



CENTRAL BANK OF SEYCHELLES

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Ref: FSD/BASELII

Date: January 26, 2024

To all Banks

Capital adequacy requirements

Please be advised that the Central Bank of Seychelles (CBS) has issued revised requirements relating to capital adequacy, which was gazetted on December 29, 2023.

Accordingly, note that the Financial Institutions (Capital Adequacy) (Amendment) Regulations, 2023 is accessible on the CBS website on the following link [https://www.cbs.sc/Downloads/legislations/Financial%20Institutions%20\(Capital%20Adequacy\)%20\(Amendment\)%20Regulations%202023.pdf](https://www.cbs.sc/Downloads/legislations/Financial%20Institutions%20(Capital%20Adequacy)%20(Amendment)%20Regulations%202023.pdf). We anticipate that a consolidated version of these regulations will be made available on the CBS website by February 15, 2024.

Additionally, we are introducing new Capital Adequacy Ratio (CAR) returns and guidelines as enclosed. These will be used for reporting purposes as from 2024. Hence, the reporting of CAR as from the period January 1, 2024 to January 31, 2024, should adhere to the revised requirements and should utilise the new CAR returns and guidelines.

For any enquiries or clarifications, do not hesitate to contact the Financial Regulation Section on 4282118 or email financialregulation@cbs.sc.

This circular replaces and supersedes the circular dated September 30, 2020 relating to capital adequacy requirements.

CBS trusts in your co-operation for adherence to this circular.

Yours faithfully,

Jenifer Sullivan

26/01/2024 | 14:55 MUT

J. Sullivan (Ms)

Second Deputy Governor

Enclosure: CAR Returns, Guidelines for capital adequacy ratios

CENTRAL BANK OF SEYCHELLES	
CAR RETURN	
Bank Name:	
For Period Ending:	(YYYY-MM-DD)
Return Type:	Original

- 1) Enter data in yellow cells only. Other cells are locked.
- 2) Enter whole numbers only, no decimals. All amounts in thousands (x000).
- 3) Enter FX conversion rates below as required by CBS for each currency listed.

Version	Date
1	Sep-20
2	Jan-24

Risk Weight	Amount
<i>On-balance Sheet Risk Weighted Assets 0%</i>	0
<i>On-balance Sheet Risk Weighted Assets 20%</i>	0
<i>On-balance Sheet Risk Weighted Assets 35%</i>	0
<i>On-balance Sheet Risk Weighted Assets 50%</i>	0
<i>On-balance Sheet Risk Weighted Assets 75%</i>	0
<i>On-balance Sheet Risk Weighted Assets 100%</i>	0
<i>On-balance Sheet Risk Weighted Assets 150%</i>	0
Total On-balance Sheet Risk Weighted Assets	0
Total Off-balance Sheet Weighted Assets	0
Total risk-weighted assets for credit risk	0
Risk weighted assets for operational risk	0
Risk weighted assets for foreign currency risk	0
Total risk weighted assets	0
Capital Base	0
Capital Adequacy Ratio	
Core Capital Ratio	

Constituents of Capital	Amount
Paid-up ordinary shares/ Assigned Capital	
Paid-up non-cumulative preference shares	
Share premium	
Statutory Reserve Fund	
Retained Profits/accumulated losses	
Current unadjusted/unaudited profit/loss	
Minority Interest (consistent with the above capital constituents)	
Sub-total	0
Deduct: Goodwill	0
TOTAL TIER 1 CAPITAL (*1)	0
Year-to-date net profit after tax	
Hybrid Capital Instruments	0
Eligible Subordinated term debt	0
General Provisions (eligible for inclusion)	
TOTAL TIER 2 CAPITAL (not to exceed 100% of Tier 1 capital) (*2)	0
TOTAL CAPITAL (*1+*2)	0
Deduction: Investment in unconsolidated subsidiaries	0
Deduction: Holdings in Other Banking Institutions' Capital	0
Deduction: Connected lending of a capital nature	0
CAPITAL BASE	0

STANDARDISED APPROACH TO CREDIT RISK - ON BALANCE SHEET EXPOSURES

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
1.0	Cash	0	0		0
1.1	Cash (domestic currency)			0	0
1.2	Cash (foreign currency)			0	0
1.3	Claims collateralised by cash deposits			0	0
1.4	Cash items in the course of collection			20	0
2.0	Claims on Sovereigns	0	0		0
2.1	Claims on or guaranteed by Government of Seychelles and CBS (domestic currency)				
2.1.1	Statutory Reserve with CBS			0	0
2.1.2	Other Balances with CBS			0	0
2.1.3	Holdings of securities denominated in domestic currency issued by the Government of Seychelles and CBS including treasury bills, treasury bonds and Government stock. Holdings of securities denominated in domestic currency guaranteed by the Government of Seychelles			0	0
2.1.4	Other claims on Government of Seychelles			0	0
2.1.5	Claims guaranteed by Government of Seychelles			0	0
2.2	Claims on Government of Seychelles and CBS (Foreign Currency)				
2.2.1	MRR denominated in foreign currency			0	0
2.2.2	Seychelles and CBS denominated in and funded in foreign currency				
2.2.2.1	Risk Weight 0%	0		0	0
2.2.2.2	Risk Weight 20%	0		20	0
2.2.2.3	Risk Weight 50%	0		50	0
2.2.2.4	Risk Weight 100%			100	0
2.2.2.5	Unrated 100%	0		100	0
2.2.2.6	Risk Weight 150%	0		150	0
2.3	Claims on other Sovereigns				

2.3.1	Risk Weight 0%	0	0	0	0
2.3.2	Risk Weight 20%	0	0	20	0
2.3.3	Risk Weight 50%	0	0	50	0
2.3.4	Risk Weight 100%	0	0	100	0
2.3.5	Unrated 100%	0	0	100	0
2.3.6	Risk Weight 150%	0	0	150	0
3.0	Claims on international organisations	0	0		0
3.1	Claims on eligible Multilateral Development Banks (MDBs)	0	0	0	0
3.2	Claims on the Bank for International Settlements, International Monetary Fund and European Central Bank	0	0	0	0
3.3	Claims on other MDB's				
3.3.1	Risk Weight 20%	0	0	20	0
3.3.2	Risk Weight 50%	0	0	50	0
3.3.3	Unrated 50%	0	0	50	0
3.3.4	Risk Weight 100%	0	0	100	0
3.3.5	Risk Weight 150%	0	0	150	0
4.0	Claims on Public Enterprises	0	0		0
4.1	Claims on Public Enterprises established in Seychelles by individual statute and having revenue raising powers funded and denominated in domestic currency	0		20	0
4.2	Claims on other Public Enterprises established in Seychelles funded and denominated in domestic currency			100	0
4.3	Claims on Public Enterprises denominated in foreign currency				
4.3.1	Risk Weight 20%	0		20	0
4.3.2	Risk Weight 50%	0		50	0
4.3.3	Risk Weight 100%			100	0
4.3.4	Unrated 100%			100	0
4.3.5	Risk Weight 150%	0		150	0

STANDARDISED APPROACH TO CREDIT RISK - ON BALANCE SHEET EXPOSURES

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
5.0	Claims on banks and credit union	0	0		0
5.1	Claims on banks and credit union (Domestic currency)			20	0
5.2	Claims on banks and credit union (Foreign currency)				0
5.2.1	Maturity less than 3 months				0
5.2.1.1	Risk Weight 20%			20	0
5.2.1.2	Unrated 20%			20	0
5.2.1.3	Risk Weight 50%			50	0
5.2.1.4	Risk Weight 150%			150	0
5.2.2	Maturity more than 3 months				0
5.2.2.1	Risk Weight 20%			20	0
5.2.2.2	Risk Weight 50%			50	0
5.2.2.3	Unrated 50%			50	0
5.2.2.4	Risk Weight 100%		0	100	0
5.2.2.5	Risk Weight 150%			150	0
6.0	Claims on corporates		0	100	0
7.0	Retail exposures	0	0		0
7.1	Claims in regulatory retail portfolio			75	0
7.2	Claims falling outside the regulatory retail portfolio			100	0
8.0	Claims secured by residential property	0	0		0
8.1	Claims secured by residential property that meet the prescribed criteria			35	0
8.2	Other claims secured by residential property			50	0
9.0	Commercial real estate			100	0

STANDARDISED APPROACH TO CREDIT RISK - ON BALANCE SHEET EXPOSURES

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
11.0	Claims on securities firms	0	0		0
11.1	Claims funded and denominated in domestic currency on securities firms that are subject to supervisory and regulatory arrangements comparable to that applicable to banks	0	0	20	0
11.2	Claims denominated in foreign currency on securities firms that are subject to supervisory and regulatory arrangements comparable to that applicable to banks	0	0		
11.3	Risk Weight 20%	0	0	20	0
11.4	Risk Weight 50%	0	0	50	0
11.5	Unrated 50%	0	0	50	0
11.6	Risk Weight 100%	0	0	100	0
11.7	Risk Weight 150%	0	0	150	0
11.8	Claims on other securities firms	0	0	100	0
12.0	Past due exposures	0	0		0
12.1	Secured				
12.2	Risk Weight 0%	0		0	0
12.3	Risk Weight 20%			20	0
12.4	Risk Weight 50%	0	0	50	0
12.5	Risk Weight 100%	0	0	100	0
12.6	Risk Weight 150%	0		150	0
12.7	Unsecured				
12.8	Specific Provisions >20%			100	0
12.9	Specific Provisions <20%			150	0
12.1	Residential mortgage	0		100	0
13.0	Other balance sheet exposures	0	0		0
13.1	Tangible fixed asset			100	0
13.2	High risk asset			150	0
13.3	Other Assets (not mentioned elsewhere)			100	0

[illegible]

BASIC INDICATOR APPROACH TO OPERATIONAL RISK	
Gross Income	Amount
Year 1	
Year 2	
Year 3	
Total of Positive Gross Income	0
Number of Years with Positive Gross Income	0
Average of Positive Gross Income for last 3 years	0
BASIC INDICATOR APPROACH REQUIREMENT	
Capital Charge	0
RWA Equivalent	0

Currency	Total Foreign Currency Assets (Original)	Total Foreign Currency Assets (SR '000)	Total Foreign Currency Liabilities (Original)	Total Foreign Currency Liabilities (SR '000)	On-balance sheet Long/short position (SR '000)	Off-Balance Sheet Items (net) (Original)	Off-Balance Sheet Items (net) (SR '000)	Long/short position (SR '000)
USD		0		0	0		0	0
GBP		0		0	0		0	0
EUR		0		0	0		0	0
CHF		0		0	0		0	0
MUR		0		0	0		0	0
SGD		0		0	0		0	0
INR		0		0	0		0	0
ZAR		0		0	0		0	0
JPY		0		0	0		0	0
AUD		0		0	0		0	0
CAD		0		0	0		0	0
Others (SCR equivalent)		0		0	0		0	0
Balancing item								0
Aggregate of the higher of Long/Short position								0
Capital Requirement								0
Risk Weighted Asset Equivalent								0

Return Type

Original

Amended

GUIDELINES
FOR CAPITAL ADEQUACY RATIOS



Central Bank of Seychelles
Financial Surveillance Division

Version	Date
1.0	September 2020
2.0	January 2024

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1.0 Overview

1.1 Introduction and scope

The guidance notes provide banks with a uniform approach to complete the Capital Adequacy Ratio (CAR) return. The latter supersedes the risk-weighted capital ratio (RWCR) return which banks have been compiling. Banks now have to calculate the capital requirement for credit risk as per the standardised approach under Basel II (previously under Basel I). Moreover, banks also have to include a capital charge for market risk (referring to foreign currency risk) in line with the standardised measurement method and continue to include the capital charge for operational risk in line with the Basic Indicator Approach.

All banks are required to complete this return which will enable the Central Bank of Seychelles (CBS) to monitor their capital ratios on a monthly basis. The return enables the calculation of a bank's capital adequacy ratio and core capital ratio through the calculation of the bank's capital base and the risk weighting of on-balance sheet assets and off-balance sheet items.

To note that the definition of capital remains the same, at present.

1.2 Minimum capital ratios

Capital Adequacy Ratio: Capital Adequacy Ratio is equal to capital base divided by risk-weighted assets, expressed in percent: $(\text{capital base} / \text{risk-weighted assets}) \times 100$. Banks' capital adequacy ratio must meet or exceed 12%.

Core Capital Ratio: Core Capital Ratio is equal to tier 1 capital divided by risk-weighted assets, expressed in percent: $(\text{tier 1 capital} / \text{risk-weighted assets}) \times 100$. Banks' core capital ratio must meet or exceed 6%.

2.0 Composition of Capital Base

For the purposes of calculating a bank's capital base, a two-tier system shall be used.

A bank's "core capital", otherwise referred to as Tier 1 capital, should be: fully paid-up and permanently available; freely available and not encumbered to particular assets or banking activities; available to absorb losses occurring in the course of on-going business; and it should represent no fixed charge on the earnings of the institution. Elements that do not meet all of the Tier 1 characteristics but which contribute to the underlying strength of a bank may be included in the Tier 2 capital otherwise referred to as "supplementary capital". The total amount of supplementary capital eligible for inclusion shall not exceed the amount of core capital.

2.1 Definition of Tier 1 capital

Tier 1 capital is equal to the sum of (i) to (vi) minus (vii):

- (i) Unimpaired paid-up ordinary share capital; or assigned capital in the case of a foreign bank
- (ii) Unimpaired paid-up non-cumulative perpetual preference shares - these constitute non-redeemable preference shares where the obligation to pay dividend can be reduced or waived permanently in the event that the profitability of the bank would not support payment or full payment;
- (iii) Share premium - the excess of issue price over the par value of the above ordinary shares or non-cumulative perpetual preference shares
- (iv) Statutory reserve fund in accordance with section 24 of the Financial Institutions Act, 2004, as amended (FIA)
- (v) Retained profits brought forward from the previous financial year as in the last audited accounts less any accumulated losses;
- (vi) Current unaudited losses i.e. any unadjusted net loss incurred since the closing date of the last audited accounts, entered as a negative figure;
- (vii) Goodwill

2.2 Definition of Tier 2 capital

The following shall qualify as Tier 2 capital:

- (i) Year-to-date net profit after tax
- (ii) Hybrid (debt/equity) capital instruments
- (iii) Subordinated term debt that has been deemed satisfactory by CBS; provided that, the total amount of subordinated term debt eligible for inclusion in tier 2 capital shall be limited to a maximum of 50% of the amount of tier 1 capital, be unsecured, have a maturity of no less than five years and during the last five years to maturity, the amount counted as capital will be reduced each year by 20% of the original maturity; and
- (iv) General provisions and/or general loan loss reserves; provided that, the amount shall not exceed 1.25% of the total amount of risk-weighted assets.

2.3 Deductions from capital base

For the purpose of calculating a bank's capital base, the following deductions shall be made:

- (a) Investments in unconsolidated subsidiaries;
- (b) Holdings of other financial institutions' capital instruments (e.g. shares, hybrid capital instruments, subordinated term debt in order to avoid "double leveraging"); and
- (c) Connected lending of a capital nature

3.0 Treatment of on-balance sheet and off-balance sheet exposures

This section sets out the methodology to be used by banks to measure their risks relating to on- and off-balance sheet credit exposures, under the Standardised Approach to Credit Risk.

3.1 Treatment of on-balance sheet assets

Banks are required to provide a breakdown of the assets held on their balance sheet and apply risk weights to them in accordance with the categorisations provided. The risk weights take into account the perceived level of risk associated with each type of asset.

The amount of each on-balance sheet asset shall be reported net of specific provisions and interest-in-suspense.

Banks shall apply credit risk mitigation (CRM) to an on-balance sheet asset where applicable as per Table 6.

The on-balance sheet assets after taking into account CRM where applicable, shall be assigned to the appropriate risk weights in Table 1.

All assets shall be assigned except for those assets which are required to be deducted from capital as per section 2.0 of this Guidelines.

Where the ratings of External Credit Assessment Institutions and scores of Export Credit Agencies are to be used to determine the risk weights as per Table 1, the scores of Export Credit Agencies are only to be used if ratings of External Credit Assessment Institutions are not available. Additionally, banks will need to obtain CBS' approval for use of ratings of External Credit Assessment Institutions that are not included in the Capital Adequacy Regulations.

The risk weights in relation to the ratings of External Credit Assessment Institutions are set out in Table 2 to Table 5.

3.1.1 Definitions and clarifications - on-balance sheet (CAR 2(i) – 2(iii))

1. *Amount*: is the amount for on balance sheet assets net of specific provisions and interest in suspense.
2. *Amount after CRM*: the net balance of the exposure amounts after deducting CRM. The latter refers to techniques banks may use to reduce the credit risk of their exposures. The types of CRM techniques that are recognised for this purpose are collateral and guarantees. In order to be recognised, a CRM technique should satisfy the relevant operational requirements and conditions set out in Table 6.

3. *Risk weight*: the applicable risk weights for the respective exposures are provided under this column, as illustrated in Table 1.
4. *Risk-Weighted Amount*: the *Amount after CRM* shall be multiplied by the applicable risk weight to obtain the risk-weighted amounts.

Table 1: Risk weight categories on-balance sheet exposures

	Description of item	Risk Weight	Guidance
1.0	Cash and similar items		
1.1	Cash (in domestic currency)	0%	
1.2	Cash (in foreign currency)	0%	
1.3	Claims collateralised by cash deposits	0%	
1.4	Cash items in the course of collection	20%	
2.0	Claims on Sovereigns		
2.1	Claims on or guaranteed by the Government of Seychelles and CBS denominated and funded in domestic currency		
2.1.1	Statutory reserve with CBS	0%	This should include all Minimum Reserve Requirement (MRR) denominated in domestic currency
2.1.2	Other balances with CBS	0%	
2.1.3	Holdings of securities denominated in domestic currency issued by the Government of Seychelles and CBS including treasury bills, treasury bonds and Government stock. Holdings of securities denominated in domestic	0%	

	currency guaranteed by the Government of Seychelles		
2.1.4	Other claims on Government of Seychelles	0%	
2.1.5	Claims guaranteed by Government of Seychelles	0%	The respective guaranteed proportion of credits granted under CBS' COVID-19 relief schemes are to be reported under this category. The guaranteed proportion are 70% and 50% of the total amount of the advances for the MSMEs and Large enterprises, respectively.
2.2	Claims on Government of Seychelles and CBS (in foreign Currency)		
2.2.1	MRR denominated in foreign currency	0%	
2.2.2	Claims on and guaranteed by Government of Seychelles and CBS denominated in and funded in foreign currency	0% to 150%	The risk weight is determined by the external credit rating of the jurisdiction in accordance with Table 2
2.3	Claims on other sovereigns	Recognise the lower risk weighting of foreign supervisory authority, if applicable 0% to 150%	The risk weight is determined by the external credit rating of the jurisdiction in accordance with Table 2. Notwithstanding this, where a regulator permits banks in its jurisdiction to allocate a lower risk to claims on that jurisdiction's sovereign denominated in the domestic currency of that jurisdiction and funded in that currency, the same, lower risk weight may be allocated to such claims,

			subject to the prior written approval of CBS.
3.0	Claims on international organisations		
3.1	Claims on eligible Multilateral Development Banks (MDBs)	0%	MDBs listed and that meet the criteria in Annex 1
3.2	Claims on the Bank for International Settlements, International Monetary Fund and European Central Bank	0%	
3.3	Claims on other MDBs	20% to 150%	The risk weight is determined by the external credit rating of the MDB in accordance with Table 3.
4.0	Claims on Public Enterprises		Public Enterprises are the entities listed under the Public Enterprises Act, 2023. For capital adequacy purposes, banks that are also Public Enterprises should be treated as banks.
4.1	Claims on Public Enterprises established in Seychelles by individual statute and having revenue raising powers, funded and denominated in domestic currency	20%	
4.2	Claims on Public Enterprises established in Seychelles funded and denominated in domestic currency	100%	

4.3	Claims on Public Enterprises denominated in foreign currency	20% to 150%	The risk weight is determined by the external credit rating of the jurisdiction, in accordance with Table 4. For example, since Seychelles has a Fitch rating of BB- as at September 2023 the applicable risk weight for claims on domestic Public Enterprises denominated in foreign currency is 100%. If the country rating changes, then the risk weight should be changed accordingly.
5.0	Claims on banks and credit unions		
5.1	Claims on banks and credit unions funded and denominated in domestic currency	20%	
5.2	Claims on banks and credit unions denominated in foreign currency	20% to 150%	There are 2 options for claims on banks. CBS has chosen option 2 whereby the risk weight is determined by the external credit rating of the bank or credit union in accordance with Table 5. For a branch, the rating of the parent bank should be applied. For a subsidiary, the rating of the bank operating in Seychelles should be used. No unrated bank or unrated credit union should receive a better rating than its sovereign of incorporation.
6.0	Claims on corporates	100%	
7.0	Retail exposures		

7.1	Claims in the regulatory retail portfolios	75%	Claims in regulatory retail portfolio, shall be claims that meet the following criteria: • Orientation criterion- the exposure is to an individual person or persons; • Product criterion- the exposure takes the form of any of the following: revolving credits and lines of credit, personal term loans and leases. Mortgage loans are excluded to the extent that they qualify for treatment as claims secured by residential property; • Low value of individual exposures criterion- the maximum aggregated retail exposure to one counterparty shall not exceed an absolute threshold of SCR750,000.
7.2	Claims falling outside the regulatory retail portfolio	100%	Claims other than those qualifying as regulatory retail.
8.0	Claims secured by residential property		
8.1	Claims secured by residential property that meet all the prescribed criteria	35%	The criteria that need to be met to qualify for the risk weight are: • Lending is fully secured by mortgages on residential property; • Residential property is occupied by the borrower or rented from the borrower; • The residential property shall be valued according to strict valuation rules as specified in Annex 2;

			The bank shall be satisfied that the risk of the borrower is not solely dependent on the performance of the underlying property serving as collateral but rather the capacity of the borrower to repay the debt from other sources.
8.2	Other claims secured by residential property	50%	Other claims secured by residential property
9.0	Claims secured by commercial real estate	100%	
10.0	Claims on securities firms¹		
10.1	Claims funded and denominated in domestic currency on securities firms that are subject to supervisory and regulatory arrangements comparable to that applicable to banks.	20%	
10.2	Claims denominated in foreign currency on securities firms that are subject to supervisory and regulatory arrangements comparable to that applicable to banks.	20% to 150%	Treated as 'claims on banks and credit unions' and to be risk-weighted in accordance with Table 5. No claim on an unrated securities firm subject to supervisory and regulatory arrangements comparable to that applicable to banks, may receive a risk weight lower than that applied to claims on its sovereign of incorporation.

¹ A securities firm is an institution that engages in some or all of the activities of brokers, dealers, market makers and traders.

10.3	Claims on securities firms that are not subject to supervisory and regulatory arrangements comparable to that applicable to banks.	100%	Treated as claims on corporates.
11.0	Past-due loans		
11.1	The secured portion of a past due loan	0 to 150%	The risk weight is determined in accordance with the risk weight attributed to the eligible credit risk mitigant (see Table 6).
11.2	Unsecured portion of loan	100% to 150%	The unsecured portion of a loan that is past due for more than 90 days, net of specific provisions will be risk-weighted as follows: • 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan, except for qualifying residential mortgages • 100% risk weight when specific provisions are no less than 20% of the outstanding amount of the loan, except for qualifying residential mortgages.
11.3	Qualifying residential mortgage	100%	A residential mortgage that is past due for more than 90 days net of specific provisions. Qualifying residential mortgages are claims secured by mortgages on residential property that meet prescribed criteria and risk-weighted at 35%.

12.0	Other balance sheet exposures		
12.1	Tangible fixed assets	100%	
12.2	High risk assets	150%	A 150% risk weight is to be applied to reflect the higher risks associated with some other assets, such as venture capital and private equity investments.
12.3	Other Assets	100%	The risk weight for all other assets not mentioned in the other categories will be 100%.

Table 2: Risk weights for claims on sovereigns in currency other than their local currency

Credit assessment of S&P/Fitch Ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit Assessment of Moody's Investor's Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Consensus risk scores of ECAs (Arrangement of Officially Supported Exports Credits)	0-1	2	3	4-6	7	
Risk weights	0%	20%	50%	100%	150%	100%

Table 3: Risk weights for claims on other MDBs

Credit assessment of S&P/Fitch Ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit assessment of Moody's Investor Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Risk weights	20%	50%	50%	100%	150%	50%

Table 4: Risk weights for foreign currency denominated exposures to Public Enterprises

Credit assessment of S&P/Fitch Ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit assessment of Moody's Investor Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Risk weights	20%	50%	100%	100%	150%	100%

Table 5: Risk weights for foreign currency denominated exposures to banks, credit unions and securities firms subject to the same regulatory and supervisory arrangements as banks

Credit assessment of S&P/Fitch Ratings	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Credit assessment of Moody's Investor Service	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Below B3	Unrated
Risk weights	20%	50%	50%	100%	150%	50%
Risk weights for short-term claims ²	20%	20%	20%	50%	150%	20%

² Short-term claims are defined as having an original maturity of three months or less. Claims with (contractual) original maturity under 3 months which are expected to be rolled over (i.e. where the effective maturity is longer than 3 months) do not qualify for this preferential treatment for capital adequacy purposes.

3.2 CRM

The CRM techniques relevant are collaterals (the simple approach) and guarantees. Table 6 elaborates on CRM.

Table 6: CRM requirements

1	General requirements	1.1 No transaction in which CRM techniques are used should receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.
2	Minimum requirements relating to legal certainty for recognition of CRM techniques - Banks shall meet the following minimum standards for legal documentation to qualify for capital relief for any use of credit risk mitigation techniques	2.1 All documentation relating to CRM must be binding on all parties and legally enforceable in all relevant jurisdictions; and 2.2 Banks shall conduct sufficient legal reviews to verify and ensure that all documentation used in collateralised transactions and for documenting guarantees are binding on all relevant parties and legally enforceable in all jurisdictions and shall ensure that they have a well-founded legal basis to reach this conclusion and undertake such further review as necessary to ensure continuing enforceability.
3	Guarantees	3.1 A guarantee is an undertaking by a third party (the guarantor) to meet obligations in the event of the default of the party primarily (the bank's obligor) responsible for those obligations. 3.2 The amount of the bank's exposure, on a risk-weighted basis, may be reduced if the guarantor's credit quality is higher than that of the obligation being guaranteed.
4	Requirements for recognition of guarantor	4.1 The credit protection shall represent a direct claim on the guarantor and shall be explicitly referenced to exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible.

		4.2 The credit protection contract shall be irrevocable, that is, shall not contain any clause that may allow the guarantor to unilaterally cancel the protection.
		4.3 The credit protection contract shall not contain any clause, fulfilment of which is outside the direct control of the lending bank, which may have one of the following effects: i. increase the effective cost of the protection as a result of deteriorating credit quality of the protected exposure; ii. prevent the guarantor from being obliged to pay out in a timely manner in the event the original borrower fails to make any payments due (unconditional).
		4.4 In the event of default of the counterparty, the bank shall have the right to recoup, in a timely manner any claim due under the guarantee. The lending bank shall have the right to receive any such payment from the guarantor without first having to take legal actions in order to pursue the guarantor for payment.
		4.5 The guarantee shall cover all payments the borrower is required to make in respect of the claim. Where certain types of payments are excluded from the guarantee, the recognised value of the guarantee shall be adjusted to reflect the limited coverage
		4.6 The guarantee shall be an explicitly documented obligation assumed by the guarantor.
5	Eligible guarantors	5.1 Sovereign entities, MDBs, Public Enterprises, banks and securities firms with a lower risk weight than the counterparty.
		5.2 Other entities rated A- or better. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.
6	Treatment of guarantees	6.1 The portion of the claim that is supported by the eligible guarantee, shall be weighted according to the risk weight of the guarantor (unless the risk weight of the original counterparty is lower). The unsecured portion of the claim shall be weighted according to the risk weight applicable to the original counterparty.
7	Collaterals	7.1 A collateralised transaction is one in which banks have a credit exposure or potential credit exposure; and that credit exposure or potential credit exposure is covered in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty.

		7.2 Where banks take eligible collateral, they are allowed to reduce their credit exposure to a counterparty when calculating their capital requirements to take account of the risk mitigating effect of the collateral.
8	Requirements for recognition of collateral	8.1 The collateral shall be pledged for the life of the exposure and it shall be marked to market and revalued with a minimum frequency of 6 months. Local debt securities are to be exempted from the marked to market requirement and the revaluation at the minimum frequency of 6 months.
		8.2 The credit quality of the counterparty and the value of the collateral shall not have a material positive correlation.
		8.3 The legal mechanism by which collateral is pledged or transferred shall ensure that the bank has the right to liquidate or take legal possession of the collateral, in a timely manner, in the event of the default, insolvency or bankruptcy of the counterparty (or defined credit events set out in the transaction documentation).
		8.4 Banks shall have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.
		8.5 Where the collateral is held by a custodian, the bank shall take reasonable steps to ensure that the custodian segregates the collateral from its own assets.
9	Eligible collateral	9.1 Cash on deposit with the bank which is incurring the counterparty exposure.
		9.2 Debt securities issued and guaranteed by the Government of Seychelles and CBS

		9.3 Debt securities rated by a recognised external credit assessment institution where these are either: i. at least BB- when issued by sovereigns or Public Sector Entities that are treated as sovereigns by the national supervisor; or ii. at least BBB- when issued by other entities (including banks and securities firms); or 9.4 Debt securities not rated by a recognised External Credit Assessment Institution where these are: i. issued by a bank; ii. listed on a recognised exchange; iii. classified as senior debt; iv. all rated issues of the same seniority by the issuing bank must be rated at least BBB- by a recognised External Credit Assessment Institution; v. the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB- and; vi. the supervisor is sufficiently confident about the market liquidity of the debt securities.
10.	Treatment of collateral	10.1 The portion of claims collateralised by the market value of eligible collateral shall receive the risk weight attributable to the collateral, subject to a floor of 20% except under certain conditions. The remainder of the claim shall be assigned the risk weight appropriate to the counterparty. 10.2 For the exception to the 20% floor, risk weight of 0% may be assigned to collateralised transactions where the exposure and the collateral are denominated and funded in the same currency, and either: i. the collateral is cash on deposit; or ii. the collateral is in the form of sovereign securities and central bank's securities eligible for a risk weight of 0% and the market value of the collateral has been discounted by 20%.
11.	Treatment of pools of CRM techniques	11.1 Where a bank has multiple CRM techniques covering a single exposure, (e.g. a bank has both collateral and guarantee partially covering an exposure), the bank shall be required to subdivide the exposure into portions covered by each type of credit risk mitigation technique (e.g. portion covered by collateral, portion covered by guarantee) and the risk-weighted assets of each portion shall be calculated separately.

3.3 Treatment of off-balance sheet items

The Basel Committee framework takes account of the credit risk of off-balance sheet exposures. Banks shall assign their off-balance sheet risks to one of the credit conversion categories in Table 7.

The amount of each off-balance sheet risk is multiplied by the credit conversion factor for the category to which it was assigned.

Banks shall apply credit risk mitigation to the resulting credit equivalent where applicable as per Table 6.

The resulting credit equivalents, after taking into account credit mitigation where applicable, shall be assigned to the appropriate risk weight as per Table 1.

The appropriate risk weight for instruments under Table 1, are determined by reference to the risk weight allocated to the counterparty of the exposure, with the exception of the following:

- a) Sale and repurchase agreements
- b) Asset sales with recourse
- c) Forward asset purchases
- d) Forward deposits placed
- e) The unpaid part of partly paid-up shares and securities

The risk weights for instruments (a) to (e) are to be determined by reference to the risk weights of the underlying assets.

3.3.1 Definitions and clarifications – off-balance sheet items (CAR 3)

i) General guidance - off-balance sheet items

1. *Amount*: is the amount of the off-balance sheet exposure.
2. *Credit Conversion Factors*: credit conversion factors have been provided for off-balance sheet exposures in Table 7.
3. *Credit Equivalent Amount (CEA)*: this is derived by multiplying the amount of exposure by the credit conversion factors.

4. *Risk-weighted Amount*: this amount is derived by multiplying the credit equivalent amounts (adjusted for CRM) by the applicable risk weights.

Table 7: Credit conversion factors for off-balance sheet items

Item	Instruments	Credit Conversion Factor
1	Direct credit substitutes, including general guarantees of indebtedness, standby letters of credit serving as financial guarantees, acceptances and endorsements	100%
2	Transaction-related contingent items not having the character of direct credit substitutes (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)	50%
3	Short-term self-liquidating trade related contingent items (e.g. documentary credits collateralised by the underlying shipments).	20%
4	Sale and repurchase agreements and assets sales with recourse where the credit risk remains with the bank	100%
5	Forward asset purchases	100%
6	Partly paid-up shares and securities	100%
7	Forward deposits placed	100%
8	Note issuance facilities and revolving underwriting facilities to be applied to the total amount of the institution's underwriting obligations of any maturity. Where the facility has been drawn down by the borrower and the notes are held by anyone other than the reporting institution, its underwriting obligations shall continue to be reported as the full nominal amount. (Own holdings of notes underwritten are, however, deducted from the overall value of the commitment, because they are weighted as an on-balance sheet item)	50%
9a	Commitments with an original maturity of up to 1 year	20%

9b	Other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over 1 year	50%
9c	Uncommitted and cancellable credit lines. Commitments that are unconditionally cancellable by the bank without any prior notice and that provide for automatic cancellation due to deterioration of the borrower's creditworthiness	0%

ii) Terms and definition

a) Direct Credit Substitutes

Direct credit substitutes are any irrevocable off-balance sheet obligations which carry the same credit risk as a direct extension of credit, that is the risk of loss depends on the creditworthiness of the counterparty. These include instruments such as:

- acceptances and endorsements;
- guarantees given on behalf of customers to stand behind the current financial obligations of a customer and to carry out these obligations should the customer fail to do so e.g. a loan guarantee;
- letters of credit issued by the bank without provision for it to retain title to the underlying shipment where the title has passed from the bank;
- letters of credit confirmed by the bank;
- Standby letters of credit serving as financial guarantees.

b) Transaction-related contingencies

These are contingent liabilities which involve an irrevocable obligation on the bank to pay a third-party beneficiary when a customer fails to perform some contractual non-financial obligation, that is, where the risk of loss to the bank depends on the likelihood of a future event which is independent of the creditworthiness of the counterparty. They are essentially guarantees which support particular obligations rather than supporting customers' general financial obligations and include:

- performance bonds, warranties and indemnities;
- bid or tender bonds
- advance payment guarantees;
- customs and excise bonds;
- Standby letters of credit related to particular contracts or non-financial transactions.

c) Short-term self-liquidating trade related contingent items

These relate to self-liquidating trade-related obligations such as documentary letters of credit issued by the bank which are, or are to be, collateralised by underlying shipments,

that is, where the credit provides for the bank to retain title to the underlying shipment, and shipping guarantees issued by the bank.

Letters of credit issued by a bank on behalf of a counterparty back-to-back with letters of credit of which the counterparty is a beneficiary ("back-to-back" letters) should be reported in full. Letters of credit advised by a bank or for which the bank is acting as reimbursement agent may not be reported.

d) Sales and repurchase agreement and asset sales with recourse

A repurchase agreement is a transaction that involves the sale of a security or other asset with the simultaneous commitment by the seller that, after a stated period of time, the seller will repurchase the asset from the original buyer at a pre-determined price.

A reverse repurchase agreement consists of the purchase of a security or other asset with the simultaneous commitment by the buyer that, after a stated period of time, the buyer will resell the asset to the original seller at a pre-determined price.

In any circumstance where they are not reported on-balance sheet, they should be reported as an off-balance sheet exposure.

e) Forward asset purchases

These are commitments to purchase a loan, security or other asset at a specified future date on pre-arranged terms.

f) Partly-paid shares and securities

Where only part of the issue price or nominal face value of a security purchased has been paid and the issuer may call for the outstanding balance (or a further instalment) either on a date predetermined at the time of issue or at an unspecified future date, the unpaid part should be reported.

If it is not known whether and when such call may be made, the unpaid part may be treated as "long-term commitment and reported under "other commitments with an original maturity of over 1 year" with a credit conversion factor of 50%.

g) Forward deposits placed

An agreement between two parties whereby one will pay and the other receive an agreed rate of interest on a deposit to be placed by one party with the other at some predetermined date in the future. The bank which has contracted to place the deposit is fully exposed to the credit risk of the counterparty and the weight should be determined according to the counterparty with whom the deposit will be placed.

For the bank which has contracted to receive the deposit, failure to deliver by the counterparty will result in an unanticipated change in its interest rate exposure and may involve a replacement cost. Its exposure should therefore be accorded the same treatment as interest rate related contracts.

h) Note Issuance Facilities (NIFs) and Revolving Underwriting Facilities (RUFs)

These are arrangements whereby a borrower may draw down funds up to a prescribed limit over an extended period by repeated issues to the market of, for example, three or six-month promissory note. As there is not yet an established market for this type of transaction in the Seychelles, CBS is not providing further reporting guidance at the present time.

i) Other commitments

The reporting bank is regarded as having a commitment from the date the customer is advised of the facility (i.e. the date of the letter advising the customer) regardless of whether the commitment is revocable or irrevocable, conditional or unconditional, and in particular whether or not the facility contains a "material adverse change" clause. This includes the undrawn portion of any binding arrangement which obligate a bank to provide funds at some future date. Other commitments should be classified as to whether:

- I. They have an original maturity of less than 1 year or
- II. They have an original maturity of over 1 year or
- III. They can be unconditionally cancelled at any time.

Rolling or undated/open-ended commitments e.g. overdrafts or unused credit card lines, should be included under (III) providing that they are unconditionally cancellable at any time without notice - other than where the only reason for cancellation is "force majeure" - and subject to credit review at least annually. Other rolling or undated commitments should be reported under (II).

3.3.2 Measurement of the maturity of a commitment

The maturity of a commitment should be measured in accordance with the following:

- (a) As from the date when the commitment was entered into, that is, based on original maturity, until the final date by which it must be drawn down in full.
- (b) In the case where the commitment has been renegotiated, the maturity should be measured as from the date of the renegotiation until the end of the period of the renegotiated commitment providing the renegotiation involves a full credit assessment of the customer, and the lender's right, without notice, to withdraw the

commitment. Where these conditions are not met, the original starting date of the commitment must be used to determine its maturity rather than the date of the renegotiation.

- (c) a commitment to provide a loan (or purchase an asset) which has a maturity of over 1 year but which must be drawn down within a period of up to one year should be treated as having a maturity of up to 1 year so long as the undrawn portion of the facility is automatically cancelled at the end of the draw-down period.
- (d) In the case of a commitment to provide a loan (or purchase an asset) to be drawn down in a number of tranches, some up to 1 year and some over 1 year, the whole commitment should be considered as having a maturity of over 1 year.
- (e) Where a commitment provides for a customer to have a facility limit which varies during the period of the commitment e.g. for seasonal reasons, the amount of the commitment should at all times be taken as the maximum amount that can be drawn under the commitment for the remaining period of the commitment.
- (f) In the case of forward commitments, the original maturity of the commitment is to be measured from the date the commitment is entered into until the final date by which the facility must be drawn in full.
- (g) A distinction is made between a commitment to provide an off-balance sheet facility which may or may not be drawn by the customer, and a commitment to provide an off-balance sheet instrument with certain draw down e.g.
 - a. a commitment of over 1 year to provide a trade related contingent facility at a future date which may or may not be drawn down should be given a credit conversion factor of 50% (the CCF for long term commitments) multiplied by 20% (the CCF for trade-related contingents), that is, an effective CCF of 10%. Similarly, a long-term commitment to provide a guarantee facility shall receive a CCF of 50% multiplied by 100%, that is, an effective CCF of 50%.
 - b. For a commitment to provide a trade-related contingent item where it is certain that the draw-down will occur at some point in the future, a credit conversion factor of 20% should be applied. Similarly, a commitment to issue a guarantee at a particular point in the future should receive a credit conversion factor of 100%.

4.0 Operational risk (CAR 4)

The Basel framework provides three approaches for the calculation of operational risk. Banks in Seychelles are to use the Basic Indicator Approach (BIA), which is the simplest approach.

In order to calculate the risk-weighted assets for operational risk component, the following step should be followed;

- i. Derive the bank's average annual gross income³ for the preceding three years; use only such years with positive gross income, and base the average on that number of years;
- ii. multiply the bank's average annual gross income, computed in step (i), by 15% (this is the capital requirement for operational risk);
- iii. multiply the capital requirement for operational risk in step (ii) by 8.333 (being the reciprocal for the minimum capital ratio of 12%).

5.0 Market risk – foreign currency risk (CAR 5)

Foreign currency risk is the risk that the value of foreign exchange positions may be adversely affected by movements in foreign currency exchange rates.

Below are the steps required to calculate the risk-weighted asset equivalent for market risk (foreign currency risk):

- i. Determine the exposure in each currency. This can be obtained from the FCER1 return that is reported to the Financial Surveillance Division of CBS on a daily basis. The return pertaining to the last day of the month shall be used. This involves subtracting the total liabilities from total assets and adding net off balance-sheet items for each currency;
- ii. determine the higher of the sum of all long positions or short positions;
- iii. multiply the result obtained in step 3 by 12% (this is the capital charge for foreign currency risk).
- iv. multiply the result obtained in step (iii) by 8.333 (being the reciprocal for the minimum capital ratio of 12%).

Banks with negligible business in foreign currencies and with no foreign currency positions taken for their own account may be exempted from capital requirements on these positions if their overall net open position does not exceed 2% of the total capital (Tier 1 and Tier 2).

³ Gross income is total interest income add total non-interest income less interest expense

6.0 Monitoring of the Capital Adequacy Ratios

Banks should maintain adequate systems to monitor compliance with the regulations on capital adequacy issued under section 23 of the FIA. This will ensure that the ratios are monitored effectively so that breaches of the aforementioned regulations are avoided.

Any bank that is at risk of breaching the minimum requirements, should notify the Financial Surveillance Division at the earliest opportunity and advise on the remedial measures being taken. This will allow CBS to monitor the bank closely, but will not preclude the application of penalties where a breach of the Regulations occurs.

7.0 Breaches of the Regulations

Breaches of the Regulations will be treated in accordance with the relevant sections of the FIA. This includes section 13, section 23(5) and remedial actions as per section 53 the Act.

8.0 Annexures

Annex 1: MDBs

A.1 Criteria for eligible MDBs

- very high quality long-term issuer ratings, i.e. a majority of an MDBs external assessments must be AAA;
- shareholder structure is comprised of a significant proportion of sovereigns with long-term issuer credit assessments of AA- or better, or the majority of the MDBs fund-raising are in the form of paid-in equity/capital and there is little or no leverage;
- strong shareholder support demonstrated by the amount of paid-in capital contributed by the shareholders; the amount of further capital the MDBs have the right to call, if required, to repay their liabilities; and continued capital contributions and new pledges from sovereign shareholders;
- adequate level of capital and liquidity (a case-by-case approach is necessary in order to assess whether each MDBs capital and liquidity are adequate); and,
- strict statutory lending requirements and conservative financial policies, which would include among other conditions a structured approval process, internal creditworthiness and risk concentration limits (per country, sector, and individual exposure and credit category), large exposures approval by the board or a committee of the board, fixed repayment schedules, effective monitoring of use of proceeds, status review process, and rigorous assessment of risk and provisioning to loan loss reserve.

A.2 List of institutions considered as MDBs:

- the World Bank Group comprised of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC),
- the Asian Development Bank (ADB),
- the African Development Bank (AfDB),
- the European Bank for Reconstruction and Development (EBRD),
- the Inter-American Development Bank (IADB),
- the European Investment Bank (EIB),
- the European Investment Fund (EIF),
- the Nordic Investment Bank (NIB),
- the Caribbean Development Bank (CDB),
- the Islamic Development Bank (IDB), and
- the Council of Europe Development Bank (CEDB)

Annex 2: Valuation rules in relation to residential properties

- The bank should have appropriate governance arrangements to ensure that valuations are reliable and carried out regularly. In certain circumstances CBS may specify the frequency for carrying out revaluations.
- The valuation should be carried out by a person who possesses the necessary qualifications, ability and experience and who is independent from the credit decision process.
- In circumstances when the valuations are considered not to be reliable, CBS may require the bank to appoint an independent expert to conduct a revaluation. The cost of this engagement will be borne by that bank.
- Notwithstanding the above, CBS may in specific circumstances instruct the bank to do a revaluation.

Annex 3: Illustrations on reporting of CRM techniques

On-balance sheet example 1: partly collateralised loan

- Bank A issues a 5-year foreign currency loan amounting to USD\$2,000,000 (SCR28.299 million⁴) to Bank B, which is also based in Seychelles. Bank B is an

⁴ Reference mid-rate as at January 10, 2024 USD1= SCR14.150

unrated local bank. The loan is partly collateralised by cash to the amount of US\$500,000 (SCR7.075 million).

- The exposure should be reported by Bank A under 5.2 Claims on banks and credit union in foreign currency. More specifically, the rupee equivalent should be reported under “Amount”, line 5.2.2, since it is a 5-year loan. To determine the risk weight to be attributed to a foreign currency loan to another bank, reference should be made to Table 5. Given that Bank B is unrated, it is subject to a risk weight of 50%. However, unrated banks cannot be attributed a risk-weight that is better than the risk weight of the sovereign in which it is incorporated. Therefore, the sovereign risk weight will have to be used. On the basis of a Fitch rating for Seychelles of BB-, as at September 2023, the applicable risk weight would be 100%.
- The loan is collateralised by cash denominated in the same currency, which is a recognised CRM. The amount after CRM will be US\$1,500,000 (SCR21.224 million) being $(US\$2,000,000 - US\$500,000) * 100\%$.
- The portion of the commitment that is collateralised by cash amounting to US\$500,000 will attract the risk weight attributed to cash, which is 0%. Therefore, the Rupee equivalent of US\$500,000 will be reported under 1.3 Claims collateralised by cash deposits in the column corresponding to Amount after CRM. The risk-weighted amount is zero $(US\$500,000 * 0\%)$.

Reporting illustration – on-balance sheet example 1

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
5.0	Claims on banks and credit union	28,299	21,224		21,224
5.1	Claims on banks and credit union (Domestic currency)			20	0
5.2	Claims on banks and credit union (Foreign currency)				0
5.2.1	Maturity less than 3 months				0
5.2.1.1	Risk Weight 20%			20	0
5.2.1.2	Unrated 20%			20	0
5.2.1.3	Risk Weight 50%			50	0
5.2.1.4	Risk Weight 150%			150	0
5.2.2	Maturity more than 3 months				0
5.2.2.1	Risk Weight 20%			20	0
5.2.2.2	Risk Weight 50%			50	0
5.2.2.3	Unrated 50%			50	0
5.2.2.4	Risk Weight 100%	28,299	21,224	100	21,224
5.2.2.5	Risk Weight 150%			150	0

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
1.0	Cash	0	7,075		0
1.1	Cash (domestic currency)			0	0
1.2	Cash (foreign currency)			0	0
1.3	Claims collateralised by cash deposits		7,075	0	0
1.4	Cash items in the course of collection			20	0

On-balance sheet example 2 – fully collateralised loan

- Bank A issues a 5-year foreign currency loan amounting to USD\$2,000,000 (SCR28.299 million) to Bank B, which is also based in Seychelles. Bank B is an unrated local bank. The loan is fully collateralised by cash in the same currency.
- To determine the risk weight to be attributed to a foreign currency loan to another bank, reference should be made to Table 5. Given that Bank B is unrated, it is subject to a risk weight of 50%. However, unrated banks cannot be attributed a risk weight that is better than the risk weight of the sovereign in which it is incorporated. Therefore, the sovereign risk weight will have to be used. On the basis of a Fitch rating for Seychelles of BB-, the applicable risk weight would be 100%.
- Under 5.2.2.4 Claims on banks and credit union (Foreign currency), in the 100% risk weight row, Bank A should report the following:
 - the Rupee equivalent of US\$2,000,000 (SCR28.299 million) will be reported under the column “Amount”.
 - SCR0 will be reported under the column “Amount after CRM”. The risk-weighted amount is therefore zero (0 * 100%).

- The loan is fully collateralised by cash denominated in the same currency. Therefore, the Rupee equivalent of US\$2,000,000 (SCR28.299 million) will be reported under 1.3 Claims collateralised by cash deposits in the column “Amount after CRM”. The risk-weighted amount is therefore zero (US\$2,000,000 * 0%).

Reporting illustration: on-balance sheet example 2

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
5.0	Claims on banks and credit union	28,299	0		0
5.1	Claims on banks and credit union (Domestic currency)			20	0
5.2	Claims on banks and credit union (Foreign currency)				0
5.2.1	Maturity less than 3 months				0
5.2.1.1	Risk Weight 20%			20	0
5.2.1.2	Unrated 20%			20	0
5.2.1.3	Risk Weight 50%			50	0
5.2.1.4	Risk Weight 150%			150	0
5.2.2	Maturity more than 3 months				0
5.2.2.1	Risk Weight 20%			20	0
5.2.2.2	Risk Weight 50%			50	0
5.2.2.3	Unrated 50%			50	0
5.2.2.4	Risk Weight 100%	28,299	0	100	0
5.2.2.5	Risk Weight 150%			150	0

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
1.0	Cash	0	28,299		0
1.1	Cash (domestic currency)			0	0
1.2	Cash (foreign currency)			0	0
1.3	Claims collateralised by cash deposits		28,299	0	0
1.4	Cash items in the course of collection			20	0

On-balance sheet example 3 – fully collateralised loan

- Bank A issues a 5-year foreign currency loan amounting to USD\$5,000,000 (SCR70.748 million) to an unrated company. The loan is secured by debt securities issued by a bank and denominated in USD. The debt securities are rated AA by Standard & Poor’s and have a remaining maturity of 7 years. They are subject to daily revaluation and presently have a market value of USD5,200,000.
- Since the market value of the collateral debt securities is USD5,200,000, the loan is fully secured. The rating of the debt securities issued by the bank (which is AA by Standard and Poor’s) will determine the risk weight attributed to the CRM. A rating of “AA” for a bank by Standard & Poor is mapped to a risk weight of 20%. Therefore, the Rupee equivalent of US\$5,000,000 (SCR70.748 million) will be reported by Bank A under 5.2.2.1 Claims on banks and credit union (Foreign currency), in the column

“Amount after CRM”. The risk-weighted amount is US\$1,000,000 (US\$5,000,000*20%) (SCR14.150 million).

- A loan to an unrated corporate is subject to a risk weight of 100%. Under 9.0 Claims on corporates, Bank A should report the following:
 - the Rupee equivalent of US\$5,000,000 (SCR70.748 million) will be reported under the column Amount
 - SCR0 will be reported under the column Amount after CRM. The risk-weighted amount is therefore zero (0 * 100%).

Reporting illustration: on-balance sheet example 3

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
6.0	Claims on corporates	70,748	0	100	0

Line	Nature of Item	Amount	Amount after CRM	Risk Weight	Risk Weighted Amount
5.0	Claims on banks and credit union	0	70,748		14,150
5.1	Claims on banks and credit union (Domestic currency)			20	0
5.2	Claims on banks and credit union (Foreign currency)				0
5.2.1	Maturity less than 3 months				0
5.2.1.1	Risk Weight 20%			20	0
5.2.1.2	Unrated 20%			20	0
5.2.1.3	Risk Weight 50%			50	0
5.2.1.4	Risk Weight 150%			150	0
5.2.2	Maturity more than 3 months				0
5.2.2.1	Risk Weight 20%		70,748	20	14,150
5.2.2.2	Risk Weight 50%			50	0
5.2.2.3	Unrated 50%			50	0
5.2.2.4	Risk Weight 100%		0	100	0
5.2.2.5	Risk Weight 150%			150	0

Off-balance sheet example 1: partly collateralised loan commitment

- A bank issues a 10-year term loan amounting to SCR5,000,000 to a company in Seychelles. The loan is secured by cash amounting to SCR3,500,000.
- If the company has not yet drawn down the loan facility, the transaction would be recorded as a commitment in the book of the bank. The commitment is to be reported in the column 9b under “Other commitments with original maturity of 1 year and over”.
- The commitment needs to be converted into its credit equivalent. Since this is a commitment with an original maturity of over one year, the appropriate CCF is 50%. The credit equivalent is SCR2,500,000 (SCR5,000,000*50%).
- The portion of the loan that is secured by cash is 70% (SCR3,500,000/SCR5,000,000). Therefore 70% of the commitment should attract the risk weight attributed to cash

of 0%. As such 70% of the credit equivalent, which is SCR1,750,000 (SCR2,500,000*70%), is considered secured and should be reported in the row corresponding to the 0% risk weight. The risk-weighted amount of the secured portion is therefore zero (SCR1,750,000*0%).

- The remaining amount of the credit equivalent amounting to SCR750,000 (SCR2,500,000 - SCR1,750,000) is unsecured.
- Since the commitment is to a company, the risk weight to be attributed to the credit equivalent amount is 100%. Therefore, SCR750,000 will be reported in the column corresponding to the risk weight of 100%. The risk-weighted amount is SCR750,000 (SCR750,000*100%)

Reporting illustration: off-balance sheet example 1

	9a	9b	9c
Nature of Item:	Other commitments with original maturity of less than 1 year	Other commitments with original maturity of 1 year and over	Commitments that are unconditionally cancellable without prior notice
Amount		5,000	
Credit Conversion Factor	20	50	100
Credit Equivalent Amount (CEA)	0	2,500	0
(CEA) After CRM:			
Risk Weight 0%		1,750	
Risk Weight 20%			
Risk Weight 35%			
Risk Weight 50%			
Risk Weight 75%			
Risk Weight 100%		750	
Risk Weight 150%			
Risk Weighted Amount	0	750	0

Off-balance sheet example 2: fully collateralised loan commitment

- A bank issues a 10-year term loan amounting to SCR5,000,000 to a company in Seychelles. The loan is fully secured by cash.
- If the company has not yet drawn down the loan facility, the transaction would be recorded as a commitment in the book of the bank. The commitment is to be reported in column 9b under “Other commitments with original maturity of 1 year and over”, if the loan can be drawn down over a period of more than one year.

- The commitment needs to be converted into its credit equivalent. Since this is a commitment with an original maturity of over one year, the appropriate CCF is 50%. The credit equivalent is SCR2,500,000 (SCR5,000,000*50%).
- The loan is fully collateralised by cash. Therefore, the risk weight attributed to cash, which is 0% will be applied to the full amount of the credit equivalent. SCR2,500,000 will be reported in the row corresponding to the risk-weighted amount 0%. The risk-weighted amount is therefore zero (SCR2,500,000*0%).

Reporting illustration – off-balance sheet example 2

	9a	9b	9c
Nature of Item:	Other commitments with original maturity of less than 1 year	Other commitments with original maturity of 1 year and over	Commitments that are unconditionally cancellable without prior notice
Amount		5,000	
Credit Conversion Factor	20	50	100
Credit Equivalent Amount (CEA)	0	2,500	0
(CEA) After CRM:			
Risk Weight 0%		2,500	
Risk Weight 20%			
Risk Weight 35%			
Risk Weight 50%			
Risk Weight 75%			
Risk Weight 100%			
Risk Weight 150%			
Risk Weighted Amount	0	0	0