

**SECTION I.1 - CREDIT RISK: STANDARDISED APPROACH*****General Principles***

- 1.0 Under the Standardised Approach, the *exposure value* of an asset shall be
- a) the balance-sheet value, and
  - b) the resultant value of the off-balance sheet items after the application of the relevant credit conversion factors, as defined in Annex II.

In the case of a credit institution using the Financial Collateral Comprehensive Method in line with Appendix 2 Section III.4 where an exposure takes the form of securities or commodities sold, posted or lent under a repurchase transaction or under a securities or commodities lending or borrowing transaction, and margin lending transactions the exposure value shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Appendix 2 Section III.4 paras 1.4.11 to 1.4.36.

- 2.0 For derivative instruments listed in Annex III, the value of the exposure shall be determined in accordance with Annex IV with the effects of contracts of novation and other netting agreements taken into account for the purposes of those methods in accordance with Annex IV. The exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions may be determined either in accordance with Annex IV or Appendix 2 Section III.

Notwithstanding the above, the exposure value of credit risk exposures outstanding, as determined by the authority, with the central counterparty shall be determined in accordance with Annex IV para 6, provided that the central counterparty's counterparty credit risk exposures with all participants in its arrangements are fully collateralised on a daily basis.

- 3.0 Where an exposure is subject to credit protection, the exposure value applicable to that item may be modified in accordance with Appendix 2 Section III.
- 4.0 Each exposure shall be assigned to one of the following exposure classes:
- a) claims or contingent claims on central governments or central banks;
  - b) claims or contingent claims on regional governments or local authorities;
  - c) claims or contingent claims on administrative bodies and non-commercial undertakings;
  - d) claims or contingent claims on multilateral development banks;
  - e) claims or contingent claims on international organisations;
  - f) claims or contingent claims on institutions;
  - g) claims or contingent claims on corporate;
  - h) claims or contingent retail claims;
  - i) claims or contingent claims secured on real estate property;
  - j) past due items;
  - k) items belonging to regulatory high-risk categories;
  - l) claims in the form of covered bonds;

- m) securitisation positions; (treatment of these positions is detailed in Appendix 3)
- n) short-term claims on institutions and corporate;
- o) claims in the form of collective investment undertakings (CIU);
- p) other items.

5.0 To be eligible for the retail exposure class referred to in point (h) above, an exposure must meet the following conditions:

- i) the exposure must be either to an individual person or persons, or to a small or medium sized entity;
- ii) the exposure must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced;
- iii) the total amount owed to the credit institution and parent undertakings and its subsidiaries, including any past due exposure, by the obligor client or group of connected clients, but excluding claims or contingent claims secured on residential real estate collateral, must not, to the knowledge of the credit institution, exceed €1 million.
- iv) The exposure shall not be in the form of securities.

The present value of retail minimum lease payments is eligible for the retail exposure class.

6.0 To calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures unless deducted from own funds, in accordance with the following provisions. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, to the extent, where applicable, to its credit quality. Credit quality may be determined by reference to the credit assessments of External Credit Assessment Institutions (ECAIs) in accordance with the provisions of Appendix 2 Section I.3 and I.4 or the credit assessments of Export Credit Agencies as described in Appendix 2 Section I.2.

7.0 Exposures which are not otherwise provided for in this Appendix shall be assigned a risk weight of 100%.

8.0 Risk weights are applied by multiplying the exposure value by the risk weight specified or determined in accordance with this Section.

9.0 With the exception of exposures giving rise to liabilities in the form of items included in the unconsolidated own funds, exposures of a credit institution to its parent undertaking, its subsidiary or a subsidiary of its parent undertaking or an undertaking linked by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC may be exempt from the following provisions, provided that the following conditions are met:

- a) counterparty is an institution or a financial holding company, mixed financial holding company, financial institution, asset management

company or ancillary services undertaking subject to appropriate prudential requirements;

- b) counterparty is included in the same consolidation as the credit institution on a full basis;
- c) counterparty is subject to the same risk evaluation, measurement and control procedures as the credit institution;
- d) counterparty is established in the same Member State as the credit institution;
- e) there is no current or foreseen material or legal impediment to the prompt transfer of own funds or payment of liabilities from the counterparty to the credit institution.

In such cases, a 0% risk weight shall be applied.

## SECTION I.2 - CREDIT RISK: STANDARDISED APPROACH

### *Risk Weights*

#### 1.0 Exposures to Central Governments or Central Banks

##### Treatment

- 1.1 Without prejudice to paragraphs 1.2 to 1.7, exposures to central governments and central banks shall receive a 100% risk weight.
- 1.2 Subject to paragraph 1.3, exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 1 in accordance with the mapping laid out in Appendix 2 Section I.4.

*Table 1*

Credit quality step	1	2	3	4	5	6
Risk weight	0%	20%	50%	100%	100%	150%

- 1.3 Exposures to the European Central Bank shall be assigned a 0% risk weight.

#### Exposures in the national currency of the borrower

- 1.4 Exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%. Until 31 December 2015, the same risk weight shall be assigned in relation to exposures to Member States' central governments or central banks denominated and funded in the domestic currency of any Member State as would be applied to such exposures denominated and funded in their domestic currency.
- 1.5 When the authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the Community assigns a risk weight which is lower than that indicated in paragraph 1.1 and 1.2 to exposures to its central government and central bank denominated and funded in the domestic currency, credit institutions may apply the same reduced risk weights to such exposures in the same manner.

#### Use of credit assessments by Export Credit Agencies

- 1.6 Credit assessments by Export Credit Agencies may only be utilised if the Export Credit Agency meets *either* of the following conditions:

- (a) it is a consensus risk score from Export Credit Agencies participating in the OECD "Arrangement on Guidelines for Officially Supported Export Credits";
- (b) the Export Credit Agency publishes its credit assessments, and the Export Credit Agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes.
- 1.7 Exposures for which a credit assessment by an Export Credit Agency is recognised for risk weighting purposes shall be assigned a risk weight according to Table 2.

Table 2

MEIP	0	1	2	3	4	5	6	7
Risk weight	0%	0%	20%	50%	100%	100%	100%	150%

## 2.0 Exposures to Regional Governments or Local Authorities

- 2.1 Without prejudice to paragraphs 2.2, 2.3 and 2.4, exposures to regional governments and local authorities shall be risk-weighted as exposures to institutions, subject to paragraph 2.5. However, the preferential treatment for short-term exposures specified in paragraphs 6.2, 6.4 and 6.8 shall not be applied.
- 2.2 Exposures to regional governments and local authorities shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce their risks of default.
- 2.3 Exposures to churches and religious communities constituted in the form of a legal person under public law shall, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments and local authorities under paragraph 2.1. In this case, for the purposes of paragraph 44(a) of Appendix 2. Section II.1, permission to apply the Standardised Approach shall not be excluded.
- 2.4 Institutions may have exposures towards regional governments and local authorities in third country jurisdictions, where the latter jurisdictions apply supervisory and regulatory arrangements at least equivalent to those applied in the EU and treat such exposures as to their central government. In such cases, institutions may, subject to notification to the authority, risk weight exposures to such regional governments and local authorities in the same manner.
- 2.5 Without prejudice to paragraphs 2.2, 2.3 and 2.4, exposures to regional governments and local authorities of the Members States denominated and

funded in the domestic currency of that regional government and local authority shall be assigned a risk weight of 20%.

### **3.0 Exposures on Administrative bodies and Non-Commercial Undertakings**

- 3.1 Without prejudice to paragraphs 3.2 to 3.7, exposures to administrative bodies and non-commercial undertakings shall receive a 100% risk weight.

#### ***Public Sector Entities***

- 3.2 Without prejudice to paragraphs 3.3 to 3.6, exposures to public sector entities shall receive a 100% risk weight.
- 3.3 Notwithstanding para 3.2, exposures to public sector entities may be treated as exposures to institutions. If utilised, such treatment would need to be continued on a consistent basis. However, the preferential treatment for short-term exposures specified in paragraphs 6.2, 6.4 and 6.8 shall not be applied.
- 3.4 In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central government in whose jurisdiction they are established where in the opinion of the authority there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government.
- 3.5 When the discretion to treat exposures to public-sector entities as exposures to institutions or as exposures to the central government in whose jurisdiction they are established is exercised by the authorities of another Member State, local credit institutions may risk-weight exposures to such public-sector entities in the same manner.
- 3.6 When authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the EU, treat exposures to public sector entities as exposures to institutions, local credit institutions may risk weight exposures to such public sector entities in the same manner.

### **4.0 Exposures to Multilateral Development Banks**

- 4.1 Except as specified in paragraph 4.3, exposures to multilateral development banks shall be treated in the same manner as exposures to institutions. However, the preferential treatment for short-term exposures specified in paragraphs 6.2, 6.4 and 6.8 shall not apply.
- 4.2 For the purposes of Section I of Appendix 2, the following are considered to be multilateral development banks:
- > the Inter-American Investment Corporation

- > the Black Sea Trade and Development Bank
- > the Central American Bank for Economic Integration.

4.3 Exposures to the following multilateral development banks shall be assigned a 0% risk weight:

- (a) the International Bank for Reconstruction and Development;
- (b) the International Finance Corporation;
- (c) the Inter-American Development Bank;
- (d) the Asian Development Bank;
- (e) the African Development Bank;
- (f) the Council of Europe Development Bank
- (g) the Nordic Investment Bank;
- (h) the Caribbean Development Bank;
- (i) the European Bank for Reconstruction and Development;
- (j) the European Investment Bank;
- (k) the European Investment Fund (but a risk weight of 20% shall be applied to the portion of unpaid capital subscribed to this fund);
- (l) the Multilateral Investment Guarantee Agency;
- (m) the International Finance Facility for Immunisation; and,
- (n) the Islamic Development Bank

## **5.0 Exposures to International Organisations**

5.1 Exposures to the following international organisations shall be assigned a 0% risk weight:

- (a) the European Community;
- (b) the International Monetary Fund;
- (c) the Bank for International Settlements.

## **6.0 Exposures to Institutions**

6.1 Exposures to financial institutions authorised and supervised by the authorities responsible for the authorisation of and supervision of credit institutions and subject to prudential requirements equivalent to those applied to credit institutions shall be risk weighted as exposures to institutions.

6.2 Exposures to an unrated institution with an original effective maturity of more than three months shall be assigned a risk weight of 50%, while those having an original effective maturity of three months or less shall be assigned a 20%

risk weight. However, no exposure to an unrated institution shall receive a risk weight lower than that applied to exposures to its central government.

- 6.3 Exposures to institutions with an residual maturity of more than three months for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 3 in accordance with the assignment of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale, as per Appendix 2 Section I.4.

*Table 3*

Credit quality step	1	2	3	4	5	6
Risk weight	20%	50%	50%	100%	100%	150%

- 6.4 Exposures to an institution of up to three months residual maturity for which a credit assessment by a nominated ECAI is available shall receive a risk weight according to Table 4 in accordance with the assignment of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale, as per Appendix 2 Section I.4:

*Table 4*

Credit quality step	1	2	3	4	5	6
Risk weight	20%	20%	20%	50%	50%	150%

#### **Interaction with short-term credit assessment**

- 6.5 If there is no short-term exposure assessment, the general preferential treatment for short-term exposures as specified in paragraph 6.4 shall apply to all exposures to institutions of up to three months residual maturity.
- 6.6 If there is a short-term assessment and such an assessment determines the application of a more favourable or identical risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph 6.4, then the short-term assessment shall be used for that specific exposure only. Other short-term exposures to the same counterparty shall follow the general preferential treatment for short-term exposures, as specified in paragraph 6.4.
- 6.7 If there is a short-term assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraph 6.4, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims shall receive the same risk weight as that applied by the specific short-term assessment.

#### **Short-term exposures in the national currency of the borrower**

- 6.8 Exposures to institutions of a residual maturity of 3 months or less denominated and funded in the national currency may be assigned a risk



weight that is one category less favourable than the preferential risk weight, assigned to exposures to its central government, which are also denominated and funded in the national currency.

- 6.9 No exposures of a residual maturity of 3 months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight less than 20%.

### **Investments in regulatory capital instruments**

- 6.10 Investments in equity or regulatory capital instruments issued by institutions shall be risk weighted at 100%, unless deducted from own funds.

### **Minimum Reserves required by the ECB or by the Central Bank**

- 6.11 Where an exposures to an institution is in the form of minimum reserves required by the ECB or by the Central Bank to be held by the institution, the risk weight that would be applied to exposures to the Central bank of the Member State in question could be applied, provided that:

- (a) the reserves are held in accordance with Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves or a subsequent replacement regulation, or in accordance with national requirements in all material respects equivalent to that regulation; and
- (b) in the event of the bankruptcy or insolvency of the institution where the reserves are held, the reserves are fully repaid to the credit institution in a timely manner and are not made available to meet other liabilities of the institution.

## **7.0 Exposures to Corporates**

- 7.1 Exposures for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to the following table in accordance with the assignment of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale, as indicated in Appendix 2 Section I.4.

*Table 4*

Credit quality step	1	2	3	4	5	6
Risk weight	20%	50%	100%	100%	150%	150%

- 7.2 Exposures for which such a credit assessment is not available shall receive a 100% risk weight or the risk weight of its central government, whichever is the higher.

## **8.0 Retail Exposures**

- 8.1 Exposures that comply with the criteria listed in paragraph 5.0 of Section I.1 of this Appendix shall be assigned a risk weight of 75%.

## **9.0 Exposures secured by Real Estate Property**

- 9.1 Unless otherwise specified in paragraphs 9.2 to 9.10, exposures secured by real estate property shall be assigned a risk weight of 100%.

### **Exposures secured by mortgages on residential property**

- 9.2 Exposures or any part of an exposure fully and completely secured, to the satisfaction of the authorities, by mortgages on residential property which is or shall be occupied or let by the owner or the beneficial owner in the case of personal investment companies shall be assigned a risk weight of 35%.
- 9.3 Exposures fully and completely secured, to the satisfaction of the authority, by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of residential property which is or shall be occupied or let by the owner shall be assigned a risk weight of 35%.
- 9.4 Exposures to a tenant under a property leasing transaction concerning residential property under which the credit institution is the lessor and the tenant has an option to purchase, shall be assigned a risk weight of 35% provided that the authorities are satisfied that the exposure of the credit institution is fully and completely secured by its ownership of the property.
- 9.5 To be eligible for the 35% risk weight, the following conditions must be met:
- (a) the value of the property does not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower;
  - (b) the risk of the borrower does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral;
  - (c) the minimum requirements set out in paragraph 1.4.1 of Appendix 2 Section III.3 and the valuation rules set out in paragraphs 1.5.1 to 1.5.4 of Appendix 2 Section III.4 are met;

- (d) the value of the property exceeds by a substantial margin the exposures.
- 9.6 When other member states dispense with condition (b) above in their jurisdiction, subject to the satisfaction of conditions (a), (c) and (d) above, local credit institutions may apply a risk weight of 35% to such exposures fully and completely secured by mortgages on residential property in that jurisdiction.

### **Exposures secured by mortgages on commercial real estate**

- 9.7 Subject to the conditions laid down in paragraph 9.9, exposures or any part of an exposure fully and completely secured, to the satisfaction of the authorities, by mortgages on offices or other commercial premises situated within their territory may be assigned a risk weight of 50%.
- 9.8 Subject to the conditions laid down in paragraph 9.9, exposures related to property leasing transactions concerning offices or other commercial premises situated in their territories under which the credit institution is the lessor and the tenant has an option to purchase may be assigned a risk weight of 50% provided that the exposure of the credit institution is fully and completely secured by its ownership of the property.
- 9.9 The application of paragraphs 9.7 and 9.8 is subject to the following conditions:
- (a) the value of the property must not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower;
  - (b) the risk of the borrower must not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility must not materially depend on any cash flow generated by the underlying property serving as collateral;
  - (c) the minimum requirements set out in paragraph 1.4.1 of Appendix 2 Section III.3, and the valuation rules set out in paragraphs 1.5.1 to 1.5.4 of Appendix 2 Section III.4 are met.
- 9.10 The 50 % risk weight shall apply to the part of the loan that does not exceed a limit calculated according to either of the following conditions:
- (a) 50% of the market value of the property in question;
  - (b) 50% of the market value of the property or 60 % of the mortgage lending value, whichever is lower, in those Member States that have

laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.

A 100% risk weight shall apply to the part of the loan that exceeds these limits.

- 9.11 Local credit institutions may apply the same treatment to exposures referred to in 9.7 and 9.8 above situated in other member states and/or exposures secured by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, provided strictly that the authority in that jurisdiction also allows the 50% risk weight.

## **10.0 Past due items**

- 10.1 The unsecured portion of any item that is past due by more than 90 days and which reflect a reasonable level of risk shall be assigned a risk weight of:

- a) 150% if specific provisions are less than 20% of the unsecured part of the gross exposure;
- b) 100% if specific provisions amount to more than 20% of the unsecured part of the gross exposure.

- 10.2 For the purposes of defining the secured portion of the past due item, eligible collateral and guarantees shall be those eligible for credit risk mitigation purposes, as defined in Appendix 2 – Section III.

- 10.3 Exposures secured by residential property, in line with paragraphs 9.2 to 9.5 shall be assigned a risk weight of 100% if they are past due for more than 90 days. If specific provisions are no less than 20% of the gross exposure, the risk weight applicable to the remainder of the exposure can be reduced to 50%.

- 10.4 Exposures secured by commercial real estate, in line with paragraphs 9.6 to 9.10 shall be assigned a risk weight of 100% if they are past due for more than 90 days.

## **11.0 Items belonging to Regulatory High-Risk Categories**

- 11.1 Exposures associated with particularly high risks shall be assigned a risk weight of 150%. Such exposures include, but are not limited to:

- a) investments in venture capital firms;
- b) private equity investments; and,
- c) credit facilities which are classified as doubtful under Banking Rule BR/09, for reasons other than being past due.

- 11.2 Notwithstanding paragraph 11.1, such exposures may be assigned a risk weight of:

- i) 100% if specific provisions are no less than 20% of the gross exposure value; or
- ii) 50% if specific provisions are no less than 50% of the gross exposure value.

## **12.0 Exposures in the form of Covered Bonds**

12.1 'Covered bonds', shall mean bonds issued by a credit institution which has its registered office in a Member State and subject by law to special public supervision designed to protect bondholders, collateralised by any of the following eligible assets:

- (a) exposures to or guaranteed by central governments, central banks, public sector entities, regional governments and local authorities in the EU;
- (b)
  - i) exposures to or guaranteed by non-EU central governments, non-EU central banks, multilateral development banks and international organisations that qualify for the credit quality assessment step 1;
  - ii) exposures to or guaranteed by non-EU public sector entities, non-EU regional governments and non-EU local authorities that are risk weighted as exposures to institutions or central governments and central banks and that qualify for the credit quality assessment step 1;
  - iii) exposures in the sense of this paragraph (b) that qualify as a minimum for the credit quality assessment step 2, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of issuing institutions;
- (c) exposures to institutions that qualify for the credit quality assessment step 1, provided that:
  - i) the total exposure of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing credit institution;
  - ii) exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds shall not be comprised by the 15% limit; and,
  - iii) exposures to institutions in the EU with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions must as a minimum qualify for credit quality assessment step 2.

- (d) loans secured
  - i) by residential real estate or shares in Finnish residential housing companies up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties; or
  - ii) by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising residential real estate exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in SLC 5.10 of Part BII of the Investment Services Rules for Retail Collective Investment Schemes shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90% composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for the credit quality step 1 set out in this Appendix and that such units do not exceed 10% of the nominal amount of the outstanding issue;
  
- (e) loans secured by:
  - i) commercial real estate or shares in Finnish housing companies up to the lesser of the principal amount of the liens that are combined with any prior liens and 60% of the value of the pledged properties; or
  - ii) senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising commercial real estate exposures. In the event of such senior units being used as collateral, the special public supervision to protect bond holders as provided for in SLC 5.10 of Part BII of the Investment Services Rules for Retail Collective Investment Schemes shall ensure that the assets underlying such units shall, at any time while they are included in the cover pool be at least 90% composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60% of the value of the pledged properties, that the units qualify for the credit quality step as set out in this Appendix and that such units do not exceed 10% of the nominal amount of the outstanding issue.

- iii) eligible commercial real estate, where the Loan-to-value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10%, and the bondholders' claim meets the legal certainty requirements set in Appendix 2 Section III. The bondholders' claim shall take priority over all other claims on the collateral.
  - (f) loans secured by ships, where only liens that are combined with any prior liens within 60% of the value of the pledged ship.
- 12.2 For the purposes of paragraphs 12.1(d)(ii) and 12.1(e)(ii), exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be taken into consideration when calculating the 90% limit.
- 12.3 For the purposes of these paragraphs "collateralised" includes situations where the assets as described in paragraph 12.1 are exclusively dedicated in law to the protection of the bond-holders against losses.
- 12.4 Until 31 December 2013, the 10% limit for senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities as specified in paragraphs 12.1 (d) and (e) shall not apply, provided that:
  - i) the securitised residential or commercial real estate exposures were originated by a member of the same consolidated group of which the issuer of the covered bonds is also a member or by an entity affiliated to the same central body to which the issuer of the covered bonds is also affiliated (that common group membership or affiliation to be determined at the time the senior units are made collateral for covered bonds; and
  - ii) a member of the same consolidated group of which the issuer of the covered bonds is also a member or an entity affiliated to the same central body to which the issuer of the covered bonds is also affiliated retains the whole first loss tranche supporting those senior units.
- 12.5 Credit institutions shall for real estate collateralising covered bonds meet the minimum requirements set out in Appendix 2 Section III.3 paragraph 1.4.1 and the valuation rules set out in Appendix 2 Section III.4 paragraph 1.5.1 to 1.5.4.
- 12.6 Notwithstanding paragraphs 12.1 and 12.5, covered bonds meeting the definition of Article 22(4) of Directive 85/611/EEC and issued before 31 December 2007 are also eligible for the preferential treatment until their maturity.

- 12.7 Covered bonds shall be assigned a risk weight on the basis of the risk weight attributed to senior unsecured exposures to the credit institution which issues them. The following risk weights shall apply:
- (a) if the exposures to the institution receive a risk weight of 20%, the covered bond shall receive a risk weight of 10%;
  - (b) if the exposures to the institution receive a risk weight of 50%, the covered bond shall receive a risk weight of 20%;
  - (c) if the exposures to the institution receive a risk weight of 100%, the covered bond shall receive a risk weight of 50%;
  - (d) if the exposures to the institution receive a risk weight of 150%, the covered bond shall receive a risk weight of 100%;

### **13.0 Items representing Securitisation Positions**

- 13.1 Risk weighted exposure amounts for securitisation positions shall be determined in accordance with the provisions of Appendix 3.

### **14.0 Exposures to Institutions and Corporates with a short-term credit assessment**

- 14.1 Exposures to institutions and/or corporate for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 6, in accordance with the mapping by the authority of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale, as indicated in Appendix 2 Section I.4:

*Table 6*

Credit Quality Step	1	2	3	4	5	6
Risk weight	20%	50%	100%	150%	150%	150%

### **15.0 Exposures in the form of Collective Investment Undertakings (CIUs)**

- 15.1 Without prejudice to the following paragraphs, exposures in CIUs shall be assigned a risk weight of 100%.
- 15.2 Exposures in the form of CIUs for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 7 in accordance with the mapping by the authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale:

*Table 7*

Credit Quality Step	1	2	3	4	5	6
Risk weight	20%	50%	100%	100%	150%	150%



- 15.3 Exposures in CIUs, which are associated with particularly high risks, shall be risk weighed at 150%.
- 15.4 Credit institutions may determine the risk weight for a CIU as set out in paragraphs 15.6-15.8, if the following eligibility criteria are met:
- (a) the CIU is managed by a company which is subject to supervision in a Member State, licensed locally, or if, subject to approval of the authority:
    - (i) it is managed by a company which is subject to supervision that is considered equivalent to that laid down in Community Law; and,
    - (ii) co-operation between authorities is sufficiently ensured;
  - (b) the CIU's prospectus or equivalent document includes:
    - the categories of assets the CIU is authorised to invest in,
    - of investment limits apply, the relative limits and the methodologies to calculate them;
  - (c) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.
- 15.5 If an authority in another member state approves a third country CIU as eligible, in line with (a) above, then the authorities in another Member State may make use of this recognition without conducting their own assessment.
- 15.6 Where the credit institution is aware of the underlying exposures of a CIU, it may look through to those underlying exposures in order to calculate an average risk weight for the CIU under the Standardised Approach.
- 15.7 Where the credit institution is not aware of the underlying exposures of a CIU, it may calculate an average risk weight for the CIU in accordance with the methods set under the Standardised Approach, subject to the following rules: it will be assumed that the CIU first invests, to the maximum extent allowed under its mandate, in the exposure classes attracting the highest capital requirement, and then continues making investment in descending order until the maximum total investment limit is reached. In this way, the most prudent risk weights will be utilised.
- 15.8 Credit institutions may rely on a third party to calculate and report a risk weight for the CIU provided that the correctness of the calculation and report shall be adequately insured, in line with paragraphs 15.6 and 15.7 above.

**16.0 Other Items**

- 16.1 Tangible assets shall be risk weighted at 100%.
- 16.2 Prepayments and accrued income for which the bank is unable to determine the counterparty shall be assigned a risk weight of 100%.
- 16.3 Cash items in the process of collection shall receive a 20% risk weight. Cash in hand and equivalent cash items shall receive a 0% risk weight.
- 16.4 Exposures to institutions specialising in the inter-bank and public-debt markets may receive a risk weight of 10% if those asset items are fully and completely secured, to the satisfaction of the authority, by items assigned a 0% or a 20% risk weight and recognised by the authority as constituting adequate collateral.
- 16.5 Holdings of equity and other participations, except where deducted from own funds, shall be assigned a risk weight of at least 100%.
- 16.6 Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall receive a 0% risk weight.
- 16.7 In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that attached to the assets in question and not to the counterparties to the transactions.
- 16.8 Where a credit institution provides credit protection for a number of exposures under terms that the  $n$ th default among the exposures shall trigger payment and that this credit event shall terminate the contract, if the product has an external credit assessment from an eligible ECAI the risk weights prescribed in Appendix 3 shall be applied. If the product is not rated by an eligible ECAI, the risk weights of the exposures included in the basket will be aggregated, excluding  $n-1$  exposures, up to a maximum of 1250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk weighted asset amount. The  $n-1$  exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.
- 16.9 The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease terms that the lessee is or can be required to make and any bargain option (i.e. option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in Appendix 2 Section III.2 paras 2.1.1 and 2.1.2 regarding the eligibility of protection providers as well as the minimum requirements for recognising other types of guarantees provided in Appendix 2 Section III.3 paras 2.1.1 to 2.3.2 shall also be included in the minimum lease payments. These exposures shall be assigned to the relevant exposure class.

When the exposure is a residual value of leased properties, the risk weighted exposure amounts shall be calculated as follows:

$$1/t * 100\% * \text{Exposure value}$$

Where:

*t* is the greater of 1 and the nearest number of whole years of the lease remaining.

**SECTION I.3 - CREDIT RISK: *STANDARDISED APPROACH***  
*Use of ECAIs' Credit Assessments for the determination of Risk Weights*

**1.0 General Principles**

- 1.1 An external credit assessment may be used to determine the risk weight of an exposure under Section I.2 of Appendix 2 only if the ECAI which provides it has been recognised as eligible for those purposes by the authority. Hereinafter, such recognised ECAIs will be referred to as “eligible ECAIs”.
- 1.2 Credit institutions shall use solicited credit assessments. Unsolicited credit assessments may only be utilised if they are considered of the same general quality of solicited ratings.

**2.0 Treatment**

- 2.1 A credit institution may nominate one or more eligible ECAIs to be used for the determination of risk weights applicable to asset and off-balance sheet items.
- 2.2 A credit institution which decides to use the credit assessments produced by an eligible ECAI for a certain class of items must use those credit assessments consistently for all exposures belonging to that class.
- 2.3 A credit institution which decides to use the credit assessments produced by an eligible ECAI must use them in a continuous and consistent way over time.
- 2.4 A credit institution can only use ECAIs credit assessments that take into account all amounts both in principal and in interest owed to it.
- 2.5 If only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item.
- 2.6 If two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be applied.
- 2.7 If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be applied. If the two lowest risk weights are the same, that risk weight shall be applied.

### **3.0 Issuer and issue credit assessment**

- 3.1 Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight applicable to that item.
- 3.2 Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used if it produces a higher risk weight than would otherwise be the case or if it produces a lower risk weight and the exposure in question ranks *pari passu* or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer as relevant.
- 3.3 Paragraphs 3.1 and 3.2 are not to prevent the application of paragraphs 12.1 to 12.7 (Exposures in the form of Covered Bonds) of Section I of this Appendix.
- 3.4 Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

### **4.0 Long-term and short-term credit assessments**

- 4.1 Short-term credit assessments may only be used for short-term assets and off-balance sheet items constituting exposures to institutions and corporates.
- 4.2 Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item.
- 4.3 Notwithstanding paragraph 4.2, if a short-term rated facility receives a 150% risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also receive a 150% risk weight.
- 4.4 Notwithstanding paragraph 4.2, if a short-term rated facility attracts a 50% risk-weight, no unrated short-term exposure shall attract a risk weight lower than 100%.

### **5.0 Domestic and foreign currency items**

- 5.1 A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.

- 5.2 Notwithstanding paragraph 5.1, when an exposure arises through a credit institution's participation in a loan that has been extended by a Multilateral Development Bank whose preferred creditor status is recognised in the market, the authority may allow the credit assessment on the obligor's domestic currency item to be used for risk weighting purposes.

**SECTION I.4 - CREDIT RISK: *STANDARDISED APPROACH***  
***Recognition of ECAIs and Mapping of their Credit Assessment***

**1.0 Methodology used by the authority for recognition of ECAIs**

- 1.1 An external credit assessment may be used to determine the risk weight of an exposure in accordance with the Standardised Approach only if the ECAI which provides it, has been recognised as eligible for those purposes by the authority.
- 1.2 The authority shall recognise an ECAI as eligible only if it is satisfied that the ECAI's assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency. For this purpose, the authority shall take into account the technical criteria set out below. Where an ECAI is registered as a credit rating agency in accordance with Regulation (EC) No 1060/2009 of 16 September 2009 of the European Parliament and of the Council on Credit rating agencies, the authority shall consider the requirements of objectivity, independence, ongoing review and transparency with respect to its assessment methodology to be satisfied.
- 1.3 If an ECAI has been recognised as eligible by another EU Member State authority, the authority may recognise that ECAI as eligible without carrying out a separate evaluation process.
- 1.4 An explanation of the recognition process, together with a list of eligible ECAIs is available on the authority's website.

***Objectivity***

- 1.5 The authority shall verify that the methodology for assigning credit assessments must be rigorous, systematic, continuous and subject to validation based on historical experience.

***Independence***

- 1.6 The authority shall verify that the methodology must be free from external political influences or constraints, and from economic pressures that may influence the credit assessment.
- 1.7 Independence of the ECAI's methodology shall be assessed by the authority according to factors, including the following:
- a) ownership and organisation structure of the ECAI;
  - b) financial resources of the ECAI;
  - c) staffing and expertise of the ECAI;
  - d) corporate governance of the ECAI.

***Ongoing review***

- 1.8 The authority shall verify that ECAI's credit assessments must be subject to ongoing review and shall be responsive to changes in the financial conditions. Such review shall take place at least annually and after all significant events.
- 1.9 Before recognising the ECAI, the authority shall verify that the assessment methodology for each market segment is established according to standards, including the following:
- a) the backtesting must be established for at least one year;
  - b) the regularity of the review process by the ECAI must be monitored by the authority;
  - c) The authority must be able to receive from the ECAI the extent of its contacts with the senior management of the entities which it rates.
- 1.10 The authority shall take all necessary measures to be promptly informed by the ECAs of any changes in the methodology they use for assigning credit assessments.

***Transparency and disclosure***

- 1.11 The authority shall take the necessary measures to assure that the principles of the methodology employed by the ECAI for the formulation of its credit assessments are publicly available as to allow all potential users to decide whether they are derived in a reasonable way.

**2.0 Individual Credit Assessments*****Credibility and market acceptance***

- 2.1 An ECAI's individual credit assessments must be recognised in the market as credible and reliable by the users of such credit assessments.
- 2.2 Credibility shall be assessed by the authority according to factors such as the following:
- a) market share of ECAI;
  - b) revenues generated by the ECAI, and more in general financial resources of the ECAI;
  - c) whether there is any pricing on the basis of the rating;



- d) at least two banks use the ECAI's individual credit assessment for bond issuing and/or assessing credit risk.

### ***Transparency and Disclosure***

- 2.3 The authority shall verify that individual credit assessments must be accessible at equivalent terms to all credit institutions having a legitimate interest in these individual credit assessments.
- 2.4 The authority shall verify that, in particular, individual credit assessments shall be available to non-domestic parties on equivalent terms as to domestic credit institutions having a legitimate interest in these individual credit assessments.

### **3.0 Mapping**

- 3.1 The authority shall determine, objectively and consistently, taking into account the above methodology criteria, with which of the credit quality steps utilised under the Standardised Approach, the relevant credit assessments of an eligible ECAI are to be associated.
- 3.2 When the authority of another EU member state has made a determination in this respect, the authority will recognise that determination without carrying out a separate determination process.
- 3.3 In order to differentiate between the relative degrees of risk expressed by each credit assessment, the authority shall consider quantitative factors such as the long-term default rate associated with all items assigned the same credit assessment. For recently established ECAIs and for those that have compiled only a short record of default data, the authority shall ask the ECAI what it believes to be the long-term default rate associated with all items assigned the same credit assessment.
- 3.4 In order to differentiate between the relative degrees of risk expressed by each credit assessment, the authority shall consider qualitative factors such as the pool of issuers that the ECAI covers, the range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default.
- 3.5 The authority shall compare default rates experienced for each credit assessment of a particular ECAI and compare them with a benchmark built on the basis of default rates experienced by other ECAIs on a population of issuers that the authority believes to present an equivalent level of credit risk.
- 3.6 When the authority believes that the default rates experienced for the credit assessment of a particular ECAI are materially and systematically higher than the benchmark, the authority shall assign a higher risk credit quality step in the credit quality assessment scale to the ECAI credit assessment.

- 3.7 When the authority increases the associated risk weight for a specific credit assessment of a particular ECAI, if the ECAI demonstrates that the default rates experienced for its credit assessment are no longer materially and systematically higher than the benchmark, the authority may decide to restore the original step in the credit quality assessment scale for the ECAI credit assessment.
- 3.8 In pursuance of paragraph 1.2 above, the authority has determined that the following ECAIs are to be considered eligible for the purposes of this Rule:
- > Moody's
  - > FitchRating
  - > Standard and Poor's
- 3.9 The following table defines the mapping of these ECAIs' rating to the credit quality steps mentioned earlier in Appendix 2, together with a summary of the applicable risk weights.

**Long term mapping:**

Credit Quality Step	Fitch's assessments	Moody's assessments	S&P assessments	Corporate	Institutions		Sovereign
					Credit assessment method		
					Maturity > 3 months	Maturity 3 mths or less	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	50%	100%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%

**Short term mapping:**

Credit Quality Step	Fitch's assessments	Moody's assessments	S&P assessments	Risk Weight
1	F1+, F1	P-1	A-1+, A-1	20%
2	F2	P-2	A-2	50%
3	F3	P-3	A-3	100%
4	Below F3	NP	Below A-3	150%
5				150%
6				150%