



NATIONAL BANK OF FUJAIRAH PJSC



FORMAL DISCLOSURE POLICY

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Glossary of Abbreviations used in the Policy

Abbreviation	What it stands for
BCBS	Basel Committee on Banking Supervision
BOD	Board of Directors
CAR	Capital Adequacy Ratio
CBUAE	Central Bank of the UAE
FDP	Formal Disclosure Policy
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRB	Internal Rating Based Approach (Basel II)
IRRBB	Interest Rate Risk on Banking Book
NBF	National Bank of Fujairah PJSC
RWA	Risk Weighted Assets
UAE	United Arab Emirates



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1. Introduction

The purpose of this policy document is to set out the Formal Disclosure Policy (FDP or the Policy) of National Bank of Fujairah PJSC (NBF or the Bank). FDP is established by the Board of Directors of the Bank to ensure compliance with all applicable laws and regulations concerning disclosure of material non-public information, including International Financial Reporting Standards (IFRS), the rules of Central Bank of the United Arab Emirates (CBUAE) and its Basel II Pillar 3 guidelines, and the listing requirements of Securities and Commodities Authority (SCA) and Abu Dhabi Securities Exchange (ADX).

The Policy provides the guidelines for the disclosure requirements and lays down the foundation for transparency, completeness and consistency for effective and efficient decision making.

The following will be the key features of the Bank's disclosure policy concerning disclosure of financial information:

Frequency and medium of disclosure

The condensed consolidated interim financial information is prepared and presented on a quarterly basis while complete consolidated financial statements are prepared and presented on an annual basis in compliance with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the UAE Central Bank. Disclosures of material non-public financial information will be made by the Finance Department of the Bank through the following mediums:

- Sending consolidated quarterly reviewed and annual audited financial statements, along with Management Discussion Analysis or Directors' report and any other price sensitive information, to ADX and SCA;
- Hosting consolidated quarterly and annual financial statements on the Group's website; and
- Publication of annual report.
- Investor Relations Presentation Packs

In addition, the Group's Corporate Communication Department discloses and disseminates information through press releases, media coverage and Group's website.

Statement of compliance

The consolidated financial statements will be prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates. Along with the consolidated financial statements, the Group will present Basel II Pillar 3 disclosures in accordance with the guidelines issued by CBUAE, from time to time.

Basel II Pillar 3 guidelines – Basel Accord

Under the Basel II guidelines issued by the Basel Committee on Banking Supervision (BCBS), there are 3 Pillars as detailed below:

Pillar 1 – Minimum Capital Requirements:

Under Pillar 1, banks are expected to adhere to certain minimum capital requirements as stipulated by their respective regulators. The purpose of Pillar 1 is to stipulate capital charges in order to motivate banks to improve their risk measurement and risk management capabilities. Types of risks covered under Pillar 1 are Credit Risk, Market Risk and Operational Risk. As per BCBS, the minimum capital requirement is 8% of the Risk Weighted Assets (RWA). However, banks operating in the UAE (including NBF) have to adhere to a Capital Adequacy Ratio (CAR) of 12% of their RWA as stipulated by the regulator viz., CBUAE. This is also referred as the Regulatory Capital. Quarterly Basel II CAR returns are required to be submitted to CBUAE confirming the Bank's adherence to the Regulatory Capital.

Pillar 2 – Supervisory Review:

Under Pillar 2, regulators are expected to create a supervisory framework to encourage best risk practices amongst the banks and to "mop up" other risks i.e. Residual Risk, Credit Concentration Risk, Liquidity Risk, Interest Rate Risk on Banking Book (IRRBB), Settlement Risk, Reputational Risk and



Strategic Risk. For this purpose, CBUAE requires banks to submit their Internal Capital Adequacy Assessment Process (ICAAP) document as at the end of the each financial year. ICAAP document is to be submitted by March every year to CBUAE.

Pillar 3 – Market Discipline:

Under Pillar 3, banks are expected to maintain transparency in their financial statements and adhere to market discipline i.e. to disclose in detail, their corporate governance framework and its implementation, their risk policies and risky exposures. CBUAE has issued draft guidelines to all the banks in the UAE with respect to the application of Pillar 3 – Market Disclosures under the Basel II. Under the said guidelines, CBUAE has advised banks to develop a Formal Disclosure Policy (FDP). This would set out the banks' approach to these guidelines, and would cover the following:

- Compliance with required disclosures
- Medium selected for making disclosures
- Assessment of frequency to be adopted
- Approach to verification
- Materiality proposals
- Any proprietary or confidential information which would not be part of the disclosures, with justifications

The FDP will be submitted to CBUAE within three months of the guidelines' first formal issue in February 2012, then once in every 3 years thereafter or when subject to material revision (whichever occurs sooner).

2. Key Principles of NBF's Basel II – Pillar 3

NBF will follow the following key principles in its FDP:

Types of Disclosures - Qualitative & Quantitative disclosures:

The same ensure compliance for NBF under the ambit of full set of qualitative and quantitative disclosures as stated under Sections 822 - 826 (Tables 1-14 with related footnotes) of the Basel Accord 2006 (International Convergence of Capital Measurement and Capital Standards) – (Refer Appendix 1).

Tables will be provided (in form and content as per annexures to this policy document), where applicable.

Frequency:

NBF will provide this information in a manner which facilitates timely assessment by market participants i.e. at least annually.

Method of Disclosure:

The disclosure requirements would be included in or appended to the Bank's Annual Report, or in the notes to the audited consolidated financial statements. Investor Relations Web page will be used for the provision of further disclosures in line with best practice and requirements of SCA.

3. Level of Disclosure:

The disclosures would be given to the appropriate level of detail sufficient to help achieve an acceptable level of transparency.

4. Validation of Disclosures:

Disclosures are only relevant when they can be relied upon by a third party. Independent validation will, therefore, be required to give the necessary assurance to the market participants relying on the



disclosed information.

The external audit achieves the validation of disclosures made under IFRS. Annual consolidated financial statements and reports will be audited by external auditors, including notes and tables published as part thereof.

If the material is not directly validated, i.e. non-IFRS, then management will ensure that appropriate verification of the information takes place. This will be done by the external auditors as a 'review' exercise, if the material is not part of the full audit scope. The scope and nature of, plus any findings from, this validation will be reported with the actual disclosures.

5. Materiality:

Notwithstanding the minimum reporting requirements set out in Appendix 1, NBF would decide which disclosures are relevant based on the materiality concept as laid down in the next paragraph.

Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a market participant relying on that information for the purpose of making economic decisions.

This definition is consistent with IFRS. The concept of materiality would be inherent in the preparation and audit of the concerned statements.

6. Confidentiality:

In exceptional cases, disclosure of certain items of information may prejudice the position of NBF by making public information that is either proprietary or confidential in nature.

In such cases, NBF may disclose more general information about the subject matter, together with the fact that, and the reason why, specific items have not been disclosed (this does not apply to IFRS requirements).

7. Conclusion:

Any revisions to this Formal Disclosure Policy (FDP) will need the approval of the Board of Directors (BOD) through the Risk Committee of the Board (BRC).

8. Appendix 1: Qualitative and Quantitative Disclosures as stated under Sections 822 - 826 (Tables 1-14 with related footnotes)



Qualitative &
Quantitative disclosur

Appendix 1: Qualitative and Quantitative Disclosures as stated under Sections 822 - 826 (Tables 1-14 with related footnotes)

internal controls over the disclosure process. In addition, banks should implement a process for assessing the appropriateness of their disclosures, including validation and frequency of them.

B. Scope of application

822. Pillar 3 applies at the top consolidated level of the banking group to which this Framework applies (as indicated above in Part 1: Scope of Application). Disclosures related to individual banks within the groups would not generally be required to fulfil the disclosure requirements set out below. An exception to this arises in the disclosure of Total and Tier 1 Capital Ratios by the top consolidated entity where an analysis of significant bank subsidiaries within the group is appropriate, in order to recognise the need for these subsidiaries to comply with this Framework and other applicable limitations on the transfer of funds or capital within the group.

Table 1
Scope of application

Qualitative Disclosures	(a)	The name of the top corporate entity in the group to which this Framework applies.
	(b)	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities ¹⁷⁷ within the group (a) that are fully consolidated; ¹⁷⁸ (b) that are pro-rata consolidated; ¹⁷⁹ (c) that are given a deduction treatment; ¹⁸⁰ and (d) from which surplus capital is recognised ¹⁸⁰ plus (e) that are neither consolidated nor deducted (e.g. where the investment is risk-weighted).
	(c)	Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.
Quantitative Disclosures	(d)	The aggregate amount of surplus capital ¹⁸¹ of insurance subsidiaries (whether deducted or subjected to an alternative method ¹⁸²) included in the capital of the consolidated group.

¹⁷⁷ Entity = securities, insurance and other financial subsidiaries, commercial subsidiaries, significant minority equity investments in insurance, financial and commercial entities.

¹⁷⁸ Following the listing of significant subsidiaries in consolidated accounting, e.g. IAS 27.

¹⁷⁹ Following the listing of subsidiaries in consolidated accounting, e.g. IAS 31.

¹⁸⁰ May be provided as an extension (extension of entities only if they are significant for the consolidating bank) to the listing of significant subsidiaries in consolidated accounting, e.g. IAS 27 and 32.

¹⁸¹ Surplus capital in unconsolidated regulated subsidiaries is the difference between the amount of the investment in those entities and their regulatory capital requirements.

¹⁸² See paragraphs 30 and 33.

	(e)	The aggregate amount of capital deficiencies ¹⁸³ in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.
	(f)	The aggregate amounts (e.g. current book value) of the firm's total interests in insurance entities, which are risk-weighted ¹⁸⁴ rather than deducted from capital or subjected to an alternate group-wide method, ¹⁸⁵ as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction or alternate group-wide method.

C. Capital

Table 2
Capital structure

Qualitative Disclosures	(a)	Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.
Quantitative Disclosures	(b)	The amount of Tier 1 capital, with separate disclosure of: <ul style="list-style-type: none"> • paid-up share capital/common stock; • reserves; • minority interests in the equity of subsidiaries; • innovative instruments;¹⁸⁶ • other capital instruments; • surplus capital from insurance companies;¹⁸⁷ • regulatory calculation differences deducted from Tier 1 capital;¹⁸⁸ and • other amounts deducted from Tier 1 capital, including goodwill and investments.
	(c)	The total amount of Tier 2 and Tier 3 capital.
	(d)	Other deductions from capital. ¹⁸⁹
	(e)	Total eligible capital.

¹⁸³ A capital deficiency is the amount by which actual capital is less than the regulatory capital requirement. Any deficiencies which have been deducted on a group level in addition to the investment in such subsidiaries are not to be included in the aggregate capital deficiency.

¹⁸⁴ See paragraph 31.

¹⁸⁵ See paragraph 30.

¹⁸⁶ Innovative instruments are covered under the Committee's press release, *Instruments eligible for inclusion in Tier 1 capital* (27 October 1998).

¹⁸⁷ See paragraph 33.

¹⁸⁸ Representing 50% of the difference (when expected losses as calculated within the IRB approach exceed total provisions) to be deducted from Tier 1 capital.

¹⁸⁹ Including 50% of the difference (when expected losses as calculated within the IRB approach exceed total provisions) to be deducted from Tier 2 capital.

Table 3
Capital Adequacy

Qualitative disclosures	(a)	A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.
Quantitative disclosures	(b)	<p>Capital requirements for credit risk:</p> <ul style="list-style-type: none"> • Portfolios subject to standardised or simplified standardised approach, disclosed separately for each portfolio; • Portfolios subject to the IRB approaches, disclosed separately for each portfolio under the foundation IRB approach and for each portfolio under the advanced IRB approach: <ul style="list-style-type: none"> • Corporate (including SL not subject to supervisory slotting criteria), sovereign and bank; • Residential mortgage; • Qualifying revolving retail;¹⁹⁰ and • Other retail; • Securitisation exposures.
	(c)	<p>Capital requirements for equity exposures in the IRB approach:</p> <ul style="list-style-type: none"> • Equity portfolios subject to the market-based approaches; <ul style="list-style-type: none"> • Equity portfolios subject to simple risk weight method; and • Equities in the banking book under the internal models approach (for banks using IMA for banking book equity exposures). • Equity portfolios subject to PD/LGD approaches.
	(d)	<p>Capital requirements for market risk¹⁹¹:</p> <ul style="list-style-type: none"> • Standardised approach; • Internal models approach — Trading book.
	(e)	<p>Capital requirements for operational risk¹⁹¹:</p> <ul style="list-style-type: none"> • Basic indicator approach; • Standardised approach; • Advanced measurement approach (AMA).
	(f)	<p>Total and Tier 1¹⁹² capital ratio:</p> <ul style="list-style-type: none"> • For the top consolidated group; and • For significant bank subsidiaries (stand alone or sub-consolidated depending on how the Framework is applied).

D. Risk exposure and assessment

823. The risks to which banks are exposed and the techniques that banks use to identify, measure, monitor and control those risks are important factors market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk and equity risk in the banking book and operational risk. Also included in this section are disclosures relating to credit risk mitigation and asset

¹⁹⁰ Banks should distinguish between the separate non-mortgage retail portfolios used for the Pillar 1 capital calculation (i.e. qualifying revolving retail exposures and other retail exposures) unless these portfolios are insignificant in size (relative to overall credit exposures) and the risk profile of each portfolio is sufficiently similar such that separate disclosure would not help users' understanding of the risk profile of the banks' retail business.

¹⁹¹ Capital requirements are to be disclosed only for the approaches used.

¹⁹² Including proportion of innovative capital instruments.

securitisation, both of which alter the risk profile of the institution. Where applicable, separate disclosures are set out for banks using different approaches to the assessment of regulatory capital.

1. General qualitative disclosure requirement

824. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity) banks must describe their risk management objectives and policies, including:

- strategies and processes;
- the structure and organisation of the relevant risk management function;
- the scope and nature of risk reporting and/or measurement systems;
- policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

2. Credit risk

825. General disclosures of credit risk provide market participants with a range of information about overall credit exposure and need not necessarily be based on information prepared for regulatory purposes. Disclosures on the capital assessment techniques give information on the specific nature of the exposures, the means of capital assessment and data to assess the reliability of the information disclosed.

Table 4¹⁹³

Credit risk: general disclosures for all banks

Qualitative Disclosures	(a)	<p>The general qualitative disclosure requirement (paragraph 824) with respect to credit risk, including:</p> <ul style="list-style-type: none"> • Definitions of past due and impaired (for accounting purposes); • Description of approaches followed for specific and general allowances and statistical methods; • Discussion of the bank's credit risk management policy; and • For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the 1) standardised, 2) foundation IRB, and 3) advanced IRB approaches and of management's plans and timing for migrating exposures to full implementation of the applicable approach.
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¹⁹³ Table 4 does not include equities.

Quantitative Disclosures	(b)	Total gross credit risk exposures, ¹⁹⁴ plus average gross exposure ¹⁹⁵ over the period ¹⁹⁶ broken down by major types of credit exposure. ¹⁹⁷
	(c)	Geographic ¹⁹⁸ distribution of exposures, broken down in significant areas by major types of credit exposure.
	(d)	Industry or counterparty type distribution of exposures, broken down by major types of credit exposure.
	(e)	Residual contractual maturity breakdown of the whole portfolio, ¹⁹⁹ broken down by major types of credit exposure.
	(f)	By major industry or counterparty type: <ul style="list-style-type: none"> • Amount of impaired loans and if available, past due loans, provided separately;²⁰⁰ • Specific and general allowances; and • Charges for specific allowances and charge-offs during the period.
	(g)	Amount of impaired loans and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area. ²⁰¹
	(h)	Reconciliation of changes in the allowances for loan impairment. ²⁰²
	(i)	For each portfolio, the amount of exposures (for IRB banks, drawn plus EAD on undrawn) subject to the 1) standardised, 2) foundation IRB, and 3) advanced IRB approaches.

¹⁹⁴ That is, after accounting offsets in accordance with the applicable accounting regime and without taking into account the effects of credit risk mitigation techniques, e.g. collateral and netting.

¹⁹⁵ Where the period end position is representative of the risk positions of the bank during the period, average gross exposures need not be disclosed.

¹⁹⁶ Where average amounts are disclosed in accordance with an accounting standard or other requirement which specifies the calculation method to be used, that method should be followed. Otherwise, the average exposures should be calculated using the most frequent interval that an entity's systems generate for management, regulatory or other reasons, provided that the resulting averages are representative of the bank's operations. The basis used for calculating averages need be stated only if not on a daily average basis.

¹⁹⁷ This breakdown could be that applied under accounting rules, and might, for instance, be (a) loans, commitments and other non-derivative off balance sheet exposures, (b) debt securities, and (c) OTC derivatives.

¹⁹⁸ Geographical areas may comprise individual countries, groups of countries or regions within countries. Banks might choose to define the geographical areas based on the way the bank's portfolio is geographically managed. The criteria used to allocate the loans to geographical areas should be specified.

¹⁹⁹ This may already be covered by accounting standards, in which case banks may wish to use the same maturity groupings used in accounting.

²⁰⁰ Banks are encouraged also to provide an analysis of the ageing of past-due loans.

²⁰¹ The portion of general allowance that is not allocated to a geographical area should be disclosed separately.

²⁰² The reconciliation shows separately specific and general allowances; the information comprises: a description of the type of allowance; the opening balance of the allowance; charge-offs taken against the allowance during the period; amounts set aside (or reversed) for estimated probable loan losses during the period, any other adjustments (e.g. exchange rate differences, business combinations, acquisitions and disposals of subsidiaries), including transfers between allowances; and the closing of the allowance. Charge-offs and recoveries that have been recorded directly to the income statement should be disclosed separately.

Table 5

Credit risk: disclosures for portfolios subject to the standardised approach and supervisory risk weights in the IRB approaches²⁰³

Qualitative Disclosures	(a)	For portfolios under the standardised approach: <ul style="list-style-type: none"> • Names of ECAs and ECAs used, plus reasons for any changes;* • Types of exposure for which each agency is used; • A description of the process used to transfer public issue ratings onto comparable assets in the banking book; and • The alignment of the alphanumeric scale of each agency used with risk buckets.²⁰⁴
Quantitative Disclosures	(b)	<ul style="list-style-type: none"> • For exposure amounts after risk mitigation subject to the standardised approach, amount of a bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted; and • For exposures subject to the supervisory risk weights in IRB (HVCRE, any SL products subject to supervisory slotting criteria and equities under the simple risk weight method) the aggregate amount of a bank's outstandings in each risk bucket.

Credit risk: disclosures for portfolios subject to IRB approaches

826. An important part of this Framework is the introduction of an IRB approach for the assessment of regulatory capital for credit risk. To varying degrees, banks will have discretion to use internal inputs in their regulatory capital calculations. In this sub-section, the IRB approach is used as the basis for a set of disclosures intended to provide market participants with information about asset quality. In addition, these disclosures are important to allow market participants to assess the resulting capital in light of the exposures. There are two categories of quantitative disclosures: those focussing on an analysis of risk exposure and assessment (i.e. the inputs) and those focussing on the actual outcomes (as the basis for providing an indication of the likely reliability of the disclosed information). These are supplemented by a qualitative disclosure regime which provides background information on the assumptions underlying the IRB framework, the use of the IRB system as part of a risk management framework and the means for validating the results of the IRB system. The disclosure regime is intended to enable market participants to assess the credit risk exposure of IRB banks and the overall application and suitability of the IRB framework, without revealing proprietary information or duplicating the role of the supervisor in validating the detail of the IRB framework in place.

²⁰³ A *de minimis* exception would apply where ratings are used for less than 1% of the total loan portfolio.

²⁰⁴ This information need not be disclosed if the bank complies with a standard mapping which is published by the relevant supervisor.

Table 6

Credit risk: disclosures for portfolios subject to IRB approaches

Qualitative disclosures*	(a)	Supervisor's acceptance of approach/ supervisory approved transition
	(b)	<p>Explanation and review of the:</p> <ul style="list-style-type: none"> • Structure of internal rating systems and relation between internal and external ratings; • use of internal estimates other than for IRB capital purposes; • process for managing and recognising credit risk mitigation; and • Control mechanisms for the rating system including discussion of independence, accountability, and rating systems review.
	(c)	<p>Description of the internal ratings process, provided separately for five distinct portfolios:</p> <ul style="list-style-type: none"> • Corporate (including SMEs, specialised lending and purchased corporate receivables), sovereign and bank; • Equities;²⁰⁵ • Residential mortgages; • Qualifying revolving retail;²⁰⁶ and • Other retail. <p>The description should include, for each portfolio:</p> <ul style="list-style-type: none"> • The types of exposure included in the portfolio; • The definitions, methods and data for estimation and validation of PD, and (for portfolios subject to the IRB advanced approach) LGD and/or EAD, including assumptions employed in the derivation of these variables;²⁰⁷ and • Description of deviations as permitted under paragraph 456 and footnote 89 from the reference definition of default where determined to be material, including the broad segments of the portfolio(s) affected by such deviations.²⁰⁸

²⁰⁵ Equities need only be disclosed here as a separate portfolio where the bank uses the PD/LGD approach for equities held in the banking book.

²⁰⁶ In both the qualitative disclosures and quantitative disclosures that follow, banks should distinguish between the qualifying revolving retail exposures and other retail exposures unless these portfolios are insignificant in size (relative to overall credit exposures) and the risk profile of each portfolio is sufficiently similar such that separate disclosure would not help users' understanding of the risk profile of the banks' retail business.

²⁰⁷ This disclosure does not require a detailed description of the model in full — it should provide the reader with a broad overview of the model approach, describing definitions of the variables, and methods for estimating and validating those variables set out in the quantitative risk disclosures below. This should be done for each of the five portfolios. Banks should draw out any significant differences in approach to estimating these variables within each portfolio.

²⁰⁸ This is to provide the reader with context for the quantitative disclosures that follow. Banks need only describe main areas where there has been material divergence from the reference definition of default such that it would affect the readers' ability to compare and understand the disclosure of exposures by PD grade.

Quantitative disclosures: risk assessment*	(d)	<p>For each portfolio (as defined above) except retail, present the following information across a sufficient number of PD grades (including default) to allow for a meaningful differentiation of credit risk:²⁰⁹</p> <ul style="list-style-type: none"> • Total exposures (for corporate, sovereign and bank, outstanding loans and EAD on undrawn commitments;²¹⁰ for equities, outstanding amount); • For banks on the IRB advanced approach, exposure-weighted average LGD (percentage); and • Exposure-weighted average risk-weight. <p>For banks on the IRB advanced approach, amount of undrawn commitments and exposure-weighted average EAD for each portfolio;²¹¹</p> <p>For each retail portfolio (as defined above), either:²¹²</p> <ul style="list-style-type: none"> • Disclosures as outlined above on a pool basis (i.e. same as for non-retail portfolios); or • Analysis of exposures on a pool basis (outstanding loans and EAD on commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk.
Quantitative disclosures: historical results*	(e)	Actual losses (e.g. charge-offs and specific provisions) in the preceding period for each portfolio (as defined above) and how this differs from past experience. A discussion of the factors that impacted on the loss experience in the preceding period — for example, has the bank experienced higher than average default rates, or higher than average LGDs and EADs.
	(f)	Banks' estimates against actual outcomes over a longer period. ²¹³ At a minimum, this should include information on estimates of losses against actual losses in each portfolio (as defined above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each portfolio. ²¹⁴ Where appropriate, banks should further decompose this to provide analysis of PD and, for banks on the advanced IRB approach, LGD and EAD outcomes against estimates provided in the quantitative risk assessment disclosures above. ²¹⁵

²⁰⁹ The PD, LGD and EAD disclosures below should reflect the effects of collateral, netting and guarantees/credit derivatives, where recognised under Part 2. Disclosure of each PD grade should include the exposure weighted-average PD for each grade. Where banks are aggregating PD grades for the purposes of disclosure, this should be a representative breakdown of the distribution of PD grades used in the IRB approach.

²¹⁰ Outstanding loans and EAD on undrawn commitments can be presented on a combined basis for these disclosures.

²¹¹ Banks need only provide one estimate of EAD for each portfolio. However, where banks believe it is helpful, in order to give a more meaningful assessment of risk, they may also disclose EAD estimates across a number of EAD categories, against the undrawn exposures to which these relate.

²¹² Banks would normally be expected to follow the disclosures provided for the non-retail portfolios. However, banks may choose to adopt EL grades as the basis of disclosure where they believe this can provide the reader with a meaningful differentiation of credit risk. Where banks are aggregating internal grades (either PD/LGD or EL) for the purposes of disclosure, this should be a representative breakdown of the distribution of those grades used in the IRB approach.

²¹³ These disclosures are a way of further informing the reader about the reliability of the information provided in the "quantitative disclosures: risk assessment" over the long run. The disclosures are requirements from year-end 2009; In the meantime, early adoption would be encouraged. The phased implementation is to allow banks sufficient time to build up a longer run of data that will make these disclosures meaningful.

²¹⁴ The Committee will not be prescriptive about the period used for this assessment. Upon implementation, it might be expected that banks would provide these disclosures for as long run of data as possible — for example, if banks have 10 years of data, they might choose to disclose the average default rates for each PD grade over that 10-year period. Annual amounts need not be disclosed.

²¹⁵ Banks should provide this further decomposition where it will allow users greater insight into the reliability of the estimates provided in the 'quantitative disclosures: risk assessment'. In particular, banks should provide this information where there are material differences between the PD, LGD or EAD estimates given by banks compared to actual outcomes over the long run. Banks should also provide explanations for such differences.

Table 7

Credit risk mitigation: disclosures for standardised and IRB approaches^{216,217}

Qualitative Disclosures*	(a)	<p>The general qualitative disclosure requirement (paragraph 824) with respect to credit risk mitigation including:</p> <ul style="list-style-type: none"> • policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting; • policies and processes for collateral valuation and management; • a description of the main types of collateral taken by the bank; • the main types of guarantor/credit derivative counterparty and their creditworthiness; and • information about (market or credit) risk concentrations within the mitigation taken.
Quantitative Disclosures*	(b)	<p>For each separately disclosed credit risk portfolio under the standardised and/or foundation IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by:</p> <ul style="list-style-type: none"> • eligible financial collateral; and • other eligible IRB collateral; after the application of haircuts.²¹⁸
	(c)	<p>For each separately disclosed portfolio under the standardised and/or IRB approach, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees/credit derivatives.</p>

²¹⁶ At a minimum, banks must give the disclosures below in relation to credit risk mitigation that has been recognised for the purposes of reducing capital requirements under this Framework. Where relevant, banks are encouraged to give further information about mitigants that have not been recognised for that purpose.

²¹⁷ Credit derivatives that are treated, for the purposes of this Framework, as part of synthetic securitisation structures should be excluded from the credit risk mitigation disclosures and included within those relating to securitisation.

²¹⁸ If the comprehensive approach is applied, where applicable, the total exposure covered by collateral after haircuts should be reduced further to remove any positive adjustments that were applied to the exposure, as permitted under Part 2.

Table 8

General disclosure for exposures related to counterparty credit risk

Qualitative Disclosures	(a)	The general qualitative disclosure requirement (paragraphs 824 and 825) with respect to derivatives and CCR, including: <ul style="list-style-type: none"> • Discussion of methodology used to assign economic capital and credit limits for counterparty credit exposures; • Discussion of policies for securing collateral and establishing credit reserves; • Discussion of policies with respect to wrong-way risk exposures; • Discussion of the impact of the amount of collateral the bank would have to provide given a credit rating downgrade.
Quantitative Disclosures	(b)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held (including type, e.g. cash, government securities, etc.), and net derivatives credit exposure. ²¹⁹ Also report measures for exposure at default, or exposure amount, under the IMM, SM or CEM, whichever is applicable. The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure. ²²⁰
	(c)	Credit derivative transactions that create exposures to CCR (notional value), segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used ²²¹ , broken down further by protection bought and sold within each product group.
	(d)	The estimate of alpha if the bank has received supervisory approval to estimate alpha.

²¹⁹ *Net credit exposure* is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements. The notional amount of credit derivative hedges alerts market participants to an additional source of credit risk mitigation.

²²⁰ This might be interest rate contracts, FX contracts, equity contracts, credit derivatives, and commodity/other contracts.

²²¹ This might be Credit Default Swaps, Total Return Swaps, Credit options, and other.

Table 9

Securitisation: disclosure for standardised and IRB approaches²¹⁷

Qualitative disclosures*	(a)	The general qualitative disclosure requirement (paragraph 824) with respect to securitisation (including synthetics), including a discussion of: <ul style="list-style-type: none"> the bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities; the roles played by the bank in the securitisation process²²² and an indication of the extent of the bank's involvement in each of them; and the regulatory capital approaches (e.g. RBA, IAA and SFA) that the bank follows for its securitisation activities.
	(b)	Summary of the bank's accounting policies for securitisation activities, including: <ul style="list-style-type: none"> whether the transactions are treated as sales or financings; recognition of gain on sale; key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; and treatment of synthetic securitisations if this is not covered by other accounting policies (e.g. on derivatives).
	(c)	Names of ECAs used for securitisations and the types of securitisation exposure for which each agency is used.
Quantitative disclosures*	(d)	The total outstanding exposures securitised by the bank and subject to the securitisation framework (broken down into traditional/synthetic), by exposure type. ^{223,224,225}
	(e)	For exposures securitised by the bank and subject to the securitisation framework: ²²⁵ <ul style="list-style-type: none"> amount of impaired/past due assets securitised; and losses recognised by the bank during the current period²²⁶ broken down by exposure type.
	(f)	Aggregate amount of securitisation exposures retained or purchased ²²⁷ broken down by exposure type. ²²³
	(g)	Aggregate amount of securitisation exposures retained or purchased ²²⁷ and the associated IRB capital charges for these exposures broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from Tier 1 capital, credit enhancing I/Os deducted from Total Capital, and other exposures deducted from total capital should be disclosed separately by type of underlying asset.

²²² For example: originator, investor, servicer, provider of credit enhancement, sponsor of asset backed commercial paper facility, liquidity provider, swap provider.

²²³ For example, credit cards, home equity, auto, etc.

²²⁴ Securitisation transactions in which the originating bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.

²²⁵ Where relevant, banks are encouraged to differentiate between exposures resulting from activities in which they act only as sponsors, and exposures that result from all other bank securitisation activities that are subject to the securitisation framework.

²²⁶ For example, charge-offs/allowances (if the assets remain on the bank's balance sheet) or write-downs of I/O strips and other residual interests.

²²⁷ Securitisation exposures, as noted in Part 2, Section IV, include, but are not restricted to, securities, liquidity facilities, other commitments and credit enhancements such as I/O strips, cash collateral accounts and other subordinated assets.

	(h)	For securitisations subject to the early amortisation treatment, the following items by underlying asset type for securitised facilities: <ul style="list-style-type: none"> • the aggregate drawn exposures attributed to the seller's and investors' interests; • the aggregate IRB capital charges incurred by the bank against its retained (i.e. the seller's) shares of the drawn balances and undrawn lines; and • the aggregate IRB capital charges incurred by the bank against the investor's shares of drawn balances and undrawn lines.
	(i)	Banks using the standardised approach are also subject to disclosures (g) and (h), but should use the capital charges for the standardised approach.
	(j)	Summary of current year's securitisation activity, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by asset type.

3. **Market risk**

Table 10

Market risk: disclosures for banks using the standardised approach²²⁸

Qualitative disclosures	(a)	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the standardised approach.
Quantitative disclosures	(b)	The capital requirements for: <ul style="list-style-type: none"> • interest rate risk; • equity position risk; • foreign exchange risk; and • commodity risk.

²²⁸ The standardised approach here refers to the "standardised measurement method" as defined in Part 2, Section VI C.

Table 11

**Market risk: disclosures for banks using the
internal models approach (IMA) for trading portfolios**

Qualitative disclosures	(a)	The general qualitative disclosure requirement (paragraph 824) for market risk including the portfolios covered by the IMA. In addition, a discussion of the extent of and methodologies for compliance with the "Prudent valuation guidance" for positions held in the trading book (paragraphs 690 to 701).
	(b)	The discussion should include an articulation of the soundness standards on which the bank's internal capital adequacy assessment is based. It should also include a description of the methodologies used to achieve a capital adequacy assessment that is consistent with the soundness standards.
	(c)	For each portfolio covered by the IMA: <ul style="list-style-type: none"> • the characteristics of the models used; • a description of stress testing applied to the portfolio; and • a description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modelling processes.
	(d)	The scope of acceptance by the supervisor.
Quantitative disclosures	(e)	For trading portfolios under the IMA: <ul style="list-style-type: none"> • The high, mean and low VaR values over the reporting period and period-end; and • A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in backtest results.

4. Operational risk

Table 12

Operational risk

Qualitative disclosures	(a)	In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the bank qualifies.
	(b)	Description of the AMA, if used by the bank, including a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.
	(c) *	For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.

5. **Equities**

Table 13

Equities: disclosures for banking book positions

Qualitative Disclosures	(a)	The general qualitative disclosure requirement (paragraph 824) with respect to equity risk, including: <ul style="list-style-type: none"> • differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons; and • discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.
Quantitative Disclosures*	(b)	Value disclosed in the balance sheet of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.
	(c)	The types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> • Publicly traded; and • Privately held.
	(d)	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.
	(e)	<ul style="list-style-type: none"> • Total unrealised gains (losses)²²⁹ • Total latent revaluation gains (losses)²³⁰ • any amounts of the above included in Tier 1 and/or Tier 2 capital.
	(f)	Capital requirements broken down by appropriate equity groupings, consistent with the bank's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements.

6. **Interest rate risk in the banking book**

Table 14

Interest rate risk in the banking book (IRRBB)

Qualitative disclosures	(a)	The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of IRRBB measurement.
Quantitative disclosures	(b)	The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

²²⁹ Unrealised gains (losses) recognised in the balance sheet but not through the profit and loss account.

²³⁰ Unrealised gains (losses) not recognised either in the balance sheet or through the profit and loss account.