds holding such investments, are weighted at 150%. A venture capital or private equity investment is deemed to be one which, at the time the investment is made, is:</p> <ul style="list-style-type: none"> <li>a) in a new or developing company or venture; or</li> <li>b) in a management buy-out or buy-in; or</li> <li>c) made as a means of financing the investee company or venture and accompanied by a right of consultation, or rights to information, or board representation, or management rights; or</li> <li>d) acquired with a view to, or in order to, facilitate a transaction falling within (a) to (c).</li> </ul>

200.4	Other, including prepayments & debtors 0-150%	Accrued interest, prepayments and debtors should be classified here and weighted according to the underlying counterparty. Unallocated amounts, including unallocated interest, should be weighted at 100%. This includes unrestricted fixed income investment funds.
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## CREDIT RISK MITIGATION AND ASSOCIATED CALCULATION AND REPORTING OF RISK-WEIGHTED ASSETS

### CRM treatment by substitution of risk weights

This method should be used for collateral under the “simple” approach and - in all cases - for the recognition of the impact of guarantees and credit derivatives.

Report the whole principal amount of the claim under the columns 1, 2 or 3 “Exposure before CRM” classified according to the risk weight applicable to that claim. The “Exposure before CRM” or the principal amount is divided into two portions: the portion covered by credit protection and the remaining uncovered portion.

- For guarantees and credit derivatives, the value of credit protection to be recorded is their nominal value. However, where the credit protection is denominated in a currency different from that of the underlying obligation, the covered portion should be reduced by a haircut for the currency mismatch of 10%. The haircut however is not applicable for those transactions where the mismatch is between US dollars and Bermudian dollars.
- For collateral, the value of credit protection to be recorded is its market value subject to a minimum revaluation frequency of 6 months for performing assets, and 3 months for past due assets (if this is not achieved then no value can be recognized).
- Where the collateral involves cash deposits, certificates of deposit, cash funded credit-linked notes, or other comparable instruments which are held at a third-party bank in a non-custodial arrangement and unconditionally and irrevocably pledged or assigned to the reporting institution, the collateral will be allocated the same risk weight as that of the third-party bank

The covered and uncovered portions are reported according to the following:

- Where the asset covered by CRM is not past due, report the amount of the covered portion under column 6 “Total exposure after CRM”, classified according to the risk weight applicable to the credit protection (subject to a 20% floor, which can be reduced in situations set out in the proceeding section “*Exceptions to the risk weight floor of 20% under the simple approach for collateral*”).
- Where the asset covered by CRM is past due, the amount of the covered portion should be included in item 190 - Past Due Exposures and reported under the column of “Total exposure after CRM” in accordance with the risk weight applicable to the credit protection.

In both cases, the RWA of the covered portion is then calculated by multiplying the amount of the covered portion by the risk weight attributed to the credit protection.

However, where the credit protection takes the form of a credit derivative contract with the following features, there are certain additional guidelines the reporting institution should follow in determining the extent of credit protection:

Where the contract is a first-to-default credit derivative contract, the reporting institution may recognize regulatory capital relief for the asset within the basket with the lowest

risk weight, provided that the principal amount of that asset is less than or equal to the notional amount of the credit derivative. The institution may substitute the risk weight of the protection seller for the risk weight of that asset.

Where the contract is a second-to-default credit derivative contract, the reporting institution may substitute the risk weight of the protection seller for the risk weight of the reference entity with the second lowest risk weight in the basket of reference entities specified in the contract, but only if:

- The institution has, as a protection buyer, entered into a first-to-default credit derivative contract relating to the same basket of reference entities; or
- A reference entity in the basket has defaulted

Lastly, report the amount of the remaining uncovered portion under column 6 ‘Total exposure after CRM’, classified according to the risk weight of the underlying claim. The reported RWA of the uncovered portion will then be calculated by multiplying the amount of the uncovered portion by the risk weight of the claim.

# **REQUIREMENTS FOR RECOGNITION OF COLLATERAL**

## **Introduction**

Banks use a number of techniques to mitigate the credit risks to which they are exposed. For example, exposures may be collateralised by first priority claims, in whole or in part with cash or securities, a loan exposure may be guaranteed by a third party, or a bank may buy a credit derivative to offset various forms of credit risk. Additionally, banks may agree to set-off loans owed to them against deposits from the same counterparty.

Where these techniques meet the requirements for legal certainty as described below, the revised approach to CRM allows a wider range of credit risk mitigants to be recognized for regulatory capital purposes than is permitted under the 1988 Accord.

## **General remarks**

The framework is applicable to the banking book exposures in the standardised approach. The comprehensive approach for the treatment of collateral will also be applied to calculate the counterparty risk charges for OTC derivatives and repo-style transactions booked in the trading book.

No transaction in which CRM techniques are used should receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.

The effects of CRM will not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM.

While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including:

- Strategy;
- Consideration of the underlying credit;
- Valuation;
- Policies and procedures;
- Systems;
- Control of roll-off risks; and
- Management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile.

Where these risks are not adequately controlled, supervisors may impose additional capital charges or take other supervisory actions, as outlined in Pillar 2.

## **Legal certainty**

In order for banks to obtain capital relief for any use of CRM techniques, the following minimum standards for legal documentation must be met:

- All documentation used in collateralised transactions, and for documenting balance sheet netting, guarantees and credit derivatives, must be binding on all parties and legally

enforceable in all relevant jurisdictions; and

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

In addition to the general requirements for legal certainty set out above, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of the default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral). Furthermore, banks must take all necessary steps to fulfill those requirements under the law applicable to the bank's interest in the collateral to obtain and maintain an enforceable security interest, e.g. by registering it with a registrar, or for exercising a right to net or set-off.

In order for collateral to provide protection, the credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counterparty, or by any related group entity, would provide little protection and so would be ineligible.

Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

## **EXCEPTIONS TO THE RISK WEIGHT FLOOR OF 20% UNDER THE SIMPLE APPROACH FOR COLLATERAL**

### **Introduction**

In general, a reporting institution should not allocate a risk weight of less than 20% to collateral that is recognized under the “simple” approach except those set out in paragraphs below.

### **OTC Derivative Transactions**

A risk weight of 0% can be allocated to the collateralised portion of an OTC derivative transaction provided that:

- The transaction is marked-to-market daily and collateralised by cash provided to the institution, and
- The settlement currency of the transaction is the same currency as the cash provided as collateral.

A risk weight of 10% can be allocated to the collateralised portion of an OTC derivative transaction when the transaction is collateralised by debt securities issued by a sovereign or a sovereign foreign public sector entity qualifying for a risk weight of 0%.

### **Other Transactions**

A 0% risk weight can be allocated to the collateralised portion of a transaction if both the transaction and the collateral are denominated in the same currency, and either.

- The collateral is cash on deposit with the reporting institution; or
- The collateral is in the form of debt securities issued by a sovereign or a sovereign foreign public sector entity eligible for a risk weight of 0% in accordance with Section 2, and the current market value of which has been discounted by 20%.

A 0% risk weight can be allocated to recognized collateral in the form of gold bullion held by the reporting institution.



## MAPPING OF ECAI TABLES

**Table 1- Mapping of ECAI's credit assessments to risk weightings: Long term mapping**

Standard and Poor's ("S&P") assessments	Fitch's assessments	Moody's assessments	Corporate	Banks and securities firms		Sovereign	PSE (Sovereign rating based)
				Maturity > 3 months	Maturity 3 months or less		
AAA to AA-	AAA to AA-	Aaa to Aa3	20%	20%	20%	0%	20%
A+ to A-	A+ to A-	A1 to A3	50%	50%	20%	20%	50%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%	50%	20%	50%	100%
BB+ to BB-	BB+ to BB-	Ba1 to Ba3	100%	100%	50%	100%	150%
B+ to B-	B+ to B	B1 to B3	150%	100%	50%	100%	150%
CCC+ and below	CCC+ and below	Caa1 and below	150%	150%	150%	150%	150%

**Table 2- Securitisation -Mapping of ECAI's credit assessments to risk weightings: Long term mapping**

S&P assessments	Fitch's assessments	Moody's assessments	Risk weight
AAA to AA-	AAA to AA-	Aaa to Aa3	20%
A+ to A-	A+ to A-	A1 to A3	50%
BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	100%
BB+ to BB-	BB+ to BB-	Ba1 to Ba3	350%
B+ and below	B+ and below	B1 and below	Capital deduction

**Table 3- Securitisation -Mapping of ECAI's credit assessments to risk weightings: Short term mapping**

S&P assessments	Fitch's assessments	Moody's assessments	Risk weight
A-1+, A-1 and A-1-	F1+, F1	P-1	20%
A-2	F2	P-2	50%
A-3	F3	P-3	100%
All short-term ratings below A-3	Below F3	Not prime (NP)	Capital deduction

**Table 4- Mapping consensus risk scores from participating ECAs risk weightings**

Country Score	Sovereign
0-1	0%
2	20%
3	50%
4-6	100%
7	150%

## **PART 3: OVERVIEW – OFF BALANCE SHEET PORTION AND DETERMINATION OF CREDIT CONVERSION FACTORS**

### **Introduction**

Section C of the return covers the reporting institution's balance sheet assets and off-balance sheet exposures in its banking book, including OTC derivative contracts. The following covers instructions and definitions for the off-balance sheet portion only.

The off-balance sheet section does not require a reporting break down per currency. Totals are to be reflective of the total of all currencies and reported in Bermuda dollars.

### **Guidance on columns**

#### *Column 1: Principal Amount*

The principal amount is the face value or gross amount of a given off-balance sheet transaction and not the fair value. Total absolute values should be reported.

#### *Column 2: Credit Conversion Factor*

A credit conversion factor ("CCF") is the percentage value used to convert an off-balance sheet exposure into an on-balance sheet equivalent (i.e. the credit equivalent amount). CCFs are generally pre-defined in the form.

#### *Column 3: Credit Equivalent Amount ("CEA")*

A CEA is the on-balance sheet equivalent of an off-balance sheet exposure. In the form, the CEA is a derived field. In relation to a non-market-related off-balance sheet transaction, the CEA is calculated by multiplying the principal amount of a particular transaction by the relevant CCF.

The credit equivalent amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different CCFs. The reporting institution must, by reference to the description of the relevant items, determine the appropriate CCF(s) to be applied to the exposure(s) to calculate the credit equivalent amount for that off-balance sheet exposure type and report the total as a single credit equivalent amount.

Credit derivative transactions in the banking book are classified as non-market-related off-balance sheet transactions.

#### *Column 5: RWA*

The RWA amount of a given off-balance sheet transaction that gives rise to credit exposure is calculated by multiplying the credit equivalent amount of a transaction by the risk-weight applicable to the counterparty or type of assets, or where relevant, the risk-weight applicable to the eligible guarantor or collateral.

Generally, the RWA is a derived field in the form. In some cases, however, the amount must be entered by the bank. The RWA amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different risk-weights. The bank must determine the appropriate risk-weight(s) to be applied to the exposure(s) to calculate the RWA for that off-balance sheet exposure type and report the total as a single RWA amount.

### **Definition and additional instructions**

- Netting refers to the process under a netting agreement of combining all relevant outstanding transactions between two counterparties and reducing them to a single net sum for a party to either pay or receive.
- Pending further consideration, net amounts due in respect of foreign exchange transactions may be reported only if the net amount derived is pursuant to the application of a bilateral agreement (between two counterparties) based upon netting by novation. Netting by novation is where obligations between counterparties to deliver given amounts on a given date are automatically amalgamated with all other obligations to deliver the same currency on the same value date and netted. Such netting should have the effect of legally discharging performances of the original obligation and substituting the single net amount as the sole remaining obligation between the parties for the relevant value date.
- Intra group off-balance sheet items should be reported under the relevant item and weighted according to the terms agreed with the Authority.
- Multi-option facilities and other composite products should be disaggregated into their component parts, e.g. into a credit commitment, note issuance facility, etc. and each component weighted according to its classification. However, components carrying the lowest conversion factors should be disregarded to the extent that the total value of all components exceeds the value of the facility.

## PART 4: DETAILED GUIDANCE – OFF BALANCE SHEET PORTION

The reporting institution should categorise off-balance sheet exposures into the following standard items and report:

- The principal amount; and
- The amount after allowing for credit risk mitigation and applying CCF, categorized by risk weight.

Item No	Description of Item	Guidance	CCF
210	Direct credit substitutes	<p>Direct credit substitutes relate to the financial requirements of a counterparty, where the risk of loss to the reporting institution on the transaction is equivalent to a direct claim on the counterparty, i.e. the risk of loss depends on the creditworthiness of the counterparty. Report instruments such as:</p> <ul style="list-style-type: none"> <li>a) Acceptances granted and risk participations in bankers' acceptances. Where a reporting institution's own acceptances have been discounted by that institution the nominal value of the bills held should be deducted from the nominal amount of the bills issued under the facility and a corresponding on-balance sheet entry made;</li> <li>b) Guarantees given on behalf of customers to stand behind the current obligations of the customer and to carry out these obligations should the customer fail to do so, e.g. a loan guarantee;</li> <li>c) Guarantees of leasing operations;</li> <li>d) Guarantees of a capital nature. Such guarantees given to a company which is not related to the reporting institution should be weighted at 100% and those to a related company should be deducted from the reporting institution's capital base (item 210.9);</li> <li>e) Letters of credit not eligible for inclusion in item 230;</li> <li>f) Standby letters of credit, or other irrevocable obligations, serving as financial guarantees where the institution has an irrevocable obligation to pay a third party beneficiary if the customer fails to repay an outstanding commitment, e.g. letters of credit supporting the issue of commercial paper, delivery of merchandise, or for stock lending (standby letters of credit which are related to non-financial transactions should be reported in item 220);</li> <li>g) Re-insurance or window letters of credit;</li> <li>h) Acceptances drawn under letters of credit, or similar facilities where the acceptor does not have specific title</li> </ul>	100%

		<p>to an identifiable underlying shipment of goods (e.g. sales of electricity).</p> <p><i>Direct Credit Substitutes of a Capital Nature</i></p> <p>Any direct credit substitutes which are of a capital nature and connected to the reporting institution or given to another bank should be reported in item 210.9 and will be deducted from capital in the calculation of the risk asset ratio.</p> <p>Include:</p> <ul style="list-style-type: none"> <li>a) A guarantee which takes the place of capital, e.g. where a regulatory body allows a company to gear up on such guarantees (but see also 210(d));</li> <li>b) A guarantee of a bank capital instrument (unless otherwise agreed with the Authority, e.g. do not include here the subordinated guarantee of loan stocks raised by vehicle company subsidiaries of the reporting institution, where the loan stock is treated as subordinated debt of the reporting institution).</li> </ul>	
220	Transaction-related contingencies	<p>Transaction related contingencies relate to the on-going trading activities of a counterparty where the risk of loss to the reporting institution depends on the likelihood of a future event which is independent of the creditworthiness of the counterparty. They are essentially guarantees which support particular non-financial obligations rather than supporting customers' general financial obligations. Report such items as:</p> <ul style="list-style-type: none"> <li>a) Performance bonds, warranties and indemnities (indemnities given for lost share certificates or bills of lading and guarantees of the <i>validity</i> of papers rather than the <i>payment</i> under certain conditions should not be reported in this return);</li> <li>b) Bid or tender bonds;</li> <li>c) Advance payment guarantees;</li> <li>d) Standby letters of credit relating to a particular contract or to non-financial transactions (including arrangements backing, <i>inter alia</i>, subcontractors' and suppliers' performance, labour and materials contracts, and constructions bids).</li> </ul>	50%
230	Trade-related contingencies	<p>Report short-term, self liquidating trade-related items such as documentary letters of credit issued by the reporting institution which are, or are to be, collateralised by the underlying shipment. Such letters should be weighted according to the counterparty on whose behalf the credit is issued and reported whether or not the terms and conditions of the credit have yet to be complied with.</p> <p>Letters of credit issued by the reporting institution without</p>	20%

		<p>provision for the reporting institution to retain title to the underlying shipment or where the title has passed from the reporting institution should be reported under direct credit substitutes (Item 210). A memorandum of pledge and a trust receipt are not regarded as giving the reporting institution title, and transactions secured by these should be shown under item 210.</p> <p>Letters of credit issued on behalf of a counterparty back-to-back with letters of credit of which the counterparty is a beneficiary (“back-to-back” letters) should be reported in full.</p> <p>Letters of credit advised by the reporting institution or for which the reporting institution is acting as reimbursement agent should not be reported.</p>	
240	Lending of securities or posting of securities as collateral	<p>Include:</p> <p>a) Repurchase/reverse repurchase agreements; and</p> <p>b) Securities lending/borrowing transactions.</p>	100%
250	Assets sold with recourse	Asset sales with recourse (where the credit risk remains with the bank) fall into the weighting category determined by the asset and <u>not</u> according to the counterparty with whom the transaction has been entered into. Report put options written where the holder of the asset is entitled to put the asset back to the reporting institution, e.g. if the credit quality deteriorates. Also report put options written by the reporting institution attached to marketable instruments or other physical assets.	100%
260	Forward asset purchases	The weight should be determined by the asset to be purchased, not the counterparty with whom the contract has been entered into. Include commitments for loans and other on-balance sheet items with certain drawdown. Exclude foreign currency spot deposits with value dates one or two working days after trade date.	100%
270	Uncalled partly paid shares and securities	<p>The unpaid part should only be included if there is a specific date for the call on that part of the shares and securities held. If there is no specific date, the unpaid part should be treated as a long-term commitment (see item 320)</p> <p>Include:</p> <p>a) Any amounts owing on the uncalled portion of partly paid shares; and</p> <p>b) Securities held by a bank that represent commitments with certain drawdown by the issuer at a future date.</p>	100%

280	Placements of forward deposits	<p>Agreements between two parties whereby one will pay and the other receives an agreed rate of interest on a deposit to be placed by one with the other at some predetermined date in the future. Exclude foreign currency spot deposits with value dates one or two working days after trade date.</p> <p>The weight should be determined according to the counterparty with whom the deposit will be placed.</p>	100%
290	Note issuance and underwriting facilities	<p>Note Issuance Facilities (NIFs) and Revolving Underwriting Facilities (RUFs) should include the total amounts of the reporting institution's underwriting obligations of any maturity. Where the facility has been drawn down by the borrower and the notes are held by anyone other than the reporting institution, the underwriting obligation should continue to be reported at the full nominal amount.</p> <p>Include any note issuance and underwriting facilities. These involve arrangements whereby a borrower may drawdown funds up to a prescribed limit over a predefined period by making repeated note issues to the market and where, should the issue prove unable to be placed in the market, the unplaced amount is to be taken up or funds made available by a bank being committed as an underwriter of the facility.</p> <p>The reporting institution's own holding of the notes should be reported under loans, advances, bills and finance leases, and therefore the nominal amount of the notes held should be deducted from the nominal amount of the facility to be shown here.</p>	50%

300	Sale & Repurchase agreements	<p>Report sale and repurchase agreements (“repos”), i.e. when the reporting institution is the seller of the asset where the asset sold is not reported on the balance sheet. If the asset sold is kept on the balance sheet it should not be reported here but in the relevant line in the on-balance sheet section of this return. When the asset does not appear on the balance sheet the weighting category is to be determined by the issuer of the security (or borrower in the case of a loan) and not according to the counterparty with whom the transaction has been entered into.</p> <p>Repos associated with reverse repos should not be reported under item 300; the liability under such repos should be reported under item 1880.</p> <p>The reporting institution should refer to the Authority where it has a repo in item 300 and off settable short stock positions on balance sheet in item 400 (investment in central governments and central banks-net short positions) or 1880 which would meet the general requirements for the netting of stock positions.</p> <p><i>Repos</i></p> <p>Reporting institutions that have sold loans or other assets to other institutions for a finite period with a commitment to repurchase should continue to report the loan or asset on the balance sheet. Where this is not the case, based on GAAPs applied by the reporting institution, sale and repurchase agreements should be reported in the off-balance sheet section of the return.</p> <p><i>Reverse Repos</i></p> <p>Reporting institutions which have purchased such loans or assets (i.e. purchase and resale agreements or reverse repos) should for the duration of the agreement report the transaction as a collateralised loan, adopting the normal weight for the counterparty unless the assets are eligible for a reduced weight.</p>	100%
310.1	Endorsement of bills – accepted by banks	<p>Endorsements of bills (including per aval endorsements) should be reported at the full nominal amount, less any amount for bills which the reporting institution now holds but had previously endorsed.</p> <p>Where the reporting institution is the first endorser of a bill which has been accepted by a bank other than the reporting bank, such endorsements should be reported in item 310.1. (Where a reporting institution has endorsed its own acceptances no further amount should be reported than the</p>	0%



310.2	Endorsement of bills – not accepted by banks	<p>acceptance reported in item 210). If the reporting institution is not the first endorser of a bill already by a bank, such endorsements need not be reported.</p> <p>Endorsements of bills which have not been accepted by a bank should be reported in items 310.2 – 310.4 according to the risk weight category of the issuer; where such a bill has been previously endorsed by a bank, the reporting institution's endorsements will warrant a 20% weight. Endorsements of bills which have been previously endorsed by two or more banks need not be reported.</p>	100%
320	Other commitments	<p><i>Underwriting Commitments</i></p> <p>Commitments arising from the underwriting of discrete issues of equities or bonds should be included in item 320.2.9 and will attract a risk weighting of 100% unless concessionary treatment has previously been agreed in a particular case with the Authority. (NIFs and RUFs, however, should be reported in item 290.)</p> <p><i>Commitments to provide capital to related parties (and other banks)</i></p> <p>Amounts reported under item 320.6 should be multiplied by the 50% credit conversion factor before entering, so that an appropriately reduced amount is carried through to the summary page (item S70). If, however, the item would normally attract a credit conversion factor of 0% for the reasons above, it should continue to be reported under item 320.3.1</p> <p><i>Commitments with certain drawdown</i></p> <p>Commitments for loans and other on-balance sheet items with certain drawdown should not be reported here but in item 260.</p>	
320.1	Commitments with certain drawdown of which: Loans approved but not yet advanced	Report here loans supported by eligible residential mortgages and other loans, which have been approved but not yet advanced. Refer to Part 2 “ <i>Detailed guidance – on balance sheet portion</i> ” for further guidance on eligible residential mortgages and other loans.	100%
320.2	Other commitments with an original maturity of one year or less of which: Balances available for redraw under redraw facilities of term loans	<p>Report here other undrawn commitments, classified as to whether:</p> <ul style="list-style-type: none"> <li>a) They have an original maturity of one year or less or are unconditionally cancellable at any time (item 320.2); or</li> <li>b) They have an original maturity of over one year (item 320.3)</li> </ul>	20%

320.3	Other commitments with an original maturity of over one year or less of which: Balances available for redraw under redraw facilities of term loans	<p>The reporting institution is regarded as having a commitment from the date the customer is advised of the facility (e.g. the date of the letter advising the customer) regardless of whether the commitment is revocable or irrevocable, conditional or unconditional and in particular whether or not the facility contains a “material adverse change” clause. Facilities subject to annual review should only be classified within 320.2 if the bank is confident that there is no client expectation of automatic renewal/continuation.</p> <p>Rolling or undated/open-ended commitments (“evergreens” and including overdrafts) should be included under (a) providing that they are unconditionally cancellable at any time without notice and subject to credit review at least annually. Other rolling or undated commitments should be reported under (b).</p> <p>Unused credit card lines should be reported under (a).</p>	50%
320.4	Commitments that can be unconditionally cancelled at any time without notice	Commitments (including the undrawn portion of any binding arrangements which obligate the reporting institution to provide funds at some future date) that are unconditionally cancelable without prior notice by the reporting institution other than for “force majeure” reason, or that effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness. This also includes any revolving or undated/open-ended commitments, e.g. overdrafts or unused credit card lines, provided that they can be unconditionally cancelled at any time and are subject to credit review at least annually. Facilities should only be classified here if the bank is confident that the client is aware of both the review process and has confirmed that the facility may be withdrawn at any time.	
330	Total	Derived in the return. Calculated as sum of item 210 to 320.6.	
340	All other non-market-related off-balance sheet transactions	<p>Include any other non-market related off-balance sheet transactions that give rise to credit risk but are not specifically identified in the reporting form. For any such transaction, a bank must consult the Authority on the appropriate CCF to be used for calculating the CEA of that particular transaction for capital adequacy purposes.</p> <p>Where the non-market-related off-balance sheet transaction is an undrawn or partially undrawn facility, the bank is to include the maximum unused portion of the commitment that could be drawn during the remaining period to maturity for the calculation of the CEA. Any drawn portion of a commitment forms part of a bank’s on-</p>	

		<p>balance sheet credit exposure.</p> <p>With regard to irrevocable commitments to provide off-balance sheet facilities, the original maturity will be measured from the commencement of the commitment up until the time the associated facility expires. For example, an irrevocable commitment, with an original maturity of six months, to provide finance with a nine-month term, is deemed to have an original maturity of 15 months.</p> <p>Irrevocable commitments to provide off-balance sheet facilities are to be assigned the lower of the two applicable CCFs. For example, an irrevocable commitment with an original maturity of six months to provide a guarantee in support of a counterparty for a period of nine months attracts the 50 per cent CCF applicable to the commitment, as opposed to the 100 per cent CCF applicable to the guarantee.</p> <p>Undrawn balances of revolving facilities (e.g. credit cards, overdrafts) are to be reported under item 320.4 (Commitments that can be unconditionally cancelled at any time without notice).</p> <p>All commitments are to be included in the capital calculation regardless of whether or not they contain 'material adverse change' clauses or any other provisions that are intended to relieve a bank of its obligations under certain conditions.</p>	
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## **DETERMINATION OF RISK WEIGHTS FOR OFF-BALANCE SHEET ITEMS, EXCLUDING OTC DERIVATIVES**

Except for the following, the applicable risk weight for an off-balance sheet item is determined by reference to the risk weight allocated to the counterparty of the exposure, in accordance with the relevant instructions under Part 2. The exceptions are:

- Direct credit substitutes;
- Asset sales with recourse;
- Forward asset purchases;
- Partly paid-up shares and securities; and
- Exposures arising from the selling of credit derivative contracts booked in the reporting institution's banking book reported as "Direct credit substitutes".

For these, the applicable risk weight to an exposure should be:

- a) In the case of "Direct credit substitutes", "Asset sales with recourse" and "Forward asset purchases", the risk weight is determined by reference to the risk weight allocated to the underlying asset;
- b) In the case of "Partly paid-up shares and securities", use the risk weight for the equities in question (usually 100%); and
- c) In the case of exposures arising from the selling of credit derivative contracts booked in the reporting institution's banking book reported as "Direct credit substitutes", the risk weight is normally determined by reference to the risk weight of the relevant reference entity.

However:

Where a credit derivative contract sold is a first-to-default credit derivative contract:

- If it has a current rating assigned to it by an ECAI, the reporting institution should apply the risk weight attributed to the rating using the securitisation mapping (Tables 2 & 3); or
- If it does not have a current rating assigned to it by an ECAI, the institution should report as per the aggregate risk weights of the reference entities in the basket, subject to a maximum of 1250%.

Where a credit derivative contract sold is a second-to-default credit derivative contract:

- If it has a current rating assigned to it by an ECAI, the reporting institution should apply the risk weight attributed to the rating using the securitisation mapping (Tables 2 & 3); or
- If it does not have a current rating assigned to it by an ECAI, the institution should aggregate the risk weights of the reference entities in the basket, but excluding that reference entity to which the lowest risk weight would be allocated, subject to a maximum of 1250%.

Where a credit derivative contract sold provides credit protection proportionately to a basket of reference entities, in ratios set out in the credit derivative contract, the institution should calculate the risk weight of its exposure under the credit derivative contract by taking a weighted average of the risk weights attributable to the reference entities in the basket.

## **CREDIT RISK MITIGATION AND THE CALCULATION AND REPORTING OF RISK-WEIGHTED AMOUNTS, EXCLUDING OTC DERIVATIVES**

For each off-balance sheet exposure, the reporting institution is required to identify the relevant risk weight for the counterparty by reference to what this would be for a balance sheet exposure to the same counterparty.

Where an exposure is not covered by any recognised CRM techniques, the process for calculating the capital requirement is:

- Firstly, enter the “Principal Amount”, which is converted into a "Credit Equivalent Amount” by multiplying it by the applicable CCF;
- Secondly, the “Credit Equivalent Amount” is classified by the applicable risk weighting, which is then used to calculate the RWA.

Where an exposure is covered fully or partially by recognised CRM techniques, the capital treatment is similar to that of balance sheet assets, except that, in calculating the RWA, the credit equivalent amount is used instead of the “Principal Amount”.

### **CRM treatment by substitution of risk weights**

- 1) This method should be used for collateral under the ‘simple’ approach, and in all cases for the recognition of the impact of guarantees and credit derivatives.
- 2) Report the amount of the exposure in the column “Principal Amount”, classified accordingly.
- 3) Divide the amount into two portions: the portion covered by credit protection and the remaining uncovered portion (the value of the credit protection for different types of CRM techniques being determined in the same way as when the techniques are used to cover balance sheet assets).
- 4) Multiply both portions by the CCF applicable to the exposure to create two CEAs (the total of which must equate to the CEA given by the sheet).

Classify the CEA of the uncovered portion according to the risk weight of the exposure and the CEA of the covered portion according to the risk weight of the collateral (subject to a 20% floor which can be reduced in the situations set out in the preceding section “*Exceptions to the risk weight floor of 20% for collateral*” (page 23 of these guidance notes)). These inputs will then be used by the module to arrive at the risk weighted amount by multiplying each CEA by the appropriate weight.

## OFF-BALANCE SHEET EXPOSURE: OTC DERIVATIVES

### Introduction

These exposures include all market –related transactions held in the banking and trading books that give rise to off-balance sheet credit risk. The CEA of these transactions, whether held in the banking or trading book, must be determined by using the current exposure method.

Credit derivative transactions in the trading book are classified as market-related off-balance sheet transactions.

A bank may net off-balance sheet claims and obligations arising from market-related contracts across both the banking and trading books, arising from contracts with a single counterparty, where the relevant obligations are covered by eligible bilateral netting arrangements.

### Specific instructions

#### *Column 3: Potential Future Credit Exposure*

The potential future exposure amount is calculated by multiplying the notional principal amount of a market-related contract (regardless of whether the contract has a zero, positive or negative mark-to-market value) by the relevant CCF. It represents an “add-on” component to the current exposure amount and is used in the current exposure method to calculate the CEA of market-related off-balance sheet credit exposures.

Generally, the potential future exposure amount is a derived field in the form. In some cases, however, the amount must be entered by the bank. The potential future exposure amount for some off-balance sheet exposure types may consist of several discrete exposures, each potentially attracting different CCFs. The bank must, by reference to the hand book, determine the appropriate CCF(s) to be applied to the exposure(s) to calculate the potential future exposure amount for that off-balance sheet exposure type and report the total as a single potential future exposure amount.

#### *Column 4: Current Exposure*

The current exposure amount for each type of market-related off-balance sheet exposure is the sum of the positive mark-to-market value (or replacement cost) of each individual contract within each classification.

## Categorisation and add-on factors

The add-on factors are set out in the following table according to their residual maturities:

	Interest Rate	FX and Gold	Equities	Precious Metals (except Gold)	Other Commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over 1 year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

- For contracts structured to settle outstanding exposures following specified payment dates and where the terms are reset such that the market value of the contract is zero on these dates, the residual maturity should be set equal to the time until the next reset date. In the case of interest rate contracts that meet these criteria, and the remaining time to final maturity of the contracts is more than one year, the add-on factor is subject to a floor of 0.5%.
- Forwards, swaps, purchased options and similar derivative contracts other than those contracts the value of which is derived from the value of exchange rate, gold, interest rate, equity, or precious metal, should have applied the add-on factors applicable to “Other Commodities”.

## PART 5: MEMORANDUM ITEMS

Item	Description of Item	Guidance
360	Connected lending of a capital nature	<p>Report all related party lending of a capital nature and indicate, in the lines provided, in which weight band on the assets section of this return the lending has been reported. Also report both long term subordinated loans and one-off payments by the reporting institution to vehicles established for loan packaging schemes, where the reporting institution is the servicing agent.</p> <p>Do not report investment to subsidiaries and associated companies where the amount has already been reported in item 1310.</p> <p>Connected lending of a capital nature is to be deducted from the capital base only if the Authority concludes that the exposure may not be on a wholly arm's length basis or where it has concerns about the aggregate level of related party exposures.</p> <p>If doubt exists as to the inclusion of an asset in this item refer to the Authority for guidance.</p>
370	Loans to directors, controllers and their associates	<p>Directors, controllers, and their associates are as defined in Section 7 of the Banks and Deposit Companies Act 1999. Indicate, in the lines provided, in which weight band on the assets side of this return the lending has been reported.</p> <p>If a loan reported here is of a capital nature, it should be included additionally in item 360.</p>
380	Loans to non-group companies with which directors and controllers are associated	<p>A director (including an alternate director) or controller of the reporting institution is deemed to be associated with another company, whether registered or resident in Bermuda or overseas, if he holds the office of director (or alternate director) with that company (whether in his own right, or as a result of a loan granted by, or financial interest taken by, the reporting institution to, or in, that company, or even by virtue of a professional interest unconnected with the reporting institution), or if he and/or his associates together hold 20% or more of the equity share capital of that company. For the purpose of this item, include as a director an employee of the reporting institution who is not a director but who is appointed a director of another company.</p> <p>The definition should be consistent with that adopted for Large Exposures reporting purposes.</p> <p>Indicate, in the lines provided, in which weight band on the assets section of this return the lending has been reported.</p>



		If a loan reported here is of a capital nature, it should be included additionally in item 360.
390	Direct credit substitutes given on behalf of connected customers	Indicate, in the lines provided, in which weight band the direct credit substitute has been reported.
400	Investments in central governments and central banks (net short positions)	Report net short positions in central governments and central bank securities (see guidance on netting above).  All positions after weighting shown here should be reported with a positive sign.
410	Encumbered assets	List in these lines any assets not freely available to meet the claims of the generality of creditors in a liquidation of the reporting institution because they are subject to a charge, pledge or other restriction.  Under item 410.1, list the assets and the item number on the return to which they refer, which have been given as security in connection with the reporting institution's Participation in a payments/settlements system. The particular payments/settlements system should be listed with the liabilities being secured at the reporting date recorded under column 1. For the purpose of detailing the total amount of assets securing liabilities, assets pledged in excess of the actual liability to individual systems at the reporting date should not be reported.  Under item 410.2, list the assets and the item number on the return to which they refer, which have been given as security to secure the reporting institution's other liabilities (for example, property which has been mortgaged and hire purchase agreements pledged as collateral). Assets reported should exclude any element of unearned finance charges.  Total liabilities being secured at the reporting date (item 410, column 1) should equal the sum of 410.1 and 410.2 below. Total assets at the reporting date securing liabilities reported in column 1 (item 410, column 2), will not necessarily equal the sum of items 410.1 and 410.2 below as any asset which is securing more than one creditor should not be double counted in the total.

## 420: Analysis of Total Loans, Advances, Bills and Finance Leases

Description of Item	Guidance
Pass	<p>A pass loan shall mean a loan that undoubtedly will be repaid. A loan shall be classified as pass where:</p> <ul style="list-style-type: none"> <li>▪ The borrower is not expected to face repayment difficulties because the present and projected cash flows are sufficient to repay the debt; the repayment schedule as established by the agreement is being followed;</li> </ul> <p>The value of collateral (also in case of a forced sale) for a collateral-dependent loan equals or exceeds the amount of the debt, collateral is marketable and the bank faces no legal barrier to disposing of it.</p>
Special Mention	<p>A special mention loan shall mean a loan under intensified control of the bank's management because of an inherent potential unreliability, which, unless averted, may influence the debt repayment and inflict loss on the bank. A loan shall be classified as special mention where:</p> <ul style="list-style-type: none"> <li>▪ Economic or market conditions may unfavorably influence the borrower;</li> <li>▪ The borrower's business performance is deteriorating or there are unmatched positions in the borrower's balance sheet that are nonetheless not important enough to jeopardize recovery of the debt;</li> <li>▪ The delay in debt repayment does not exceed 30 days;</li> <li>▪ Debt repayment is delayed for 31 - 90 days, but the secondary repayment source is reliable;</li> <li>▪ For a collateral-dependent loan, the condition of collateral and the possibility to control collateral are doubtful;</li> <li>▪ Proper monitoring of the loan is impeded by the quality of the agreement;</li> <li>▪ Deviations from the policy and procedures established for managing credit risk have been detected.</li> </ul>
Substandard	<p>A sub-standard loan shall mean a loan whose evident unreliability makes repayment doubtful and there is a threat of loss to the bank unless the unreliability is averted. A loan shall be classified as sub-standard where:</p> <ul style="list-style-type: none"> <li>▪ The borrower's cash flow is insufficient to ensure regular payments;</li> <li>▪ The current information to the bank on the borrower's financial standing is unsatisfactory or the documents certifying collateral and repayment sources are inadequate;</li> <li>▪ The delay in debt repayment is 31 - 90 days;</li> <li>▪ The borrower's financial standing grows unsound, the delay in debt repayment exceeds 90 days, but the secondary repayment source is reliable.</li> </ul>
Doubtful	<p>Doubtful loan shall mean a loan that is likely to inflict loss on the bank; it is impossible to measure the loss at the time of assessment though there is a reasonable hope to recover part of the amount due. A loan shall be classified as doubtful where:</p> <ul style="list-style-type: none"> <li>▪ The borrower is facing liquidity problems and shows signs of actual insolvency;</li> </ul>

	<ul style="list-style-type: none"> <li>▪ The borrower is in liquidation and the value of his/her assets is insufficient to meet the bank's claim in full;</li> </ul> <p>The delay in debt repayment is 91-180 days and the secondary repayment source is unreliable.</p>
Loss	<p>A lost loan shall mean a loan that does not have real value at the moment of assessment. A loan shall be classified as lost where:</p> <ul style="list-style-type: none"> <li>▪ The delay in debt repayment exceeds 180 days;</li> <li>▪ The borrower is dead, missing or has terminated the business activity;</li> <li>▪ There is a court ruling to recognize the borrower as bankrupt (the bankruptcy procedure has been initiated).</li> </ul>

### 430: Analysis of Loans Advances, Bills and Finance Leases by Sector

All loans and advances should be broken down by sector into the indicated categories. If unsure of which sector to use, please contact the Authority. – see Appendix I for details on Standard Industry Classification Codes (SICs).

Description of Item	Guidance	SIC Division Structure <sup>1</sup>
Mortgages	Financing for land and buildings for purchasing real estate/residential properties.	N/A
Other loans collateralised by real estate properties	Personal loans, other than mortgages, which have been secured or collateralised by real estate	N/A
Other personal loans	This include all other personal loans not included under 'mortgages' or 'other loans collateralised by real estate properties'	N/A
Whole Trade Business	Financing provided for the wholesale trade in merchandise for sale to the general public, i.e. foodstuffs, clothing, appliances, cars, etc.	Division F (Major groups: 50 and 51)
Retail Trade Business	Financing provided for the retail trade in merchandise for sale to the general public i.e. foodstuffs, clothing, appliances, cars, etc.	Division G (Major groups: 52, 53, 54, 55, 56, 57, 58 and 59)
Construction	Involves all areas of the construction industry, including materials, and labour. Both commercial and residential construction financing fall under this category.	Division C ( Major groups: 15, 16 and 17)
Public Administration	This includes the executive, legislative, judicial, administrative and regulatory activities of the governments.	Division J (Major groups: 91, 92, 93, 94, 95, 96, 97, and 99)
Transport and Communication	Includes services such as taxis and public transportation, telephone and telex communication and courier facilities	Division E ( Major groups: 40, 41, 42, 43, 44, 45, 46, 47, 48 and 49)
Hospitality Industry	Includes all tourist services, hotels, guest houses, restaurants, boat charters, etc.	Major groups 70, 79 and 84

<sup>1</sup> [http://www.osha.gov/pls/imis/sic\\_manual.html](http://www.osha.gov/pls/imis/sic_manual.html)

Other Business and Services	Includes any activity not covered in any of the classifications above.	All other major groups under division I not reported under hospitality industry. (major groups: 72, 73, 75, 76, 78, 80, 81, 82, 83, 86, 87, 88 and 89)
Real Estate	This includes real estate operators, and owners and lessors of real property, as well as buyers, sellers, developers, agents, and brokers.	Major group 65
Other Financial Institutions	This relates to advances to financial sector institutions not already classified into one of the above industry classifications.	Major groups; 60, 61, 62, 63, 64 and 67.  Division H excluding major group 65 (real estate), which is reported under real estate above.
Others	Enter all other financing not covered by any of the above classification.	Report all other financing not covered by any of the above classification.

#### **440: Analysis of Real Estate Lending – Classification by Product Type**

<b>Description of Item</b>	<b>Guidance</b>
Loans secured by residential properties	Residential properties are properties that consist of homes, apartments, townhouses, and condominiums.
Loans secured by commercial properties	Commercial properties are properties that are solely used for business purposes. They include; malls, industrial parks, gas stations, convenience stores and office space.
Properties occupied by the borrower	This should include, with any property being developed for occupation (that will be occupied by the borrower), any property that is currently occupied by the borrower.
Properties rented out	This should include, with any property being developed for rental, any property owned by the borrower that is currently being rented out.

#### **450: Maturity Profile and LTV Information of Real Estate Lending**

The reporting institution is required to disclose three different currencies and the type of exposure to real estate (that is, residential or commercial mortgages). Please note that this section is not required to be provided by the reporting institutions prior to January 1, 2010.

##### **Specific instructions (for selected items)**

##### **Column 1: Outstanding Amount**

The reporting institution is required to disclose the loan amount outstanding here.

## **Column 2: Estimated Value of Collateral**

The reporting institution is required to disclose the estimated value of collateral held by the institution.

## **Column 3: Loan to Value Ratio**

This is calculated by dividing the “Outstanding” amount by the “Estimated value of Collateral.”

## **460-750: Provisions against Bad and Doubtful Debts**

<b>Item</b>	<b>Description of Item</b>	<b>Guidance</b>
	<b>General provision</b>	
460	Opening balance	Show the balance outstanding on the general provisions account at the end of the previous year-end accounting period relating to debts considered bad or doubtful. Do not include provisions made against the value of investments.
470	Provisions created	Enter any adjustments made as a result of an acquisition or disposal of a subsidiary company the balance sheet of which includes general provisions and is included in the consolidation for this particular return. Where the net adjustment is negative, report the amount in brackets.
480	Charge for doubtful debts (P&L)	Relates to current year charge to P&L, split into items 480.1 and 480.2.
480.1	New funding	Enter here the expense charged for bad debts to the profit and loss account as a result of new or increased provisions.
480.2	Write back of provision not required	Enter here reversal and decrease of provision to the profit and loss account, including write back of provisions no longer required arising from prior periods already charged to the profit and loss account.
490	Transfer to specific provision	Report here decreases in the general provision due to the transfer to specific provision.
500	Transfer from specific provision	Report here increases in the general provision due to the transfer from specific provision.
510	Bad debts written-off	Enter the gross amount written-off (before recoveries which should be reported in item 520).
520	Bad debts recovered	Enter the total amount of loans recovered which have previously been written off.
530	Other	Enter any other amounts including adjustments for exchange rate movements.
540	Closing balance	Calculated as sum of items 460 to 530.

Item	Description of Item	Guidance
	<b>Specific provision</b>	
550	Opening balance	Show the balance outstanding on the specific provisions account at the end of the previous year-end accounting period relating to debts considered bad or doubtful. Do not include provisions made against the value of investments.
560	Provisions created	Enter any adjustments made as a result of an acquisition or disposal of a subsidiary company the balance sheet of which includes specific provisions and is included in the consolidation for this particular return. Where the net adjustment is negative, report the amount in brackets.
570	Charge for doubtful debts (P&L)	Relates to current year charge to P&L, split into items 570.1 and 570.2.
570.1	New funding	Enter here the expense charged for bad debts to the profit and loss account as a result of new or increased provisions.
570.2	Write back of provision not required	Enter here reversal and decrease of provision to the profit and loss account, including write back of provisions no longer required arising from prior periods already charged to the profit and loss account.
580	Transfer to general provision	Report here decreases in the specific provision due to the transfer to general provision.
590	Transfer from general provision	Report here increases in the specific provision due to the transfer from general provision.
600	Bad debts written-off	Enter the gross amount written-off (before recoveries which should be reported in item 620).
610	Bad debts recovered	Enter the total amount of loans recovered which have previously been written off.
620	Other	Enter any other amounts including adjustments for exchange rate movements.
<b>630</b>	Closing balance	Calculated as sum of items 550 to 620.
640	Portion of general provision treated as specific provision for regulatory purposes	Enter here increases in specific provision as a result of changes in the treatment of general provisions for regulatory purposes.
650	Closing balance specific provision for regulatory purposes	Calculated as sum of items 630 and 640.

Item	Description of Item	Guidance
	<b>General Reserve for Credit Losses</b>	
660	Opening Balance	Report here previous year carry forward balance. General reserve for credit losses refers to a reserve held against potential losses reasonably assessed to

		be possible (but not certain) to arise from existing facilities which are currently satisfying their contractual terms. Such possible losses reflect the credit risk intrinsic in the business which the reporting bank undertakes. A general reserve for credit losses addresses losses estimated to arise over time in a credit portfolio but which cannot yet be ascribed to individual facilities.
670	Net transfers from/to general provision	Report here increases/decreases in the general provision due to the transfer to the general reserve for credit losses.
680	Net transfers from/to retained earnings	Report here net transfers from retained earnings to the general reserve for credit losses.
690	Closing balance	Calculated as sum of items 660 to 680.

Item	Description of Item	Guidance
	<b>Suspended Interest</b>	
700	Opening Balance	Show the balance outstanding at the end of the previous year-end accounting period.
710	Transferred to suspended interest	Report here transfers made to the suspended interest account.
720	Recoveries	Report here recoveries on suspended interest account.
730	Current balance	Calculated as sum of items 700 to 720.

Item	Description of Item	Guidance
	<b>Direct to Profit &amp; Loss</b>	
740	Bad debts written-off	Calculated as sum of items 510 and 600.
750	Bad debts recovered	Calculated as sum of items 520 and 610.

## SECTION D – OPERATIONAL RISK

### Introduction

Three methods are recognised for calculating operational risk charges: (i) the Basic Indicator Approach (“BIA”); (ii) the Standardised Approach (“SA”); and (iii) Advanced Measurement Approaches (“AMA”). In order to make use of the SA and AMA, an institution must satisfy the Authority that it meets the qualifying criteria as set out in paragraphs 174-177 and 178-182 of the “Revised Framework for Regulatory Capital Assessment”.

### Definition of Year of Operation

Under the BIA and SA, the reporting institution’s capital charge for operational risk is calculated using gross income data derived from the last three completed financial years for which audited financial statements have been prepared.

### Guidance on Form Completion

#### General layout of form

The reporting form is divided into two sections for reporting either under the BIA or the SA. If an institution seeks the Authority’s approval to use the AMA the reporting format will be agreed with the Authority as part of this process.

#### Basic Indicator Approach

The capital charge for operational risk under the BIA is calculated as 15% (the “Alpha” factor) of average gross income over the past three years, ignoring those years where income was not positive.

Item 780, Total Gross Income is defined as the sum of net interest income (item 760) and net non-interest income (item 770) for each year. Net interest income and net non-interest income are defined in the following table:

Item	Description	Guidance
760	Net interest income	Interest Income net of interest expense gross of any provisions (e.g. for unpaid interest).
770	Net non-interest income	Net non-interest income gross of operating expense (including any fees paid for outsourced services) and should exclude realized profits and losses from sale of securities in the banking book, extraordinary or irregular items and income derived from insurance. Dividend income and other operating income should be included.

Item 790, Average of Positive Total Annual Income is calculated as the sum of Gross Income for each year recorded in line 780 where Gross Income is positive, divided by the number of positive entries summed.



Item 810, Capital Charge, is calculated as 15% of item 790, Average of Positive Total Annual Income.

### Standardised Approach

The SA requires the allocation of income by eight primary business lines for each of the previous three completed financial years for which audited financial statements have been prepared. Multiplying these income amounts by the appropriate scaling factor for that business line (the “Beta” factor) gives the capital charge for each of these lines.

### Item 830 Gross Income:

Item no.	Primary Business Line	Beta	Secondary Business Line	Activity Groups
830.1	Corporate Finance	18%	Corporate finance	Mergers and acquisitions, underwriting, privatizations, securitisation, research, debt (government, high yield), equity, syndications, IPO, secondary private placements.
			Municipal/government finance	
			Merchant banking	
			Advisory services	
830.2	Trading & sales	18%	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage.
			Market making	
			Proprietary positions	
			Treasury	
830.3	Retail banking	12%	Retail banking	Retail lending and deposits, banking services, trust and estates.
			Private banking	Private lending and deposits, banking services, trust and estates, investment advice.
			Card services	Merchant/commercial/corporate cards, private labels and retail.
830.4	Commercial banking	15%	Commercial banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange.
830.5	Payment & settlement	18%	External clients	Payments and collections, funds transfer, clearing and settlement.

<b>Item no.</b>	<b>Primary Business Line</b>	<b>Beta</b>	<b>Secondary Business Line</b>	<b>Activity Groups</b>
830.6	Agency services	15%	Custody	Escrow, depository receipts, securities lending (customers) corporate actions
			Corporate agency	Issuer and paying agents
			Corporate trust	
830.7	Asset management	12%	Discretionary fund management	Pooled, segregated, retail, institutional, closed, open, private equity.
			Non-discretionary fund management	Pooled, segregated, retail, institutional, closed, open.
830.8	Retail brokerage	12%	Retail brokerage	Execution and full service

Line items 830.1 to 830.8, are derived by multiplying the corresponding income reported in line items 820.1 to 820.8 by the appropriate Beta for each business line.

Line item 830 is the sum, for each individual year, of items 830.1 to 830.8. In any given year, positive capital charges for any individual lines may be offset by negative capital charges for other business lines in that year. However, where the total charge for any given year across all business lines is negative, a total of zero should be recorded in line 830 for that particular year.

Item 840, SA Requirement, reflects the capital charge and the Risk-Weighted Asset equivalent amount. The capital charge is calculated as the average of the three amounts in line 840. The RWA Equivalent is calculated by multiplying this capital charge by 12.5.

## Completion Examples

### Introduction

The example data given in the tables below has been used to complete the form overleaf for illustrative purposes.

Whilst the form has been completed for all three options in reality the form would only be completed for the option that the bank had agreed, with the form left blank for the other options.

#### Gross Income

	<b>2008</b>		<b>2007</b>		<b>2006</b>	
Business Line	Net Interest Income	Net Non-Interest Income	Net Interest Income	Net Non-Interest Income	Net Interest Income	Net Non-Interest Income
Corporate Finance	0	1,200	0	1,100	0	1,000
Trading & Sales	0	2,000	0	-1,000	0	0
Retail Banking	5,000	-1,000	5,500	-1,000	6,000	-1,000
Commercial Banking	1,000	-2,000	-1,000	-3,000	0	0
Payment & Settlement	0	300	0	150	0	200
Agency Services	0	55	0	45	0	50
Asset Management	0	1000	0	-500	0	0
Retail Brokerage	0	1500	0	-500	0	0

## Completed Form

SECTION D - OPERATIONAL RISK					
BASIC INDICATOR APPROACH (BD\$ 000's)					
Item No.	Item	Last year	1 year prior	2 years prior	
760	Net interest income	6,000	4,500	6,000	
770	Net non-interest income	3,055	(4,705)	250	
780	Total	9,055	(205)	6,250	
790	Average of positive total annual incomes	7,653			
800	Alpha	15%			
810	BIA Requirement	Capital Charge 1,148	RWA Equivalent 14,349		
STANDARDISED APPROACH (BD\$ 000's)					
		Last year	1 year prior	2 years prior	
820	Total Income				
820.1	Corporate finance	1,200	1,100	1,000	
820.2	Trading & sales	2,000	(1,000)	0	
820.3	Retail banking	4,000	4,500	5,000	
820.4	Commercial banking	(1,000)	(4,000)	0	
820.5	Payment & settlement	300	150	200	
820.6	Agency services	55	45	50	
820.7	Asset management	1,000	(500)	0	
820.8	Retail brokerage	1,500	(500)	0	
820	Total	9,055	(205)	6,250	
		Beta	Last year	1 year prior	2 years prior
830	Capital Charge				
830.1	Corporate finance	18%	216	198	180
830.2	Trading & sales	18%	360	(180)	0
830.3	Retail banking	12%	480	540	600
830.4	Commercial banking	15%	(150)	(600)	0
830.5	Payment & settlement	18%	54	27	36
830.6	Agency services	15%	8	7	8
830.7	Asset management	12%	120	(60)	0
830.8	Retail brokerage	12%	180	(60)	0
840	Total		1,268	0	824
870	SAO Requirement		Capital Charge 697	RWA Equivalent 8,712	

## **SECTION E – STANDARDIZED APPROACH TO MARKET RISK**

### **Introduction**

Market risk is the risk of losses in position arising from movements in market prices. Any financial institution operating in the foreign exchange, commodities, interest rate or equity markets may be exposed to potentially large swings in market prices and significant consequential losses.

Market risk comprises of general market risk and specific risk. General market risk is the risk of loss as a result of changes in the general level of market prices or interest rates. It arises from positions in interest rate, equities, foreign exchange and commodities. Specific risk is the risk that the value of a security will change due to issuer-specific factors. It applies to interest rate and equity positions related to a specific issuer.

Two broad methodologies may be applied to an institution when measuring market risk. The first is the standardized approach, which involves a building-block approach under which the different risk elements are separately calculated and summed arithmetically. The second method is known as the internal models approach, in which the Authority has determined the necessary criteria and procedures that are to be utilized when using this method (refer to section D(subsection (f)) of the policy).

### **Interest Rate Risk – Specific Risk**

#### **Definition**

Specific Risk components relate to risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, to the issuer of the underlying instrument.

Specific risk is to be assessed according to the classification of issuer of the security or underlying security in the case of derivative instruments. Issuers are classified into the categories of government, qualifying and other, as defined in paragraphs 213 to 214 policy. Instruments with issuers in the government and qualifying categories should be further classified according to the residual term to final maturity of the security or underlying security.

The instruments covered include all fixed-rate and floating-rate debt securities and instruments with similar behavior pattern, including non-convertible preference shares. Convertible bonds, i.e. debt issues or preference shares that are convertible, at a stated price, into common shares of the issuer, should be treated as debt securities if they trade like debt securities and as equities if they trade like equities (refer to paragraph 210 of policy).

Item	Nature of Item	Guidance
1.1 & 1.2	Short and Long Positions	The sum of the market values of individual positions in each issuer category should be reported in columns 1 and 2 for short and long positions, respectively. In summing the market values within each category, if there is a matched position in the same security (i.e. both the issuer and issue are identical), the matching positions may be offset and omitted from the calculation of specific interest rate risk (refer to paragraph 212 of policy).
1.3	Gross Market Value	Short position plus long position
1.4	Specific Risk-Weight	Pre-set percentages based upon institution's, and investment instruments credit rating.
1.5	Capital Charge	Gross market value multiplied by specific risk-weight.
1.6	Total Capital Charge	Sum of all capital charges founding column 5.

## Interest Rate Risk – General Market Risk

### Definition

General risk relates to the risk of loss from a price change in the instrument due, in this case of traded debt instruments or debt derivatives, to a change in the level of market interest rates.

A choice between two methods, maturity method and the duration method, of measuring general market risk is permitted. Institutions must opt for one method and may not use a combination of two methods (refer to paragraph 224 of the policy).

Institutions must elect and use their chosen method on a continuous basis, unless a change is authorized by the Authority.

Separate maturity ladders must be used for each different currency.

Item	Nature of Item	Guidance
A	Zone	Bonds to be placed into zone which reflects relevant maturity band which are provided. No input required.
B	Coupon $\geq$ 3% (Maturity Band)	Bonds held with a coupon rate equal or less than 3%. No input required.
C	Coupon $<$ 3% (Maturity Band)	Bonds held with a coupon rate greater than 3%. No input required.
D	Long (Individual Net Positions)	Sum of market values for all individual long positions to be input into relevant time band for column B or C.
E	Short (Individual Net Positions)	Sum of market values for all individual short positions to be input into relevant time band for column B or C.
F	Weighting Factor	Pre-set percentages provided. No input required.
G	Long (Weighted Net Positions)	Column D multiplied by column F.

H	Short (Weighted Net Positions)	Column E multiplied by column F.
I	Matched (By Band)	Setting column G against column H, the total amount matched (i.e. the lower figure of columns G and H, disregarding the positive or negative sign).
J	Unmatched (By Band)	Residual unmatched position following calculation of column I figure (i.e. Sum of columns G and H). Treating short number as a negative.
K (T), (U) & (V)	Matched (By Zone)	(T) – Total matched amount matching each unmatched position for each time band in zone 1.  (U) - Total matched amount matching each unmatched position for each time band in zone 2.  (V) - Total matched amount matching each unmatched position for each time band in zone 3.
L	Unmatched (By Zone)	Residual unmatched position following calculation of column J (i.e. Sum of positions in column J for each relevant zone).
M (W) & (X)	Matched (Between Zones)	(W) - Total matched position matching unmatched positions for zones 1 and 2.  (X) – Matched position following matching of zone 3's unmatched position per column L and residual unmatched position following calculation.
N (Z)	Unmatched (Between Zones)	(Z) – Residual unmatched figures for zone 1 and zone 3 following the matching calculation of box M(W) and M(X).
Box 1		Sum of column I.
Box 2	10%S	10% of box 1.
Box 3		Sum of column K.
Box 4	30%(U+V)	30% of box 3.
Box 5	40%(W+X)	Sum of column L.
Box 6	100% Y	100% of Box 5.
Box 7	40%(W+X)	40% of the sum of M(W) and M(X).
Box 8	100%(Z)	100% of Box Z
Box 9	Total General Interest Risk Requirement	Calculate using “General Interest Rate Risk Capital Requirement” formula provided.

*For further detailed information regarding the maturity method, please refer to paragraphs 226 to 230 of the policy.*

*A worked example of the maturity method can be found within the interest rate risk section of the policy.*

## Duration Method

Institutions are encouraged, where the Authority is satisfied of their capabilities, to utilize the duration method in calculating general market risk in regards to interest rate risk. The duration method provides a more accurate measure of the general market risk by calculating the price sensitivity of each position separately.

Item	Nature of Item	Guidance
A	Zone	Bonds to be placed into zone which reflects relevant maturity band which are provided. No input required.
B (Years)	Duration Band	No input required.
C	Long (Individual Net Positions)	Sum of market values for all individual long positions to be input into relevant time band for column B.
D	Short (Individual Net Positions)	Sum of market values for all individual short positions to be input into relevant time band for column B.
E (% PA)	Assumed Move In Rates	This figure represents the assumed change in a bond's yield in regards to its maturity band. As these percentages are pre-set, there is no input required for this field.
F (Years)	Duration	Input Duration in years.
G	Long (Weighted Individual Positions)	Column C multiplied by column E multiplied by column F.
H	Short (Weighted Individual Positions)	Column D multiplied by column E multiplied by column F.
I	Matched (By Band)	Setting column G against column H, the total amount matched (i.e. the lower figure of columns G and H, disregarding the positive or negative sign).
J	Unmatched (By Band)	Residual unmatched position following calculation of column I figure (i.e. Sum of columns G and H). Treating short number as a negative.
K (T), (U) & (V)	Matched (By Zone)	<p>(T) – Total matched amount matching each unmatched position for each time band in zone 1.</p> <p>(U) - Total matched amount matching each unmatched position for each time band in zone 2.</p> <p>(V) - Total matched amount matching each unmatched position for each time band in zone 3.</p>



Item	Description of Item	Guidance
L	Unmatched (By Zone)	Residual unmatched position following calculation of column J (i.e. Sum of positions in column J for each relevant zone).
M (W) & (X)	Matched (Between Zones)	(W) - Total matched position matching unmatched positions for zones 1 and 2.  (X) – Matched position following matching of zone 3's unmatched position per column L and residual unmatched position following calculation.
N (Z)	Matched (Between Zones)	(Z) – Residual unmatched figures for zone 1 and zone 3 following the matching calculation of box M(W) and M(X).

Box 1		Sum of figures in column L.
Box 2		Sum of column K.
Box 3	5% (Q + R + S)	5% of the amount of the “total” columns, for each zone, found in column I.
Box 4		Sum of 40% of (T) and 30% of (U + V).
Box 5	100% Y	100% of Box 1.
Box 6	40%(W+X)	40% of the sum of M (W) and M(X).
Box 7	100%Z	100% of the amount of N (Z).
Box 8	General Interest Rate Risk Capital Requirement	Calculate using “General Interest Rate Risk Capital Requirement” formula provided.

*For further detailed information regarding the duration method, please refer to paragraphs 231 to 232 of the policy.*

*A worked example of the duration method can be found within the interest rate risk section of the policy.*

## **Equity Position Risk – Specific and General Market Risk**

### **Definition**

Specific risk is defined as the institution's gross equity positions (i.e. sum of all long equity positions and of all short equity positions).

General market risk is the difference between the sum of the longs and the sum of shorts (i.e. overall net position in an equity market). Please refer to paragraph 243 of the policy.

The capital charge is calculated as a proportion of the sum of the absolute value of all long equity positions and of all short equity positions. If portfolio is well diversified and liquid then this proportion is 4%, otherwise it is to be reported as 8% (refer to paragraphs 243 and 244 of the policy).

## Calculation of Positions

Derivative positions to be converted into notional equity positions, to allow for the calculation of the standard formula for specific and general market risk (refer to paragraph 246 of the policy).

## Calculation of Capital Charges

Matched positions in each identical equity or stock index in each market may be fully offset, resulting in a single net short or long position to which the specific and general market risks apply (refer to paragraph 247 of the policy).

Item	Description of Item	Guidance
1.1	Positions attracting 8% specific risk charge	Capital charge is equal to 8% of gross position. Few exceptions exist to this rule and only the Authority can determine the criteria necessary in order for an instrument to fall into this category (refer to paragraph 244 of the policy).  The gross value of all positions which are not considered eligible for these exceptions is to be reported in column 1.
1.2	Positions attracting 4% specific risk charge	To be included in this column, the portfolio must be well diversified and liquid. The Authority reserves right to define if a portfolio can be considered well diversified and liquid (refer to paragraph 244 of the policy).
1.3	Positions attracting 2% specific risk charge	Only well diversified indices can be placed into this category (refer to paragraphs 248, 249, 250 and 252 of the policy).
1.4	Total specific risk charge	The sum of columns 1.1, 1.2 and 1.3.
1.5	Net positions for general market risk	This is the difference between sum of long positions and the sum of short positions. An overall net short position in a market should be indicated by a negative sign (refer to paragraph 243 of the policy).
1.6	General market risk charge	Calculates general market risk for each market as 8% of absolute value of the net position reported in column 1.5.
1.7	Total market risk charge	Sum of columns 1.4 and 1.6.
1.8	Total capital charge across all countries	Sum of column 1.7.

*For further detailed information please refer to paragraphs 242 to 252 of the policy.*

## Foreign Exchange Risk

### Introduction

This section highlights the minimum capital standard to cover risk of holding or taking positions in foreign currencies. Please note that gold is dealt with as a foreign exchange due to its volatility being more inline with foreign currencies rather than a commodity.

Item	Description of Item	Guidance
1.1	Net Spot Position	<i>Balance sheet assets” less “Balance sheet liabilities”</i> (include accrued interest, denominated in the currency in question).
1.2	Net Forward Position	<i>“Gross purchases” less “Gross sales”</i> (i.e. all amounts to be received less all amounts to be paid under forward foreign exchange transactions, including currency futures and the principal on currency swaps not included in the spot position).
1.3	Guarantees	Include all guarantees (or similar instruments) currently held.
1.4	Net Future Income/Expenses	Interest accrued (but not yet received) to be included as well as any accrued expenses (but not yet paid). For further information please refer to paragraph 257 of the policy.
1.5	Net Delta Base of Foreign Currency Options	Net delta of foreign currency options portfolio currently held.
1.6	Net Open Position	The sum of columns 1.1, 1.2, 1.3, 1.4 and 1.5.
1.7	Net Long Position	Include all net long positions for all currencies.
1.8	Net Short Position	Include all net short positions for all currencies.
1.9	Gold-Absolute Value of Open Position	Sum of the net spot position and net forward position (Note: These positions should be calculated in the same manner as net open positions in foreign currencies 1.6).  Net open position should be reported in Bermuda dollars, including sign (i.e. positive or negative).  A negative value indicates a short position and a positive value indicates a long position.
1.10	Greater of absolute value of Net Long and Net Short Position	Report the larger of the sum of the net long positions or the sum of the net short positions in this row.
1.11	Total Capital Charge for FX Risk	Calculated as 8% of the sum of item 1.10 and item 1.9.

*For further information on foreign exchange risk, please refer to paragraphs 253 to 263 of the policy.*

## Commodity Risk

### Definition

A commodity is defined as a physical product which is or can be traded on a secondary market. For example, items such as agricultural products, minerals (including oil) and precious metals. Note that gold is dealt as a foreign exchange position and not a commodity because its volatility is more in line with foreign currencies, and institutions manage their positions in a similar manner to foreign currencies.

There are two approaches in measuring commodity risk for financial institutions, which are licensed and regulated in Bermuda, the maturity ladder approach and the simplified approach. For each of these methods the long and short positions in each commodity may be reported on a net basis for the purposes of calculating open positions. The Authority may only approve the netting between different sub-categories (refer to paragraph 269 of the policy).

The methodology chosen must encompass the following identified risks:

- **Directional risk** – to capture the exposure from changes in spot prices arising from net open positions
- **Forward gap and interest rate risk** – to capture the exposure to changes in forward prices arising from maturity mismatches
- **Basis risk** – to capture the exposure to changes in the price relationships between two similar, but not identical, commodities

Note: Both, the maturity ladder approach or the simplified approach, are to be utilized for banks which, in relative terms, conduct only a limited amount of commodities business.

*For further information please refer to paragraphs 264 to 276 of the policy.*

### **Simplified Approach**

<b>Item</b>	<b>Nature of Item</b>	<b>Guidance</b>
1	Commodity	List commodities currently held
1.1	Long Position	Sum of market values for all long positions
1.2	Short Position	Sum of market values for all short positions
1.3	Gross Position	Sum of 1.1 and 1.2
1.4	Capital Charge	3% of figure in column 1.3
1.5	Net Position	Net sum of columns 1.1 and 1.2
1.6	Capital Charge	15% of figure in 1.5
Box(A)	Capital Charge	Sum of column 1.4
Box(B)	Capital Charge	Sum of column 1.6
Box (A) + (B)	Total Capital Charge	Sum of (A) and (B)

*For further information please refer to paragraphs 275 and 276 of the policy.*

### **Maturity Ladder Method\***

<b>Item</b>	<b>Nature of Item</b>	<b>Guidance</b>
1	Time Bands	Length of maturity in regards to listed commodity. No input required.
1.1	Long Position	Amount of units multiplied by spot price
1.2	Short Position	Amount of units multiplied by spot price
1.3	Matched Long and Short Positions	Total matched long and short positions in columns 1.1 and 1.2
1.4	Spread Rate %	Pre-set percentages provided. No input required.
1.5	Capital Charge	Column 1.3 multiplied by column 1.4
1.6	Net Residual Unmatched Position	Unmatched positions from columns 1.1 and 1.2
1.7	Capital Charge %	Pre-set percentages provided. No input required.
1.8	Capital Charge	Column 1.7 multiplied by column 1.6
Box(A)	Capital Charge	Sum of column 1.5
Box(B)	Capital Charge	Sum of column 1.8
Box(A) + (B)	Total Capital Charge	Sum of (A) and (B)

\*Note: A separate ladder is required for each different commodity listed

## **SECTION F – BALANCE SHEET**

### **ASSETS**

Assets should be further categorized by row according to the detailed guidance below. All loans, advances, bills and securities are to be included in this return net of any specific or earmarked general provisions made.

Assets must be classified as “Past due” after 90 days have passed since a payment is missed.

### **LIABILITIES**

Liabilities should be further categorized by row according to the detailed guidance below.

### **CAPITAL**

#### **Types of capital**

Capital is split into three categories: Tier 1, Tier 2 and Tier 3. These categories reflect the varying quality of capital that different instruments provide. For further guidance please refer to Part 1 of the “Revised Framework for Regulatory Capital Assessment”.

### **NB**

**Insurance entities** – assets, liabilities and capital relating to insurance entities should be excluded from the numbers reported in this section where appropriate and in accordance with paragraphs 15 – 18 of the “Revised Framework for Regulatory Capital Assessment”.

## Detailed guidance

### ASSETS

Item	Description of Item	Guidance
	<b>Cash</b>	
1100	Notes and coins	Notes and coins held by the bank.
1110	Gold bullion and precious metals	Physical holdings of gold bullion and gold coin beneficially owned by the reporting institution, including that held on an allocated basis by other institutions. Gold held as custodian for others should not be reported. Short positions in gold should not be reported here but recorded within liabilities in this PIR.  The treatment of other precious metals (silver, platinum and palladium) should be discussed with the Authority.
1120	Cash items in the course of collection	The total amount of cheques, etc. drawn on and in the course of collection from other banks, and debit items in transit between domestic offices of the reporting institution in each country. Report cheques that have been credited to customers' accounts but are held overnight before being presented or paid into the reporting institution's account with another institution.
1130	Items in suspense	All debit balances not in customer's names but relating to customers' funds, e.g. debit balances awaiting transfer to customers' accounts rather than forming part of the reporting institution's own internal funds. Also report funds of the reporting institution lodged with applications for new issues, even if the funds may be returnable, and items in the course of settlement (amounts receivable in respect of transactions not due until a future settlement date, where the asset is to be reported on a contract date basis).

	<b>Deposits</b>	
Item	Description of Item	Guidance
1140	Sovereigns and Public sector entities ("PSEs")	Report all deposits with any government, central monetary authority, central bank or other public sector entities. Also include regional governments and local authorities and those bodies which carry out non-commercial functions on behalf of and are responsible to regional governments or local authorities. Bodies which are owned by the central or regional government or local authority which perform regulatory or other non-commercial functions should also be included as a PSEs.
1150	Banks	Include all balances held with banks. Commercial paper should not be reported under this section but rather under Loans, Advances, Bills and Finance Leases.

1160	Subsidiaries and associated companies	Claims on those group companies, which are not required to be consolidated for the purpose of this return, should be recorded.
1170	Other	Report here deposits with Financial Institutions not already included in lines 1150 and 1160.

<b>Loans, Advances, Bills and Finance Leases</b>		
	overview	<p>Funds lent to customers/counterparties, <b>including</b> also:</p> <ul style="list-style-type: none"> <li>(a) the book value of assets leased out under finance lease agreements, but legally owned by the reporting institution;</li> <li>(b) Instruments such as holdings of certificates of deposit (other than those issued by the reporting institution) and negotiable deposits made on terms identical to those on which a certificate of deposit would have been issued, but for which it has been mutually convenient not to have issued a certificate (these items should be reported on a contract date basis);</li> <li>(c) loans made under conditional sale agreements and hire purchase contracts;</li> <li>(d) acceptances discounted;</li> <li>(e) advances purchased by or assigned to the reporting institution under a transferable loan facility, purchase and resale agreements, factoring, or similar arrangement;</li> <li>(f) initial margin payments with futures markets.</li> </ul> <p>Exclude unearned finance charges and any funds placed with customers/counterparties that are included in items 1140-1170 above.</p> <p><i>Bills, etc.:</i> Enter at book value all bills, promissory notes and other negotiable paper owned (including a forfeit paper). These items should be reported in the categories below according to the drawee.</p> <p><i>Accruals:</i> Wherever possible, accruals should be reported against the relevant category of counterparty.</p>
1190	Sovereigns	Loans made to central governments and central banks with one year or less original maturity.
1200	Lending to group companies	Claims on those group companies, which are not required to be consolidated for the purpose of this return, should be recorded. A company is considered to be in the same group as the reporting bank if it is a subsidiary of the ultimate parent of the reporting bank.
1210	Banks	Loans to banks. The term “bank” as used in this return refers to those institutions that are regarded as banks or equivalent deposit-taking institutions in the countries in which they are incorporated and are supervised by the appropriate banking supervisory or monetary authority as banks.



		In the USA, banks are referred to as depository institutions which include branches of federally-insured banks and depository institutions chartered and head-quartered in the 50 states of the United States, the District of Columbia, Puerto Rico, and US territories and possessions. The definition encompasses banks, mutual or stock savings banks, savings or building and loans associations, co-operative banks and credit unions; it excludes bank holding companies (other than those which are themselves banks).
1220	Public sector entities (“PSEs”)	Loans to public sector entities. For the definition of public sector entities, see Part 2: 120 Claims on Public Sector Entities (PSEs).
1230	Loans secured by mortgages	Report loans secured by mortgage on residential properties and commercial properties.
1240	Others	Report here exposures to counterparties not already included above. Such as <ul style="list-style-type: none"> <li>• Exposures to corporate lending including claims from insurance companies,</li> <li>• Exposures to retail lending such as small businesses or individuals. The exposure takes the form of any of the following: revolving credits and lines of credit (including credit cards and overdrafts), personal term loans and leases (e.g. installment loans, auto loans and leases, student and educational loans, personal finance) and small business facilities and commitments. Mortgage loans are excluded to the extent that they qualify for treatment as loans secured by mortgages (item 1230).</li> </ul>
1250	<b>SUBTOTAL</b>	<b>Total for “Loans, Advances, Bills and Finance Leases”, calculated by the sheet as the sum of 1190 to 1240.</b>

Item	Description of Item	Guidance
	<b>Investments</b>	
	Overview	Report securities, together with any associated accrued interest, with an original maturity of over one year such as equities, euro-bonds and FRNs (instruments of original maturity of one year or less should be reported under loans and advances items 1190 to 1240 above). All securities should be reported on a contract day basis, with the payments due or receivable in respect of such transactions to be shown gross in profit and loss statement. Only long positions in securities should be reported in this section of the PIR.
1260	Sovereigns	Holdings of securities and debt instruments (other than bills – see item 1190) issued by central governments and central banks.
1270	Public sector entities (“PSEs”)	Holdings of debt issued by public sector entities. For the definition of public sector entities, see Part 2: 120 Claims on Public Sector Entities (PSEs).
1280	Banks	Holdings of debt issued by banks. This includes holdings of certificates of deposits, commercial papers and unsubordinated floating rate notes (“FRNs”) etc with an original maturity of over 1 year.

1290	Securitisation exposures (non-equity tranches)	Include holdings of the non equity tranches of securitisations and other securitization exposures that do not qualify for inclusion under item 1300, see Part 2: 150 Securitisations.
1300	Securitisation (equity tranches)	<p>Holdings of the equity /subordinated tranches of securitisations. Include securitised positions with long-term ratings of B+ and below and short-term ratings other than A-1/P-1, A-2/P-2, A-3/P-3.</p> <p>Include also unrated securitised positions with the exception of :</p> <p>i) <i>Unrated most senior securitisation exposures</i></p> <p>If the most senior exposure in a securitisation of a traditional or synthetic securitisation is unrated, a bank that holds or guarantees such an exposure may determine the risk weight by applying the “look-through” treatment, provided the composition of the underlying pool is known at all times.</p> <p>ii) <i>Exposures in a second loss position or better in ABCP programmes</i></p> <p>Second loss position securitisation exposures provided by sponsoring banks to ABCP programmes that satisfy the following requirements:</p> <ul style="list-style-type: none"> <li>▪ The exposure is economically in a second loss position or better and the first loss position provides significant credit protection to the second loss position;</li> <li>▪ The associated credit risk is the equivalent of investment grade or better; and</li> <li>▪ The bank holding the unrated securitisation exposure does not retain or provide the first loss position.</li> </ul> <p>Note that this feeds item “1660: Securitisations – equity tranches” in the balance sheet under capital deductions.</p>
1310	Investments in subsidiaries and associated companies	<p>Report here investments in unconsolidated banking and financial company subsidiaries. Group companies conducting insurance and non financial businesses within a banking group are normally not included in accounting consolidation.</p> <p>Do not report investments in subsidiary and associated companies where these companies are required to be included in the consolidation for the purposes of the PIR.</p>
1320	Investments in the capital of other banks and financial institutions	<p>All items reported in this section should be shown at full book value, with no reduction for any amortisation which the issuer may be applying in calculating its own capital base.</p> <p>Report holdings of equity and capital debt instruments (including hybrid debt instruments and subordinated FRNs) issued by banks and other regulated financial services businesses.</p> <p>Holdings of subordinated and unsubordinated loan capital (with an</p>

		<p>original maturity in excess of five years) issued by bank holding companies, or financing vehicles within banking groups.</p> <p>Investments in the capital of other banks should be reported here even where the investment is guaranteed by a central government or public sector body.</p> <p>Note that this feeds item “1650: Investments in the capital of other banks and financial institutions” under liability section of the balance sheet.</p>
1330	Other investments	Report here investments in counterparties not already included above.
1340	<b>SUBTOTAL</b>	<b>Total for “Investments”, calculated by the sheet as the sum of 1260 to 1330</b>

	<b>Other Assets</b>	
1350	Goodwill	<p>Report goodwill arising from acquisitions.</p> <p>Note that this feeds item “1490: Goodwill and other intangible assets” as a deduction from Tier 1 Capital (see balance sheet – Core capital Tier 1).</p>
1360	Other intangible assets	<p>Report here all intangible fixed assets of the reporting bank. This includes mortgage servicing rights where there is an active and liquid market in which they can be traded. This condition is only met in respect of mortgage servicing rights traded in the US market.</p> <p>Note that this feeds item “1490: Goodwill and other intangible assets” as a deduction from Tier 1 Capital (see balance sheet – Core capital Tier 1).</p>
1370	Premises owned and occupied by the reporting bank	Own premises should include the value in its books of property occupied or being developed for occupation by the reporting institution. Also report property which is occupied or is for the purpose of occupation by employees of the reporting institution.
1380	Other property /real estate owned by the reporting bank	Report here other property and real estate beneficially owned by the reporting institution but not occupied or used in the operation of its business.
1390	Operating leases	Report equipment owned by the reporting institution, which has been leased out under an operating lease.
1400	Plant, equipment and other fixed Assets	<p>Plant and equipment owned or recorded as such by the reporting institution and used in connection with its own business.</p> <p>If the reporting institution is acting as a broker or agent for a sub-lease or back-to-back lease, the asset should not be reported on the balance sheet provided that there is no recourse to the reporting institution in the event of a default.</p>

1410	Other	Report any other assets not reported elsewhere, e.g. sundry debtors, prepayments and accruals not identified elsewhere
1420	<b>TOTAL</b>	<b>Total assets calculated as sum of item 1100 to 1410</b>

## LIABILITIES AND CAPITAL

Item	Description of Item	Guidance
	<b>Core Capital - Tier 1</b>	
1430	Ordinary shares / common stock (issued and paid up)	This should be reported at nominal paid-up value. Where shares have been issued at a premium, the premium should be reported under reserves (item 1450). Partly-paid shares should be reported at the amount paid. Do not report the unpaid element of partly-paid shares, or authorized but unissued share capital; also exclude holdings by the reporting institution of its own shares (treasury stocks) and shares reflecting the capitalization of property revaluation reserves
1440	Perpetual non-cumulative preferred shares/stock (issued and paid up)	Report perpetual non-cumulative preferred shares/stock and perpetual non-cumulative preferred shares convertible into ordinary shares, including any such shares redeemable at the option of the issuer and with the Authority's prior consent. Only shares which have been issued and paid up should be reported.
<b>1450</b>	<b>Reserves:</b>	
1450.1	Share premium account	Report any amount received by the reporting institution in excess of the nominal value of shares reported in items 1430 or 1440. Any share premium in respect of Tier 2 instruments should be reported indistinguishably with those instruments.
1450.2	Disclosed prior year reserves	<p>Report the disclosed, undistributed balance on profit and loss account attributable to previous years (i.e. revenue reserves), reserves arising from exchange rate translation differences (including those arising on the consolidation of subsidiaries) and other reserves (e.g. capital redemption reserves and capital gifts). Do not report reserves arising from the revaluation of fixed assets; such reserves should be shown under item 1530.</p> <p>Before publication of full year prior reserves, include here any prior year's earnings which have been verified by external auditors in accordance with the requirements of the Authority's paper titled "The Bermuda Monetary Authority's Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies" paragraph 15 and Annex E.</p> <p>Report here disclosed (i.e. published) current year's <i>positive</i> movements on reserves (other than those shown under item 1530).</p>

		If current year's movements on reserves are <i>negative</i> report these here (whether or not disclosed).
1450.3	Current year's retained profit verified by external audit	Report only current year's earnings (net of foreseeable charges and distributions) where they have been verified by external auditors in accordance with the requirements of the Authority's policy paper titled "The Bermuda Monetary Authority's Relationship with Auditors and Reporting Accountants of Banks and Deposit Companies" paragraph 15 and Annex E. Interim retained earnings of subsidiaries within banking groups which have been verified by external auditors may also be reported even if they are not separately disclosed. Current year's losses should be reported in item 1460.  Pension fund assets arising from either a pension fund surplus or deficiency should be deducted from this item. Pension fund liabilities arising from pension fund surpluses should be added; whereas pension fund liabilities arising from pension fund deficiencies should not be added back but should be added to 1880.
1450.4	Other	Report other items here as agreed by the Authority.
1460	Current year losses	Report all current year's losses. Unpublished losses from the previous accounting period should also be shown here.
1470	Minority interests (in Tier 1 capital)	Enter any claim by outside interests in Tier 1 capital items of any partly-owned subsidiary company or minority owned company which is included in this particular return.
<b>1480</b>	<b>Total</b>	<b>Calculated by the sheet as the sum of 1430 to 1450 less 1460.</b>
	<b>Less: adjustments to capital</b>	
1490	Goodwill and other intangible assets	All goodwill and other intangible fixed assets should be shown here and deducted from Tier 1 capital. This should equal the sum of items 1350 and 1360.
1500	Securitisations - gains on sale	Banks must deduct from Tier 1 capital any increase in reserves resulting from a current securitisation transaction, such as that associated with expected future margin income resulting in a gain on sale (refer to paragraph 117 of the "Revised Framework for Regulatory Capital Assessment" paper).
1510	<b>Total Tier 1 Capital</b>	<b>Calculated by the sheet, being 1480 less Total deductions (1490 to 1500)</b>

Item	Description of Item	Guidance
	<b>Supplementary Capital -Tier 2</b>	

1520	Fixed asset revaluation reserves	<p>Depending on the GAAP applied by the reporting institution, certain fixed assets, normally their own premises, are revalued to reflect their current value or something closer to their current value than historic cost</p> <p>Report reserves relating to the revaluation of fixed assets including any shares issued by the capitalisation of property revaluation reserves.</p>
1530	Reserves/fair value gains of equity securities	<p>Include here reserves arising on unrealized gains and losses on equity securities held at fair value on the balance sheet and also hidden values of "latent" revaluation reserves arising from long-term holdings of equity securities valued in the balance sheet at historic cost of acquisition.</p> <p>These reserves can be included among supplementary elements of capital since they can be used to absorb losses on a going-concern basis, provided they are subject to a substantial discount in order to reflect concerns both about market volatility and about the tax charge which may arise were such cases to be realized. A discount of 55% on the difference between the historic cost book value and market value is agreed to be appropriate in the light of these considerations.</p>
1540	General provisions (eligible for inclusion)	<p>Report general provisions that are held against possible or latent loss but where the losses have not as yet been identified. Provisions earmarked or held specifically against lower valuations of particular claims or classes of claims should not be reported here, but netted against the value of the asset against which they have been made.</p> <p>Report here provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialize and therefore qualify for inclusion. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded.</p> <p>However, general provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital will be limited to a maximum of 1.25 percentage points of weighted risk assets.</p>
1560	Hybrid (debt/equity) capital instruments	<p>This heading includes a range of instruments which combine characteristics of equity capital and of debt. They should meet the following requirements:</p> <ul style="list-style-type: none"> <li>• They are unsecured, subordinated and fully paid-up;</li> <li>• They are not redeemable without the prior consent of the Authority;</li> <li>• They are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);</li> </ul>

		<ul style="list-style-type: none"> <li>Although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment.</li> </ul> <p>Perpetual cumulative preferred shares that meet the above criteria, including such shares redeemable at the option of the issuer with the prior consent of the Authority, and including also share premium on these instruments.</p> <p>Perpetual subordinated debt which meets the above criteria including such debt which is convertible into equity, either mandatorily or at the option of either the issuer or the lender.</p> <p>Debt capital instruments which do not meet these criteria may be eligible for inclusion in item 1580.</p>
1570	Minority interests (in Tier 2 capital)	Where the reporting institution reports on a consolidated basis, enter the claim by outside interests in any partly-owned subsidiary or minority owned company in the form of any Tier 2 capital item.
1580	Subordinated term debt	Report here conventional unsecured subordinated debt capital, i.e., after amortization) instruments with a minimum original fixed term to maturity of over five years and limited life redeemable preference shares. During the last five years to maturity, a cumulative discount (or amortisation) factor of 20% per year will be applied to reflect the diminishing value of these instruments as a continuing source of strength (item 1580 should be reported gross of amortization, with amortization deduction recorded in item 1590). Unlike instruments included in item 1560, these instruments are not normally available to participate in the losses of a bank which continues trading. For this reason these instruments will be limited to a maximum of 50% of Tier 1.
<b>Less: adjustments to capital</b>		
1590	Amortization of Tier 2 subordinated debt	Cumulative subordinated debt amortization (see item 1580 notes above).
1600	Excess Tier 2	<b>Calculated by the sheet, being the amount by which Tier 2 capital after all other deductions exceeds Tier 1 Capital.</b>
1610	<b>Total Tier 2 capital</b>	<b>Calculated by the sheet, being sum of 1520 to 1580 less Total deductions (1600 to 1610).</b>

Item	Description of Item	Guidance
1620	<b>Capital deductions</b>	

1630	Investment in Subsidiaries (unconsolidated banking & financial company)	The same accounting treatment should be adopted as that used in the preparation of statutory accounts. Do not report investments in subsidiary and associated companies where these companies are required to be included in the consolidation for the purposes of this Return.
1640	Connected lending of a capital nature	Report here lending of a capital nature to subsidiary and associated companies.
1650	Investments in the capital of other banks and financial institutions	Derived automatically from Item 1320 under the balance sheet asset section of the Return.
1660	Securitisations - Equity Tranches	Derived automatically from Item 1300 under the balance sheet asset section of the Return.
1670	Off balance sheet items of a capital nature	Derived automatically from the sum of items 270.9, 300.9 and 320.6 in the off balance sheet exposures section of the Return.
1680	Investments in other commercial entities	<p>Include here significant (minority and/or majority) investments in commercial entities that exceed materiality levels should be deducted from banks' capital. Materiality levels are:</p> <p>(a) A single investment in a commercial entity that exceeds 10% of the reporting banks regulatory capital.</p> <p>(b) Aggregate investments in commercial entities that exceed 25% of the reporting banks regulatory capital.</p> <p>The amount to be deducted will be that portion of the investment that exceeds the materiality level.</p> <p>(Refer to the "Revised Framework for Regulatory Capital Assessment", Part 1 paragraph 19)</p>
1690	Others	Report here other deductions from capital as approved by the Authority.

Item	Description of Item	Guidance
	<b>Capital after deductions</b>	
1700	Tier I & 2 Capital after Deductions	Calculated by sheet, being item 1730 less 1740
1710	Tier 1 capital	Calculated by the sheet, being item 1510.
1720	Tier II capital	Calculated by sheet, being item 1610
1730	Total Tier I & II	Calculated by the sheet, being 1710 plus 1720.



	Capital	
1740	Total Capital Deductions	Calculated by the sheet, being the item 1620.

Item	Description of Item	Guidance
	<b>Tier 3 Capital</b>	
1770	Short term subordinated debt	<p>Short-term subordinated debt to be eligible as Tier 3 capital, it needs to be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. It must, therefore, at a minimum :</p> <ul style="list-style-type: none"> <li>• be unsecured, subordinated and fully paid up;</li> <li>• have an original maturity of at least two years;</li> <li>• not be repayable before the agreed repayment date unless with the approval of the Authority; and</li> <li>• be subject to a lock-in clause which stipulates that neither interest nor principal may be paid (even at maturity) if such payment means that the bank falls below or remains below its minimum capital requirement.</li> </ul>
1780	Other Tier 3	As agreed by the Authority
1790	<b>TOTAL</b>	<b>Calculated by the sheet, being item 1770 plus 1780 , the total should not exceed 250% of Tier 1 trading book capital.</b>

## OTHER CAPITAL

Item	Description of Item	Guidance
	<b>Other Capital</b>	
1800	Surplus Tier 2 capital	Report current year's profits which have not been verified by external auditors and also any undisclosed profits relating to the previous year which have not been so verified.
1810	Subordinated term debt	<p>Report subordinated term debt that does not qualify for inclusion as regulatory:</p> <p>(i) the difference between the nominal amount of the stock and the amortised amount where the debt is being amortised over its last five years;</p> <p>(ii) the amount of such debt which exceeds 50% of Tier 1 capital.</p>
1820	General provisions	Report here those general provisions that exceed the maximum amount allowable for inclusion in item 1540
1830	Surplus tier 3 capital	Report any amount that has been excluded from item 1790, i.e. the amount by which Tier 3 capital exceeds 250% of Tier 1 Capital required to support market risks.
1840	Other capital	Report preference shares perpetual loan stocks and subordinated term debt not accepted by the Authority as qualifying for inclusion as capital within the terms of the Authority's "Revised Framework for Regulatory Capital Assessment"

		<p>Report other items relating to:</p> <ul style="list-style-type: none"> <li>i) any unrealized gains or losses on cash flow hedges of financial instruments measured at cost or amortised cost;</li> <li>ii) any unrealized gains or losses on debt instruments held in the available-for sale financial assets category; and</li> <li>iii) portion of any unrealized gains or losses on equity instruments held in the available-for sale financial assets category and unrealized gains on investment property excluded from capital.</li> </ul>
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## OTHER NON-CAPITAL LIABILITIES

Item	Description of Item	Guidance
1850	Deposit liabilities	These include savings, demand and time deposits.
1850.1	Savings	Savings deposits are taken to include interest bearing accounts maintained with the reporting institutions without a stated maturity and which allow for an unlimited amount of withdrawals, deposits and transfers and incorporates the use of a passbook or equivalent.
1850.2	Demand	Enter all balances of accounts which are payable on demand, whether interest bearing or not, maintained with the reporting institution which are repayable upon demand without interest penalty.
1850.3	Time	<p>Enter all other accounts maintained with the reporting institution bearing a fixed rate of interest and with fixed repayment dates. All deposits which have not been classified under savings or demand should be entered here under the item best meeting its remaining maturity.</p> <p>Call accounts repayable after the expiry of 7 days' notice should be included in the category best representing the period remaining of the call terms.</p>
1860	Items in the course of collection	This comprises credit items in the course of transmission and items in suspense including items in the course of settlement.
1870	Promissory notes and other borrowings	Report promissory notes, bills and other negotiable paper (including commercial paper) issued by the reporting institution including bills drawn under an acceptance credit facility provided by another institution.
1880	Other	<p>Report all internal accounts and other liabilities not reported elsewhere. Such as interest accrued but not paid, amounts owed to creditors and settlement amounts due to be paid.</p> <p>Also include liabilities in respect of sale and repurchase agreements, and short positions in gold and other precious metals.</p>
1890	Total Non-capital liabilities	Calculated as sum of 1850.1 to 1880.

1900	Sub-Total	Calculated as sum of 1510, 1610, 1770, 1780, 1800 to 1840 and 1890.
1910	Balancing Item	Sum of items 1490 and 1500.
1920	Total Capital and Liabilities	Sum of item 1900 and 1910.

## MEMORANDUM ITEM: 1930 Analysis of Deposits

The reporting institution should enter all deposit liabilities against the category best meeting the description of the depositor. Deposits should be reported in the relevant industry classification net of deposits from related parties, which should be reported in the relevant related party classification (Parent Company, Subsidiaries and associated Companies, Principal Shareholders and Directors or Other Related Parties).

Standard Industry Classification Codes (SICs) are added as a suggested map out of the different categories. See Appendix I for details on SICs.

<b>Description of Item</b>	<b>Guidance</b>	<b>SIC Division Structure<sup>2</sup></b>
Public Administration	This includes the executive, legislative, judicial, administrative and regulatory activities of the governments.	Division J (Major groups: 91, 92, 93, 94, 95, 96, 97, and 99)
Hospitality Industry	Includes services such as taxis and public transportation, telephone and telex communication and courier facilities	Major groups 70, 79 and 84
Parent Company	This includes parent company of the reporting institution and any co-subsidiaries of that parent.	N/A
Subsidiaries and Associated Companies	This includes in relation to the reporting institution, its subsidiaries; and any other companies in which such companies hold 20% or more of the voting rights or ordinary share capital.	N/A
Principal Shareholders and Directors	This includes principal shareholder controller and directors as defined by the Banks and Deposit Companies Act 1999.	N/a
Other Related Companies	Related parties are defined as other group companies, excluding those companies which are included in the consolidation of this particular return; directors, controllers and their associates; and non-group companies with which directors and controllers are associated.	N/A
Depository Institutions	Institutions that are engaged in deposit taking activities or closely related functions, including fiduciary activities.	Major group 60
Insurance Companies	This includes carriers of insurance of all types, including reinsurance.	Major group 63
Insurance Agents, Brokers and Services	This includes agents and brokers dealing in insurance, and also organizations offering services to insurance companies and to policy holders.	Major group 64
Non-depository Credit Institutions	This includes establishments engaged in extending credit in the form of loans, but not engaged in deposit banking.	Major group 61
Real Estate	This includes real estate operators, and owners and lessors of real property, as well as buyers, sellers, developers, agents, and brokers.	Major group 65

<sup>2</sup> [http://www.osha.gov/pls/imis/sic\\_manual.html](http://www.osha.gov/pls/imis/sic_manual.html)

Holding and Other Investment Offices	This includes investment trusts, investment companies, holding companies, and miscellaneous investment offices.	Major group 67
Others	Enter any Finance, Insurance and Real Estate institution not covered by any of the above classification.	Major group 62 and any other entity, which though falling under Division H (Finance, Insurance and Real Estate) cannot be accurately attributed to a specific major group.
Deposit from other sources	Enter other deposits not covered by any of the above classification.	Enter other deposits not covered by any of the above classification.

## SECTION G – PROFIT & LOSS

### CURRENT YEAR'S PROFIT & LOSS

Profit & Loss should be completed to detail the registered institution's Profit & Loss Account for the current financial year up to the reporting date.

Operating expenses, bad debts, extraordinary items, taxation and dividends are assumed to be expenses and hence a positive figure should be entered for an amount that gives rise to a loss and a negative figure for a profit.

Item No	Description of Item	Guidance
<b>1940</b>	<b>Income from banking services</b>	
<b>1940.1.1</b>	Interest received and receivable	Include under these headings both interest actually received and paid, and interest receivable and payable which has accrued but has not yet been received or paid. Amounts accrued should be based on the latest date to which these calculations were made; thus for an institution which accrues profits on a daily basis, accruals should include amounts up to and including the reporting date.
<b>1940.1.2</b>	Interest paid and payable	
<b>1940.1</b>	Net interest income	Show under this heading the net interest received and receivable (i.e. item 1940.1.1 less item 1940.1.2). Where interest paid and payable exceeds interest received and receivable the net figures should be shown in brackets to indicate a negative figure.
<b>1940.2</b>	Profit/(Loss) on foreign exchange dealing and currency positions	Report the revaluations of foreign exchange positions and, if identifiable, fees and commissions of foreign exchange business should be included under this heading. If it is not possible to identify fees and commissions derived from this activity separately, they should be included with fees and commissions in item 1940.4.
<b>1940.3</b>	Profit/(Loss) on investments held for dealing	Report the profit or loss derived from investments (excluding revaluation profits or losses) other than those arising from the sale of investments in subsidiary or associated companies, trade investments or the amortisation of premiums or discounts on the purchase of fixed maturity investments that are not held for dealing.
<b>1940.4</b>	Net income from banking fees, charges and commissions	Include fees, charges and commissions made for services provided by the reporting institution, e.g. for the provision current account facilities, corporate advice, guarantees and indemnities, commission on travellers cheques etc. Only include fees and commissions from customers for the provision of foreign exchange services if they cannot be separately identified and included under 1940.2.

<b>1940.5</b>	Increase/decrease in book value of investments	Report the net gains derived from the revaluation of investments other than those arising from the revaluation of investments in subsidiary or associated companies, trade investments or the amortization of premiums or discounts on the purchase of fixed maturity investments that are not held for dealing.
<b>1950</b>	Sub-total banking income	Calculated by the sheet as the sum of items 1940.1 to 1940.5.
<b>1960</b>	<b>Income from non-banking services</b>	
<b>1960.1</b>	Investment management fees	Enter here all fees/commissions received by the reporting institution for portfolio management services, (both for discretionary and nondiscretionary portfolios). Include only fees/commissions agreed with the customer for the management of portfolios.
<b>1960.2</b>	Trust and company administration fees	Enter here all fees received by the reporting institution for administering companies on behalf of clients/trusts, including those charged for the provision of registered office, directors, company secretary etc.
<b>1960.3</b>	Trustee/custodial fees	Enter here all fees received by the reporting institution for acting as a Trustee or Custodian.
<b>1960.4</b>	Fund management fees	Enter here all fees received by the reporting institution for acting in any role in relation to the management of funds.
<b>1960.5</b>	Investment dealing profits and commissions	Enter here all commissions and profits received/earned in investment transactions with, or on behalf of, clients. Include commission/profits from investment dealing transactions undertaken by the reporting institution where it acts as principal but buys/sells on a matched (or virtually matched), basis to clients. (e.g., where the reporting institution purchases a block of shares/investments from a broker and then sells these on to its own investment clients).
<b>1960.6</b>	Profit/Loss on fixed assets (incl. revaluation of fixed assets)	Include the profit or loss on the sale of non-trading assets of the reporting institution, e.g. premises, equipment, subsidiary and associated companies. In respect of revaluation surpluses/deficits, reporting institutions should follow applicable GAAP. Amounts in respect of surpluses/deficits normally taken to the profit and loss account should be included in this item. Amounts normally taken direct to reserves should not be included here.
<b>1960.7</b>	Other income	Include under this heading income from any other source other than extraordinary items which should be included under item 2080.
<b>1970</b>	Sub-total non-banking income	Calculated by the sheet as the sum of items 1960.1 to 1960.7.
<b>1980.1</b>	Dividends/share of profits from subsidiary and associated companies	Institutions reporting on an unconsolidated basis should include the dividends from other group companies only, together with the revaluation of any investment in subsidiaries or associates if equity accounting. When reporting on a consolidated basis, include only the share of profits from associated companies according to the normal accounting convention used.



<b>1980.2</b>	Other income	Include under this heading income from any other source other than extraordinary items which should be included under item 2080.
<b>1990</b>	Sub-total dividends & other income	Calculated by the sheet as the sum of items 1980.1 to 1980.2.
<b>2000</b>	Total Income	Calculated by the sheet as the sum of items 1950, 1970 and 1990.
<b>2010</b>	<b>Operating expenses</b>	
<b>2020</b>	Operating expenses for:	
<b>2020.1</b>	Staff	Include salary costs, employer's payroll tax, employer's contribution to any pension scheme, and the costs of staff benefits paid on a per capita basis such as medical insurance. General staff benefits, such as subsidized restaurants, should be included under "occupancy" or "other operating expenses" (item 2030) as appropriate.
<b>2020.2</b>	Occupancy	Include rent, insurance of building, lighting, heating, depreciation and maintenance costs.
<b>2020.3</b>	Services by external service providers	Services by external service providers fee expenses should be reported on this line. Examples include audit and legal fees.
<b>2030</b>	Other operating expenses	All ordinary business expenses not falling under any category above.
<b>2040</b>	Total Operating expenses	Calculated by the sheet as the sum of items 2020 to 2030.
<b>2050</b>	Net charge/credit for bad debt (provisions)	
<b>2050.1</b>	Capital	Calculated by the sheet as the sum of items 480 and 570.
<b>2050.2</b>	Suspended interest	Calculated by the sheet as the sum of items 710 and 720.
<b>2060</b>	Other non operating expense	All other non operating expenses not falling under any expense category above.
<b>2070</b>	Profit before extraordinary items	Calculated by the sheet as the total of 2000 minus 2040 minus item 2050 to 2060.
<b>2080</b>	Extraordinary items	Extraordinary items should be reported net of attributable taxation. Enter net extraordinary income as a negative figure, and net extraordinary costs as a positive figure.
<b>2090</b>	Provisions for taxation	For returns covering less than a year, the taxation charge should be estimated by applying a reasonable estimate of the reporting institution's effective tax rate applicable for the year in question.
<b>2100</b>	Current year's profit & loss	Calculated by the sheet as 2070 minus items 2080 and 2090.
<b>2110</b>	Retained earnings Beginning period	Report here retained earnings brought forward from previous period.
<b>2120</b>	Dividends	Report here dividends payable from current year profits. All other dividends should be deducted directly from disclosed reserves.  For returns covering less than a year, provision may be made for an appropriate portion of the estimated total dividend to be paid for the year.

		The treatment of dividends should be consistent with the applicable GAAP.
<b>2125</b>	Others	Report here any reconciling items
<b>2130</b>	Retained earnings end period	Calculated by the sheet as the sum of items 2110 to 2120.

# Glossary

The following abbreviations are used within the document:

ABCP - **A**sset **B**acked **C**ommercial **P**aper  
AMA - **A**dvanced **M**easurement **A**pproach  
BIA - **B**asic **I**ndicator **A**pproach  
CRM - **C**redit **R**isk **M**itigation  
CCF - **C**redit **C**onversion **F**actor  
CEA - **C**redit **E**quivalent **A**mount  
ECA - **E**xport **C**redit **A**gency  
ECAI - **E**xternal **C**redit **A**ssessment **I**nstitutions  
FRN - **F**loating **R**ate **N**ote  
GAAP - **G**enerally **A**ccepted **A**ccounting **P**riniples  
LTV - **L**oan-**T**o-**V**alue  
MDB - **M**ultilateral **D**evelopment **B**ank  
MODD - **M**emorandum **O**f **D**eposit of **D**eeds  
NIF - **N**ote **I**ssuance **F**acility  
OTC - **O**ver-**T**he-**C**ounter  
PSE - **P**ublic **S**ector **E**ntity  
Repo - **R**eport sale and repurchase agreement  
RUF - **R**evolving **U**nderwriting **F**acility  
RWA - **R**isk-**W**eighted **A**ssets  
SA - **S**tandardised **A**pproach  
SAC - **S**tandardised **A**pproach to **C**redit risk

## APPENDIX I: SIC DIVISION CODES

Source: U.S Department of Labor Occupational Safety and Health Administration

URL: [http://www.osha.gov/pls/imis/sic\\_manual.html](http://www.osha.gov/pls/imis/sic_manual.html)

### A. Division A: Agriculture, Forestry, And Fishing

Major Group 01: Agricultural Production Crops

Major Group 02: Agriculture production livestock and animal specialties

Major Group 07: Agricultural Services

Major Group 08: Forestry

Major Group 09: Fishing, hunting, and trapping

### B. Division B: Mining

Major Group 10: Metal Mining

Major Group 12: Coal Mining

Major Group 13: Oil And Gas Extraction

Major Group 14: Mining And Quarrying Of Nonmetallic Minerals, Except Fuels

### C. Division C: Construction

Major Group 15: Building Construction General Contractors And Operative Builders

Major Group 16: Heavy Construction Other Than Building Construction Contractors

Major Group 17: Construction Special Trade Contractors

### D. Division D: Manufacturing

Major Group 20: Food And Kindred Products

Major Group 21: Tobacco Products

Major Group 22: Textile Mill Products

Major Group 23: Apparel And Other Finished Products Made From Fabrics And Similar Materials

Major Group 24: Lumber And Wood Products, Except Furniture

Major Group 25: Furniture And Fixtures

Major Group 26: Paper And Allied Products

Major Group 27: Printing, Publishing, And Allied Industries

Major Group 28: Chemicals And Allied Products

Major Group 29: Petroleum Refining And Related Industries

Major Group 30: Rubber And Miscellaneous Plastics Products

Major Group 31: Leather And Leather Products

Major Group 32: Stone, Clay, Glass, And Concrete Products

Major Group 33: Primary Metal Industries

Major Group 34: Fabricated Metal Products, Except Machinery And Transportation Equipment

Major Group 35: Industrial And Commercial Machinery And Computer Equipment

Major Group 36: Electronic And Other Electrical Equipment And Components, Except Computer Equipment

Major Group 37: Transportation Equipment

Major Group 38: Measuring, Analyzing, And Controlling Instruments; Photographic, Medical And Optical Goods; Watches And Clocks

Major Group 39: Miscellaneous Manufacturing Industries

E. Division E: Transportation, Communications, Electric, Gas, And Sanitary Services

Major Group 40: Railroad Transportation

Major Group 41: Local And Suburban Transit And Interurban Highway Passenger Transportation

Major Group 42: Motor Freight Transportation And Warehousing

Major Group 43: United States Postal Service

Major Group 44: Water Transportation

Major Group 45: Transportation By Air

Major Group 46: Pipelines, Except Natural Gas

Major Group 47: Transportation Services

Major Group 48: Communications

Major Group 49: Electric, Gas, And Sanitary Services

F. Division F: Wholesale Trade

Major Group 50: Wholesale Trade-durable Goods

Major Group 51: Wholesale Trade-non-durable Goods

G. Division G: Retail Trade

Major Group 52: Building Materials, Hardware, Garden Supply, And Mobile Home Dealers

Major Group 53: General Merchandise Stores

Major Group 54: Food Stores

Major Group 55: Automotive Dealers And Gasoline Service Stations

Major Group 56: Apparel And Accessory Stores

Major Group 57: Home Furniture, Furnishings, And Equipment Stores

Major Group 58: Eating And Drinking Places

Major Group 59: Miscellaneous Retail

H. Division H: Finance, Insurance, And Real Estate

Major Group 60: Depository Institutions

Major Group 61: Non-depository Credit Institutions

Major Group 62: Security And Commodity Brokers, Dealers, Exchanges, And Services

Major Group 63: Insurance Carriers

Major Group 64: Insurance Agents, Brokers, And Service

Major Group 65: Real Estate

Major Group 67: Holding And Other Investment Offices

I. Division I: Services

Major Group 70: Hotels, Rooming Houses, Camps, And Other Lodging Places

Major Group 72: Personal Services

Major Group 73: Business Services

Major Group 75: Automotive Repair, Services, And Parking

Major Group 76: Miscellaneous Repair Services

Major Group 78: Motion Pictures  
Major Group 79: Amusement And Recreation Services  
Major Group 80: Health Services  
Major Group 81: Legal Services  
Major Group 82: Educational Services  
Major Group 83: Social Services  
Major Group 84: Museums, Art Galleries, And Botanical And Zoological Gardens  
Major Group 86: Membership Organizations  
Major Group 87: Engineering, Accounting, Research, Management, And Related Services  
Major Group 88: Private Households  
Major Group 89: Miscellaneous Services

J. Division J: Public Administration

Major Group 91: Executive, Legislative, And General Government, Except Finance  
Major Group 92: Justice, Public Order, And Safety  
Major Group 93: Public Finance, Taxation, And Monetary Policy  
Major Group 94: Administration Of Human Resource Programs  
Major Group 95: Administration Of Environmental Quality And Housing Programs  
Major Group 96: Administration Of Economic Programs  
Major Group 97: National Security And International Affairs  
Major Group 99: Nonclassifiable Establishments