

# Credit risk: standardised approach (CRR) part

## Related links

SS10/13 - Credit risk - standardised approach

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## **1 Application and definitions**

1.1 This Part applies to a JIB.

1.2 In this Part, the following definitions shall apply:

### **CIU**

collective investment undertaking

### **Commercial Real Estate Exposure**

means a Real Estate Exposure that is not an ADC exposure and that is secured by Commercial Real Estate and is not secured by Residential Real Estate.

### **Defaulted Exposure**

means an exposure where the obligor or facility, as applicable, has defaulted in the circumstances set out in Credit Risk: Internal Ratings Based Approach (CRR) Part Article 178 save that, for the purposes of this Part, a reference in that Article to a 'retail exposure' shall mean an exposure which is either:

- (1) a retail exposure; or
- (1) a Real Estate Exposure that is not an ADC Exposure and that would meet the qualifying conditions for a Retail Exposure if Article 123(2) was disapplied.

### **Financial Hedge**

means a situation where the obligor has entered into a financial instrument, which has the purpose and effect of offsetting the foreign exchange risk resulting from a mismatch between the currency of the obligor's income and the lending currency.

### **First Charge**

means a Charge affecting the land in question:

- (1) ranking in priority ahead of all other Charges, if any; or
- (2) ranking in equal priority with one or more other Charges which, together with the Charge, rank in priority ahead of all other Charges, if any.

### **Junior Charge**

means a Charge ranking in priority behind at least one other Charge affecting the land in question.

### **Mixed Real Estate Exposure**

means a Real Estate Exposure that is not an ADC Exposure and that is secured by both Residential Real Estate and Commercial Real Estate.

### **Natural Hedge**

means a situation where:

- (1) in the ordinary course of an obligor's business or activities, it receives income in a foreign currency that matches the lending currency; or
- (2) an obligor holds assets:

- (a) denominated in the lending currency;
- (b) that are freely available to the obligor to re-pay the next instalment of the relevant exposure, and for these purposes assets shall be considered freely available even if they are pledged as collateral or otherwise used as security provided the collateral or security, as the case may be, can be sold or otherwise realised in a timely manner to repay the next instalment;
- (c) that can be sold or otherwise realised:
  - (i) as part of the normal operating procedures of the obligor; and
  - (ii) in a timely way to make full payment when due and in the currency of the next instalment of the relevant exposure; and
- (d) that are a type of asset or collateral listed in Credit Risk Mitigation (CRR) Part Articles 197 and 198 as an item of eligible collateral for use under the Financial Collateral Comprehensive Method.

**Northern Ireland Executive**

means the Executive Committee referred to in section 20(1) of the Northern Ireland Act 1998.

**Other Real Estate Exposure**

means a Real Estate Exposure that is not a Regulatory Real Estate Exposure or an ADC exposure.

**Regulatory Commercial Real Estate Exposure**

means a Commercial Real Estate Exposure that meets the requirements in Article 124A.

**Relevant CIU**

means a CIU:

- (1) that is managed by a company which is registered in a Third Country; and
- (2) for which a JIB applies the look-through approach in accordance with Article 132A(1) or the mandate-based approach in accordance with Article 132A(2) to calculate the risk-weighted exposure amount for their exposures in the form of units or shares in the CIU.

**Retail Exposure**

means an exposure which meets the requirements in Article 123(1) and (2).

**Scottish Government**

means the Scottish Government referred to in section 44(1) of the UK Scotland Act 1998.

**Self-Build Exposure**

means a Residential Real Estate Exposure secured by property or land that has been acquired or held for development and construction purposes and that meets the following criteria:

- (1) the property does not, or will not, have more than four residential housing units;  
and
- (2) the property will be the borrower's primary residence.

**Standardised Approach**

means the approach set out in the Credit Risk: Standardised Approach (CRR) Part.

**Vehicle Financing Arrangement**

means a loan, lease or other finance arrangement in respect of vehicle classes AM, A1, A2, A and B and B1 as specified in Parts 1 and 3 of Schedule 2 of The Motor Vehicles (Driving Licenses) Regulations 1999, provided that such arrangement does not qualify as an Object Finance Exposure for the purposes of Articles 122A and 122B.

**Welsh Government**

means the Welsh Government referred to in section 45(1) of the UK Government of Wales Act 2006.

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## **2 Level of application**

- 2.1 A JIB must comply with this Part on the basis of its consolidated position, unless the JFSC has agreed a variance in accordance with the Risk-Based Capital Requirements Part.

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**3 Organisational structure and control mechanisms**

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## 4 Standardised approach

### Section 1 General principles

#### Article 110A Due diligence

1. This Article applies to a JIB subject to the Standardised Approach to credit risk set out in this Part.
2. A JIB shall perform due diligence to ensure that it has an adequate understanding of the risk profile, creditworthiness and characteristics of exposures to individual obligors and at a portfolio level.
3. The sophistication of the due diligence undertaken by the JIB in accordance with paragraph 2 shall be appropriate to the nature, scale and complexity of the JIB's activities.
4. As part of its obligations under paragraph 2, a JIB shall:
  - a) take reasonable and adequate steps to assess the operating and financial condition of each obligor;
  - b) ensure that it has in place effective internal policies, processes, systems and controls to ensure that the appropriate risk-weighted exposure amounts are assigned to an obligor;
  - c) perform the due diligence prior to incurring an exposure to an obligor and at least annually thereafter;
  - d) to the extent reasonably practicable, perform the due diligence at the level of each individual exposure; and
  - e) if applicable, take into account the extent to which membership of a corporate group affects an obligor's risk profile and credit worthiness.
5. The obligations in paragraph 2 do not apply in respect of exposures in scope of:
  - (a) points (a) to (c) of Article 112(1);
  - (b) Article 117(2); and

Article 118(1).

#### Article 111 Exposure value

1. The exposure value of:
  - (a) an asset item shall be its accounting value remaining after specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014), additional value adjustments in accordance with the Own Funds Part and own funds reductions related to the asset item have been applied;
  - (b) subject to point (c), an off-balance sheet item listed in Column A of Table A1 shall be the product of:
    - I. its nominal value after reduction of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014); and
    - II. the applicable conversion factor (the percentage specified in the corresponding row of Column B);

- c) a Commitment to issue an off-balance sheet item listed in Table A1 shall be calculated in accordance with point (b) of paragraph 1, but using the lower of:
- I. the percentage specified in Column B that is applicable to the off-balance sheet item on which the Commitment is made; and
  - II. the percentage specified in Column B that is applicable to the type of Commitment,
- instead of the percentage specified in point (b)(ii) of paragraph 1.

Table A1

Column A: Issued off-balance sheet items and Commitments	Column B: Applicable conversion factor
<ol style="list-style-type: none"> <li>1. The following issued off-balance sheet items:               <ol style="list-style-type: none"> <li>(a) financial guarantees having the character of credit substitutes, (including guarantees for the good payment of credit facilities);</li> <li>(b) credit derivatives;</li> <li>(c) acceptances;</li> <li>(d) endorsements on bills not bearing the name of another Institution or Investment Firm;</li> <li>(e) irrevocable standby letters of credit having the character of credit substitutes; and</li> <li>(f) any other issued off-balance sheet items that have the character of credit substitutes.</li> </ol> </li> <li>2. The following types of Commitment:               <ol style="list-style-type: none"> <li>(a) transactions with recourse (including factoring and invoice discount facilities);</li> <li>(b) assets purchased under outright forward purchase agreements;</li> <li>(c) asset sale and repurchase agreements:                   <ol style="list-style-type: none"> <li>(i) including agreements where the transferee is merely entitled to return the assets at the purchase</li> </ol> </li> </ol> </li> </ol>	<p>100%</p>

<p>price or for a different amount agreed in advance on a date specified or to be specified; and</p> <p>(ii) excluding agreements where the transferor is not entitled to show in their balance sheets the assets transferred;</p> <p>(d) forward deposits;</p> <p>(e) the unpaid portion of partly-paid shares and securities; and</p> <p>(f) other commitments that have similar economic substance as the types of Commitments in points (a) to (e), in particular with regard to having certain drawdowns.</p>	
<p>3. Other issued off-balance sheet items that do not have the character of credit substitutes.</p> <p>4. The following Commitments:</p> <p>(a) note issuance facilities and revolving underwriting facilities; and</p> <p>(b) UK residential mortgage Commitments that are not subject to a conversion factor of 10% or 100%.</p>	50%
<p>5. Any other Commitment that is not subject to a conversion factor of 10%, 50% or 100%.</p>	40%
<p>6. The following issued off-balance sheet items:</p> <p>(a) documentary credits issued or confirmed and other self-liquidating transactions;</p> <p>(b) warranties, tender bonds, performance bonds, advance payment guarantees, retention guarantees, and guarantees not having the character of credit substitutes;</p> <p>(c) irrevocable standby letters of credit not having the character of credit substitutes; and</p>	20%

(d) shipping guarantees, customs and tax bonds.	
7. Undrawn Commitments which may be cancelled unconditionally at any time without notice, or that effectively provide for automatic cancellation due to a deterioration in an obligor's creditworthiness. Retail credit lines may be considered as unconditionally cancellable if the terms permit the JIB to cancel them to the full extent allowable under the applicable consumer protection and related legislation.	10%

- 1A. Unless otherwise determined by paragraph 2A, where an exposure takes the form of securities or commodities sold, posted, or lent under securities financing transactions or long settlement transactions, the JIB shall use the exposure value of the securities or commodities determined in accordance with Article 24 of CRR, reduced by any specific credit risk adjustments relating to the securities or commodities. When the JIB uses the Financial Collateral Comprehensive Method in accordance with Credit Risk Mitigation (CRR) Part Article 223, such exposure value shall be increased by the volatility adjustment appropriate to such securities or commodities as prescribed in Credit Risk Mitigation (CRR) Part Articles 223 to 224.
2. The exposure value of a derivative instrument shall be determined in accordance with the Counterparty Credit Risk Part.
- 2A. A JIB that takes into account credit risk mitigation techniques in calculating the exposure value of securities financing transactions and long settlement transactions shall calculate such exposure values consistently with Credit Risk Mitigation (CRR) Part Article 191A in accordance with either Chapter 6 of Title II of Part Three of CRR and Chapter 3 of Counterparty Credit Risk (CRR) Part, or Chapter 3 of Credit Risk Mitigation (CRR) Part; provided that where the JIB takes into account a master netting agreement in relation to a set of securities financing transactions, it shall calculate the exposure value for all transactions covered by that master netting agreement as a single exposure value at netting set level.
3. Where an exposure not in scope of paragraph 2 or 2A is subject to funded credit protection, the exposure value applicable to that item may be amended in accordance with the Credit Risk Mitigation (CRR) Part.

#### **Article 112 Exposure classes**

1. Each exposure shall be assigned to one of the following exposure classes in accordance with paragraph 2:
  - (a) exposures to central governments or central banks;
  - (b) exposures to regional governments or local authorities;
  - (c) exposures to public sector entities;

- (d) exposures to multilateral development banks;
- (e) exposures to international organisations;
- (f) exposures to Institutions;
- (g) exposures to corporates;
- (h) retail exposures;
- (i) Real Estate Exposures;
- (j) exposures in default;
- (k) exposures associated with particularly high risk;
- (l) exposures in the form of eligible covered bonds;
- (m) items representing securitisation positions;
- (n) [deliberately left blank]
- (o) exposures in the form of units or shares in CIUs;
- (p) subordinated debt, equity and other own funds instruments;
- (q) other items.

2. A JIB shall assign exposures to the exposure classes listed in Column A of Table A2 according to the criteria in the corresponding row of Column B of Table A2. Where an exposure meets the criteria for more than one exposure class it shall be assigned to the exposure class that has the highest position in Table A2.

Table A2

	Column A: Exposure Class	Column B: Criteria
(1)	Items representing securitisation positions (point (m) of paragraph 1).	Exposures to securitisation positions for which a risk-weight treatment is set out in the Securitisations (CRR) Part.
(2)	Exposures in the form of units or shares in CIUs (point (o) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 132 to 132C other than exposures excluded in accordance with Article 132B.
(3)	Subordinated debt, equity and other own funds instruments (point (p) of paragraph 1).	Exposures for which a risk-weight treatment is set out in the Own Funds Part.
(4)	Exposures associated with particularly high risk (point (k) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 128.
(5)	Exposures in default (point (j) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 127.

(6)	Exposures in the form of eligible covered bonds (point (l) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 129.
(7)	Real Estate Exposures (point (i) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 124 to 124L.
(8)	Exposures to international organisations (point (e) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 118.
(9)	Exposures to multilateral development banks (point (d) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 117.
(10)	Exposures to Institutions (point (f) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 119 to 121 or Article 119(5).
(11)	Exposures to central governments or central banks (point (a) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 114, Article 115(2), Article 137(2), Article 114(7) of CRR, Article 115(4) or, for exposures that are deferred tax assets, the Own Funds Part.
(12)	Exposures to regional governments or local authorities (point (b) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 115.
(13)	Exposures to public sector entities (point (c) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Article 116 or Article 116(5).
(14)	Retail exposures (point (h) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 123 or 123A.
(15)	Exposures to corporates (point (g) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 122 to 122B.
(16)	Other items (point (q) of paragraph 1).	Exposures for which a risk-weight treatment is set out in Articles 113(5) or 134.

### **Article 113 Calculation of risk-weighted exposure amounts**

1. Subject to paragraph 6, to calculate risk-weighted exposure amounts, risk weights shall be applied to all exposures, unless deducted from own funds, in accordance with the provisions of Articles 114 to 134, Article 137(2) and Articles 48(4) and 89(3) of the Own Funds Part. The application of risk weights shall be based on the exposure class to which the exposure is assigned and, to the extent specified in Articles 114 to 134 and Article 137(2), its credit quality. Where applicable, credit quality shall be determined by reference to the credit assessments of ECAs or the credit assessments of export credit agencies in accordance with Articles 135 to 141.
2. For the purposes of applying a risk weight, as referred to in paragraph 1, the exposure value shall be multiplied by the risk weight specified or determined in accordance with Articles 114 to 134, Article 137(2) and the Own Funds Part.

3. Where an exposure is subject to credit protection the risk weight applicable to that item may be amended in accordance with the Credit Risk Mitigation (CRR) Part.
4. Risk-weighted exposure amounts for securitised exposures shall be calculated in accordance with the Securitisations (CRR) Part.
5. Exposures for which no calculation is provided in Articles 114 to 134, Article 137(2) or the Own Funds Part shall be assigned a risk weight of 100%.
6. With the exception of exposures giving rise to Common Equity Tier 1, Additional Tier 1 or Tier 2 items, a JIB where granted a variance by the JFSC, assign a risk weight of 0% to the exposures of that JIB to a counterparty which is its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or an undertaking linked by a common management relationship, to the extent and subject to any modifications set out in the permission. When applying for such variance, a JIB shall demonstrate to the satisfaction of the JFSC that:
  - (a) the counterparty is an Institution, a Financial Institution or an ancillary services undertaking subject to appropriate prudential requirements;
  - (b) the counterparty is included in the same consolidation as the JIB on a full basis;
  - (c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the JIB;
  - (d) the counterparty is established in Jersey; and
  - (e) there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the counterparty to the JIB.
7. A JIB that has been granted permission in accordance with paragraph 6 shall comply with requirements in points (a) to (e) of paragraph 6.

## Section 2 Risk Weights

### Article 114 Exposures to central governments or central banks

1. Exposures to central governments or central banks shall be assigned a 100% risk weight, unless any of the treatments set out in the following provisions apply:
  - (a) paragraphs 2 to 4 and Article 137(2);
  - (b) Article 114(7); or
  - (c) the Own Funds Part.
2. Exposures to central governments or central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 1 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 1

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

- 2A. Exposures to a central bank for which a credit assessment by a nominated ECAI is not available shall be treated in accordance with paragraph 2 if a credit assessment by a nominated ECAI is available for the central government of the jurisdiction of the central

bank. In this case, the central government’s credit assessment shall be used to determine the risk weight for exposures to the central bank.

3. Exposures to the European Central Bank shall be assigned a 0% risk weight.
4. Exposures to the central governments of the UK and Jersey and the Bank of England denominated and funded in sterling shall be assigned a risk weight of 0%.
5. [deliberately left blank]
6. [deliberately left blank]
7. When the competent authorities of a Third Country which apply supervisory and regulatory arrangements at least equivalent to those applied in the UK assign a risk weight which is lower than that indicated in paragraphs 1 and 2 to exposures to their central government and central bank denominated and funded in the domestic currency, JIBs may risk weight such exposures in the same manner.

For the purposes of this paragraph, the UK Treasury may by regulations determine whether a Third Country applies supervisory and regulatory arrangements at least equivalent to those applied in the UK.

**Article 115 Exposures to regional governments or local authorities**

8. Unless they are treated as exposures to central governments under paragraph 2, fall within scope of Article 115(4) of CRR or receive a risk weight as specified in paragraph 5, exposures to regional governments or local authorities shall be assigned risk weights as follows:
  - (a) where a credit assessment by a nominated ECAI is not available for the exposure to the regional government or local authority:
    - I. the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 1A which corresponds to a credit assessment for which exposures to the central government of the jurisdiction in which the regional government or local authority is based as mapped in Article 136A, where a credit assessment by a nominated ECAI is available for that central government; or
    - II. the exposure shall be assigned a risk weight of 100% where a credit assessment by a nominated ECAI is not available for the central government of the jurisdiction in which the regional government or local authority is based.

Table 1A

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

- (b) in respect of exposures for which a credit assessment by a nominated ECAI is available, the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 1B which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 1B

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

9. Exposures to the following regional governments:
- (c) the Scottish Government;
  - (d) the Welsh Government; and
  - (e) the Northern Ireland Executive,  
shall be treated as exposures to the central government of the UK and assigned a risk weight in accordance with Article 114.
10. Exposures to churches or religious communities constituted in the form of a legal person under public law shall, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments or local authorities.
11. When competent authorities of a Third Country jurisdiction which applies supervisory and regulatory arrangements at least equivalent to those applied in the UK treat exposures to regional governments or local authorities as exposures to their central government and there is no difference in risk between such exposures because of the specific revenue-raising powers of regional government or local authorities and to specific institutional arrangements to reduce the risk of default, JIBs may risk weight exposures to such regional governments and local authorities in the same manner.
- For the purposes of this paragraph, the UK Treasury may by regulations determine whether] a Third Country applies supervisory and regulatory arrangements at least equivalent to those applied in the UK.
12. Exposures to regional governments or local authorities of the UK that are not referred to in paragraphs 2 or 3 and are denominated and funded in sterling shall be assigned a risk weight of 20%.

**Article 116 Exposures to public sector entities**

1. Subject to paragraphs 3 and 3A, in respect of exposures to UK and Jersey public sector entities for which a credit assessment by a nominated ECAI is not available:
- (a) the exposure shall be assigned a risk weight in accordance with the credit quality step in Table 2 which corresponds to a credit assessment for the central government of the UK or Jersey as mapped in Article 136A, where a credit assessment by a nominated ECAI is available for the central government of the UK or Jersey respectively; or
  - (b) the exposure shall be assigned a risk weight of 100% where a credit assessment by a nominated ECAI is not available for the central government of the UK or Jersey respectively.

Table 2

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

2. Subject to paragraphs 3 and 3A, exposures to UK or Jersey public sector entities for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in the following Table 2A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A:

Table 2A

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

3. For exposures to UK or Jersey public sector entities with an original maturity of three *months* or less, the risk weight shall be 20%.
- 3A. For the purpose of Article 116(5), the references in paragraphs 1 and 2 to:
- (a) the central government of the UK means the central government of the jurisdiction in which the third country public sector entity is based; and
  - (b) UK public sector entities means third country public sector entities.
4. [deliberately left blank]
5. When competent authorities of a Third Country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the UK, treat exposures to public sector entities in accordance with paragraph 1 or 2, JIBs may risk weight exposures to such public sector entities in the same manner. Otherwise JIBs shall apply a risk weight of 100 %.

For the purposes of this paragraph, the UK Treasury may by regulations determine whether a Third Country applies supervisory and regulatory arrangements at least equivalent to those applied in the UK.

**Article 117 Exposures to multilateral development banks**

1. Exposures to Multilateral Development Banks that are not referred to in paragraph 2 shall be assigned risk weights in accordance with the following provisions:
- (a) exposures to a Multilateral Development Bank for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 2B which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A:

Table 2B

Credit quality step	1	2	3	4	5	6
Risk weight	20%	30%	50%	100%	100%	150%

- (b) exposures to a Multilateral Development Bank for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight of 50%.
2. Exposures to the following Multilateral Development Banks shall be assigned a 0% risk weight:
- (a) the International Bank for Reconstruction and Development;
  - (b) The International Finance Corporation;

- (c) the Inter-American Development Bank;
- (d) the Asian Development Bank;
- (e) the African Development Bank;
- (f) the Council of Europe Development Bank;
- (g) the Nordic Investment Bank;
- (h) the Caribbean Development Bank;
- (i) the European Bank for Reconstruction and Development;
- (j) the European Investment Bank;
- (k) the European Investment Fund;
- (l) the Multilateral Investment Guarantee Agency;
- (m) the International Finance Facility for Immunisation;
- (n) the Islamic Development Bank;
- (o) the International Development Association; and
- (p) the Asian Infrastructure Investment Bank.

**Article 118 Exposures to international organisations**

- 1 Exposures to the following international organisations shall be assigned a 0% risk weight:
  - (a) the European Union;
  - (b) the International Monetary Fund;
  - (c) the Bank for International Settlements;
  - (d) the European Financial Stability Facility; and
  - (e) the European Stability Mechanism.

**Article 119 Exposures to Institutions**

1. Exposures to Institutions for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Article 120.
- 1A. Exposures to Institutions for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight in accordance with Article 121.
2. [deliberately left blank]
3. [deliberately left blank]
4. [deliberately left blank]
5. Exposures to Financial Institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to Institutions in terms of robustness shall be treated as exposures to Institutions.

## Article 120 Exposures to rated Institutions

1. Subject to paragraph 2A, exposures to Institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was more than three months shall be assigned a risk weight in accordance with the credit quality step in Table 3 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 3

Credit quality step	1	2	3	4	5	6
Risk weight	20%	30%	50%	100%	100%	150%

2. Subject to paragraph 3, exposures to Institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was three months or less shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.
- 2A. Subject to paragraph 3, exposures to Institutions for which a credit assessment by a nominated ECAI is available where the original maturity of the exposure was six months or less and the exposure arose from the movement of goods shall be assigned a risk weight in accordance with the credit quality step in Table 4 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 4

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

- 2B. Subject to paragraph 3, exposures to Institutions for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 4A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 4A

Credit quality step	1	2	3	Others
Risk weight	20%	50%	100%	150%

3. The interaction between the treatment of exposures under paragraph 2B and the general preferential treatment for short-term exposures set out in paragraphs 2 or 2A shall be as follows:
  - (a) if there is no short-term credit assessment, the general preferential treatment for short-term exposures as specified in paragraphs 2 or 2A shall apply;
  - (b) if there is a short-term credit assessment and such an assessment determines the application of a more favourable or identical risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraphs 2 or 2A, then the treatment as specified in paragraph 2B shall be used for that specific exposure only. Other short-term exposures shall be subject to the general preferential treatment for short-term exposures, as specified in paragraphs

2 or 2A; or

- (c) if there is a short-term credit assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in paragraphs 2 or 2A, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims against that obligor shall be assigned the same risk weight as that determined by the specific short-term assessment.
4. A JIB shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the risk of the exposure to which the JIB is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the JIB shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.

#### **Article 121 Exposures to unrated Institutions**

1. Exposures to Institutions for which a credit assessment by a nominated ECAI is not available shall be classified as Grade A, Grade B or Grade C in accordance with the following principles:
- (a) where the counterparty Institution has adequate capacity to meet their financial commitments in a timely manner for the projected life of the assets or exposures and its ability to do so is robust against adverse changes in the economic cycle and business conditions, it may be classified as Grade A. A counterparty Institution classified as Grade A shall meet or exceed the published minimum financial regulatory requirements and buffers as implemented in the jurisdiction where it is incorporated, except for Institution-specific minimum financial regulatory requirements or buffers that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements and buffers (other than Institution-specific minimum requirements or buffers) are not publicly disclosed or otherwise made available by the counterparty Institution, the counterparty Institution may not be classified as Grade A;
  - (b) where the counterparty Institution is subject to substantial credit risk, such as when the counterparty's repayment capacity is dependent on stable or favourable economic or business conditions, it may not be classified as Grade A. A counterparty Institution may be classified as Grade B provided it meets or exceeds the published minimum financial regulatory requirements (excluding buffers) established by its national supervisor as implemented in the jurisdiction where it is incorporated, except for Institution-specific minimum financial regulatory requirements that may be imposed through supervisory actions and not made public. If such minimum financial regulatory requirements are not publicly disclosed or otherwise made available by the counterparty Institution, the counterparty Institution shall be classified as Grade C;
  - (c) where the counterparty Institution has material default risks it shall be classified as Grade C. For this purpose, material default risks includes circumstances where adverse business, financial or economic conditions are very likely to lead, or have led, to an inability of the counterparty to meet its financial commitments. Counterparty Institutions with any of the following characteristics shall be classified as Grade C:
    - I. the counterparty Institution does not meet the criteria for being classified as Grade B with respect to its published minimum regulatory requirements; or
    - II. where audited financial statements are required, the external auditor has issued an adverse audit opinion or has expressed substantial doubt about

the counterparty Institution’s ability to continue as a going concern in its financial statements or audited reports within the previous 12 *months*.

- 1A. For the purposes of paragraph 1, where a counterparty Institution is a UK CRR Firm the references to minimum financial regulatory requirements include:
- (a) the requirements in the PRA Required Level of Own Funds (CRR) Part Article 92;
  - (b) the additional own funds an Institution is required to hold in accordance with regulation 34(1) of the CRR; and
  - (c) the minimum leverage ratio requirement referred to in the PRA Leverage Ratio – Capital Requirements and Buffers Part 3.1; and
- the references to buffers include:
- (a) the combined buffer defined in the PRA Capital Buffers Part 1.1;
  - (b) the countercyclical leverage ratio buffer referred to in the PRA Leverage Ratio – Capital Requirements and Buffers Part 4.1; and
  - (c) the additional leverage ratio buffer referred to in the PRA Leverage Ratio – Capital Requirements and Buffers Part 4A.1,
- in each case, if they apply to the relevant counterparty Institution.
- 1B. For the purposes of classifying exposures to Third Country Institutions for which a credit assessment by a nominated ECAI is not available in accordance with paragraph 1 or 5, a JIB shall consider any local equivalent or additional regulatory requirements and buffers to those set out in paragraph 1A, in so far as they are published and required to be met by Common Equity Tier 1 capital, Tier 1 capital or other own funds.
- 1C. For the purposes of paragraph 1, where a counterparty Institution is a JIB the references to minimum financial regulatory requirements include:
- (a) the requirements in the Required Level of Own Funds Part;
  - (b) where relevant, the minimum leverage ratio requirement referred to in the Leverage Ratio – Capital Requirements and Buffers Part 3.1; and
- the references to buffers include:
- (c) the combined buffer defined in the Required Level of Own Funds Part.
- in each case, if they apply to the relevant counterparty Institution.
2. Exposures to Institutions for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was more than three months shall be assigned a risk weight in accordance with Table 5.

Table 5

<b>Credit quality step</b>	Grade A	Grade B	Grade C
<b>Risk weight</b>	40%	75%	150%

3. Exposures to Institutions for which a credit assessment by a nominated ECAI is not available where the original maturity of the exposure was three *months* or less shall be assigned a risk weight in accordance with Table 5A.
4. Exposures to Institutions for which a credit assessment by a nominated ECAI is not available, where the original maturity of the exposure was six months or less and the exposure arose from the movement of goods, shall be assigned a risk weight in accordance with Table 5A.

Table 5A

<b>Credit quality step</b>	Grade A	Grade B	Grade C
<b>Risk weight</b>	20%	50%	150%

5. Notwithstanding paragraph 2, exposures to Institutions for which a credit assessment by a nominated ECAI is not available may be assigned a risk weight of 30% if the original maturity of the exposure was more than three months, the exposure is classified as Grade A and the Institution has:
  - (a) a Common Equity Tier 1 ratio which meets or exceeds 14%; and
  - (b) a leverage ratio which meets or exceeds 5%.
6. Notwithstanding paragraphs 2 to 5, the risk weight assigned to an exposure to an Institution for which a credit assessment by a nominated ECAI is not available may not be less than the risk weight applicable to exposures to the central government of the jurisdiction where the Institution is incorporated as set out in Article 114(1) and (2) if:
  - (a) the exposure:
    - I. is not in the local currency of the jurisdiction of incorporation of the debtor Institution; or
    - II. for a borrowing booked in a branch of the debtor Institution in a foreign jurisdiction, is not in the local currency of the jurisdiction in which the branch operates; and
  - (b) the exposure is not a self-liquidating, trade-related contingent item arising from the movement of goods with an original maturity of less than one year.

## **Article 122 Exposures to corporates**

1. Exposures to corporates shall be assigned a risk weight in accordance with this Article unless they are a Retail Exposure or they are treated as a specialised lending exposure in accordance with Articles 122A and 122B.
2. Exposures to corporates for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6 which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 6

<b>Credit quality step</b>	1	2	3	4	5	6
<b>Risk weight</b>	20%	50%	75%	100%	150%	150%

3. Exposures to corporates for which a short-term credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with the credit quality step in Table 6A which corresponds to the relevant credit assessment of the ECAI as mapped in Article 136A.

Table 6A

<b>Credit quality step</b>	1	2	3	Others
<b>Risk weight</b>	20%	50%	100%	150%

4. Where a credit assessment by a nominated ECAI is available, a JIB shall conduct due diligence to ensure that the external credit assessment appropriately and prudently reflects the risk of the exposure. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the JIB shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.
5. Subject to paragraph 11, exposures for which a credit assessment by a nominated ECAI is not available shall, unless the JIB has permission to apply the approach in paragraph 6, be assigned a 100% risk weight.
6. Subject to paragraph 11, a JIB shall assign the risk weights in (a) to (b) to exposures for which a credit assessment by a nominated ECAI is not available if it has obtained a variance from the JFSC that allows it to use this approach. When applying for such a variance, a JIB shall demonstrate to the satisfaction of the JFSC that it has sound, effective and comprehensive strategies, processes, systems and risk management practices that enable it to adequately identify and manage its sources of credit and counterparty risk.
  - (a) Exposures to corporates which the JIB has assessed as being investment grade shall be assigned a risk weight of 65%.
  - (b) Exposures to corporates which the JIB has assessed as not being investment grade shall be assigned a risk weight of 135%.
7. A JIB that has been granted permission in accordance with paragraph 6 shall ensure it continues to have sound, effective and comprehensive strategies, processes, systems and risk management practices that enable it to adequately identify and manage its sources of credit and counterparty risk.
8. For the purposes of calculating the Output Floor, a JIB with permission to use the IRB Approach shall, for exposures to which it applies the IRB Approach within the exposure class set out in point (g) of Article 112(1), subject to paragraph 11:
  - (a) assign a 100% risk weight to all exposures for which a credit assessment by a nominated ECAI is not available; or
  - (b) assign the risk weights in points (a) or (b) of paragraph 6 to all exposures for which a credit assessment by a nominated ECAI is not available. A JIB that assigns, or ceases to assign, risk weights in accordance with this point (b) shall give notice to the JFSC.
9. For the purposes of paragraph 6 and point (b) of paragraph 8, a JIB shall not assess an exposure to a corporate entity as investment grade unless the entity:
  - (a) has, taking into account the complexity of its business model, performance against industry and peers, and risks posed by its operating environment, adequate capacity to meet its financial

commitments in a timely manner and its ability to do so is robust against adverse changes in the economic cycle and business conditions; and

- (b) provides the JIB with sufficient information to allow the JIB to adequately make the assessment in (a).

10. When making the assessment required by paragraph 6 and point (b) of paragraph 8, a JIB shall take into account its own internal credit assessment system and grade exposures in accordance with that system.
11. An exposure to an SME that is not a Retail Exposure and for which a credit assessment by a nominated ECAI is not available, shall be assigned a risk weight of 85%.

#### **Article 122A Specialised lending exposures**

1. A JIB shall treat a corporate exposure that is not a Real Estate Exposure as a specialised lending exposure if it has all of the following characteristics, either in legal form or economic substance:
  - (a) the exposure is to an entity which was created specifically to finance and/or operate physical assets;
  - (b) the borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed;
  - (c) the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
  - (d) as a result of points (a) to (c), the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.
2. A JIB shall classify a specialised lending exposure as either an Object Finance Exposure, a *commodities finance exposure* or a Project Finance Exposure in accordance with their definitions.

#### **Article 122B Risk weights for specialised lending exposures**

1. Where a relevant issue-specific credit assessment by a nominated ECAI is available for a specialised lending exposure, a JIB shall apply the risk weight treatment set out in Article 122(2).
2. If paragraph 1 does not apply, a JIB shall assign risk weights as follows:
  - (a) Object Finance Exposures shall be assigned a risk weight of 100%;
  - (b) Commodities Finance Exposures shall be assigned a risk weight of 100%;
  - (c) Project Finance Exposures shall be assigned a risk weight of 130% during the pre-operational phase, and (subject to paragraph 4) 100% during the operational phase.
3. For the purpose of point (c) of paragraph 2 and paragraph 4, operational phase means the phase in which the entity that was created to finance the project has:
  - (a) a positive net cash-flow that is sufficient to cover any remaining contractual obligations relating to the completion of the project; and
  - (b) declining long-term debt.

4. Where a Project Finance Exposure is in the operational phase and is considered high quality in accordance with the criteria in paragraph 5, a JIB shall assign a risk weight of 80%.
5. A Project Finance Exposure shall be considered high quality if:
  - (a) it is an exposure to an entity that is able to meet its financial commitments in a timely manner and its ability to do so is robust against adverse changes in the economic cycle and business conditions; and
  - (b) the following conditions are met:
    - I. the entity is restricted from acting to the detriment of the creditors (including by not being able to issue additional debt without the consent of existing creditors);
    - II. the entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;
    - III. the revenues are subject to a rate-of-return regulation or take-or-pay contract or are availability-based;
    - IV. the entity's revenue depends on one main counterparty and this main counterparty is one of the following:
      - (1) a central bank, a central government, a regional government, a local authority, a public sector entity or a corporate entity which would be assigned a risk weight of 80% or lower under this Part;
      - (2) a Multilateral Development Bank which would be assigned a risk weight of 0% under Article 117(2); or
      - (3) an international organisation which would be assigned a risk weight of 0% under Article 118(1);
    - V. the contractual provisions governing the exposure to the entity provide for a high degree of protection for creditors in case of a default of the entity;
    - VI. the main counterparty or other counterparties which are included in the scope of point (iv) will protect the creditors from the losses resulting from a termination of the project;
    - VII. all assets and contracts necessary to operate the project have been pledged to the creditors to the extent permitted by applicable law; and
    - VIII. creditors may assume control of the entity in case of its default.
6. For the purposes of point (b)(iii) of paragraph 5, revenues are availability-based if:
  - (a) the entity is entitled to payments from its contractual counterparties once construction is completed, as long as contract conditions are fulfilled;
  - (b) the revenues are sized to cover operating and maintenance costs, debt service costs and equity returns as the entity operates the project; and
  - (c) the revenues are not subject to swings in demand, and are adjusted only for lack of performance or lack of availability of the asset to the public.

## Article 123 Retail Exposures

1. Subject to paragraph 2, an exposure shall be categorised as a Retail Exposure if it is either:
  - (a) an exposure to one or more natural persons and not an exposure to an SME; or
  - (b) an exposure to an SME, and the exposure meets all of the following conditions:
    - I. the exposure takes the form of any of the following types of exposure, excluding derivatives, bonds, equities and other types of securities:
      - (1) revolving facilities (including but not limited to credit cards, charge cards and overdrafts);
      - (2) term loans and leases (including but not limited to instalment loans and Vehicle Financing Arrangements); or
      - (3) commitments (excluding commitments to issue off-balance sheet items);
    - II. the total amount (including Defaulted Exposures) owed to the JIB, its parent undertakings, its subsidiaries and subsidiaries of its parent undertakings by the obligor or group of connected clients, excluding all *residential* Real Estate Exposures, does not exceed GBP 880,000; and
    - III. the exposure is one of a significant number of exposures with similar characteristics, such that the risks associated with such exposures are substantially reduced.
2. Retail Exposures shall exclude Real Estate Exposures.
3. Subject to paragraph 4, Retail Exposures shall be assigned the following risk weights:
  - (a) Regulatory Retail Exposures that are Transactor Exposures shall be assigned a risk weight of 45%;
  - (b) Regulatory Retail Exposures that are not Transactor Exposures shall be assigned a risk weight of 75%; and
  - (c) all other Retail Exposures that do not qualify as Regulatory Retail Exposures shall be assigned a risk weight of 100%.
4. Retail Exposures arising due to loans granted by a JIB to pensioners or employees with a permanent contract against the unconditional transfer of part of the borrower's pension or salary to that JIB shall be assigned a risk weight of 35%, provided that all the following conditions are met:
  - (a) in order to repay the loan, the borrower unconditionally authorises the pension fund or employer to make direct payments to the JIB by deducting the monthly payments on the loan from the borrower's monthly pension or salary;
  - (b) the risks of death, inability to work, unemployment or reduction of the net monthly pension or salary of the borrower are properly covered through an insurance policy underwritten by the borrower to the benefit of the JIB;
  - (c) the monthly payments to be made by the borrower on all loans that meet the conditions set out in points (a) and (b) of this paragraph do not in aggregate exceed 20% of the borrower's net monthly pension or salary; and
  - (d) the maximum original maturity of the loan is equal to or less than 10 years.

## Article 123A Regulatory Retail Exposures

- 1 A Retail Exposure qualifies as a Regulatory Retail Exposure if it is either:
  - (a) a Retail Exposure to an SME; or
  - (b) a Retail Exposure to one or more natural persons that meets all of the following conditions:
    - I. the exposure is not a derivative, bond, equity or other type of security and takes the form of a Revolving Facility (including but not limited to credit cards, charge cards and overdrafts), or a term loan or lease (including but not limited to instalment loans, Vehicle Financing Arrangements and student and educational loans);
    - II. the total amount (including Defaulted Exposures) owed to the JIB, its parent undertakings, its subsidiaries and subsidiaries of its parent undertakings by the obligor or group of connected clients, excluding all *residential* Real Estate Exposures, does not exceed GBP 880,000;
    - III. the exposure is one of a significant number of exposures with similar characteristics such that the risks associated with such exposures are substantially reduced.

## Article 123B Retail Exposures and Residential Real Estate Exposures with a currency mismatch

1. Subject to paragraph 3, a JIB shall apply a 1.5 times multiplier to the applicable risk weight, calculated according to Articles 123 and 124F to 124L, as applicable, subject to a maximum risk weight of 150%, to any unhedged Retail Exposures or unhedged Residential Real Estate Exposures that are assigned to the exposure classes referred to in points (h) and (i) of Article 112(1) where:
  - (a) the obligor is a natural person and the lending currency differs from the currency of the obligor's source of income; or
  - (b) the obligor is an entity created specifically to finance and/or operate immovable property where:
    - I. one or more natural persons is a guarantor to the exposure and receives an economic benefit from the Residential Real Estate; and
    - II. the lending currency differs from the currency of the guarantor's source of income.
2.
  - (a) For the purposes of paragraph 1, an exposure is hedged if:
    - I. the obligor (or, where the obligor is an entity described in point (b) of paragraph 1, the obligor, guarantor or both) has a Natural Hedge or a Financial Hedge against the foreign exchange risk resulting from the currency mismatch between the lending currency and:
      - (1) the currency of the obligor's income; or
      - (2) for the purpose of point (b) of paragraph 1, the currency of the guarantor's income; and
    - II. all such Natural Hedges or Financial Hedges together cover at least 90% of any instalment for the exposure.
  - (b) For the purpose of point (a)(ii) of paragraph 2, the value of a Natural Hedge comprising assets held by the obligor (or, where the obligor is an entity described in point (b) of paragraph 1, by

the obligor or guarantor) shall be determined by applying volatility adjustments to the market value of the assets, assuming they were posted as collateral against an exposure without a currency mismatch and applying a 5-day liquidation period, in accordance with paragraph 2 of Credit Risk Mitigation (CRR) Part Article 223 and Credit Risk Mitigation (CRR) Part Articles 224 to 227.

2A. For the purpose of point (a)(ii) of paragraph 2, where the exposure is a Revolving Facility, the instalment amount shall be:

- (a) the minimum amount required under the contractual arrangements between the JIB and the obligor;
- (b) calculated assuming the Revolving Facility has been fully drawn in accordance with the contractual arrangements between the JIB and the obligor; and
- (c) where the Revolving Facility can be drawn in multiple currencies, calculated ignoring any current drawings and instead assuming the facility is fully drawn in a currency:
  - I. that is different to the obligor's source of income (or, where the obligor is an entity described in point (b) of paragraph 1, a currency that is different to the guarantor's source of income); and
  - II. for which the obligor does not (or if the obligor is an entity described in point (b) of paragraph 1, the obligor and guarantor do not) have Natural Hedges or Financial Hedges that together cover more than 90% of the instalment amount in that currency calculated in accordance with points (a) and (b), unless the facility cannot be drawn in any currency that falls within this point (ii).

3. Where:

- (a) a JIB is unable to identify those exposures with a currency mismatch which are subject to paragraph 1; and
- (b) the exposure was incurred prior to 1 January 2027,

the JIB shall apply the risk weight multiplier of 1.5 to all unhedged Retail Exposures, and unhedged Residential Real Estate Exposures that are assigned to the exposure classes referred to in points (h) and (i) of Article 112(1), except where the lending currency is the same as the domestic currency of the country of residence of the obligor or the country of employment of the obligor, subject to a maximum risk weight of 150%.

4. For the purposes of this Article:

- (a) source of income refers to any source that generates cash-flows to the obligor (or, if the obligor is an entity described in point (b) of paragraph 1, to the guarantor), including from remittances, rental incomes or salaries, whilst excluding proceeds from selling assets or similar recourse actions by the JIB; and
- (b) if the obligor is an entity described in point (b) of paragraph 1:
  - I. in the expression Natural Hedge, obligor shall be construed as obligor or guarantor; and
  - II. in the expression Financial Hedge, where obligor first appears it shall be construed as obligor or guarantor and where obligor subsequently appears it shall be construed as guarantor;

- (c) where the exposure is a Revolving Facility that can be drawn in multiple currencies, the lending currency shall be the currency of the repayment obligation assuming the facility is fully drawn in accordance with point (c) of paragraph 2A.

#### **Article 124 Real Estate Exposures**

1. A JIB shall apply the risk weights set out in Articles 124F to 124I to Regulatory Real Estate Exposures.
2. A JIB shall apply the risk weights set out in Article 124J to Other Real Estate Exposures.
3. A JIB shall apply the risk weights set out in Article 124K to ADC Exposures.
4. A JIB shall split a Mixed Real Estate Exposure into a Residential Real Estate Exposure and a Commercial Real Estate Exposure according to the ratio of the values of the Residential Real Estate and the Commercial Real Estate that the exposure is secured by. A JIB shall assign the relevant risk weights set out in Article 124J to each part of the exposure, unless both the Residential Real Estate Exposure and the commercial Real Estate Exposure parts of the exposure are regulatory Real Estate Exposures, in which case a JIB shall assign the relevant risk weights in Articles 124F to 124I to each part of the exposure.

#### **Article 124A Regulatory Real Estate Exposures**

1. A Real Estate Exposure is a Regulatory Real Estate Exposure if it is not an ADC Exposure and all the following requirements are met:
  - (a) the exposure meets any of the following conditions:
    - I. it is secured by immovable property that has not been acquired or is not held for development and construction purposes;
    - II. it is secured by immovable property that has been acquired or is held for development and construction purposes, and the development and construction is complete; or
    - III. it is a self-build exposure.
  - (b) the following requirements on legal certainty are met:
    - I. the Charge is enforceable in all relevant jurisdictions; and
    - II. the applicable legal framework means the JIB is likely to be able to realise the value of its collateral within a reasonable period following a default;
  - (c) any of the conditions relating to Charges set out in points (a) to (c) of paragraph 2 are met;
  - (d) the value of the property is determined in accordance with Article 124D;
  - (e) the value of the property that the exposure is secured by does not materially depend on the performance of the borrower; and
  - (f) the JIB has in place procedures to monitor that the property is adequately insured against the risk of damage.
2. An exposure satisfies the criteria in point (c) of paragraph 1 if any of the following conditions are met:
  - (a) the exposure is secured by a First Charge over the property;

- (b) the JIB holds all other Charges over the same property ranking in priority ahead of the Charge that the exposure is secured by; or
- (c) all of the following conditions are met:
- I. the Charge that the exposure is secured by provides the holder with a claim for collateral that is legally enforceable and constitutes an effective credit risk mitigant;
  - II. each entity holding a Charge on a property can initiate the sale of the property independently from other entities holding a Charge on the property; and
  - III. entities holding a Charge on a property are required to take reasonable steps to obtain a fair market value or the best price that may be obtained in the circumstances when exercising any power of sale.

Near Final Draft

#### **Article 124B underwriting standards for Real Estate Exposures**

1. A JIB shall have an underwriting policy for originating Real Estate Exposures which shall, at a minimum, require the JIB to assess the ability of the borrower to repay.

#### **Article 124C Determining the loan-to-value for Regulatory Real Estate Exposures**

1. The loan-to-value (LTV) for Regulatory Real Estate Exposures for the purposes of Articles 124G and 124I is the amount of the loan divided by the value of the property.
2. The amount of the loan shall include the outstanding loan amount and any undrawn committed amount of the mortgage loan, without taking into account credit risk adjustments and other own funds reductions related to the exposure, or any form of funded or unfunded credit protection, except for pledged deposits accounts with the lending JIB that meet all requirements for On-Balance Sheet Netting set out in the Credit Risk Mitigation (CRR) Part and that have been unconditionally and irrevocably pledged for the sole purposes of payment of the loan.
3. The amount of the loan which is used for the calculation of the LTV shall include all other loans secured with Charges ranking in priority ahead of or pari passu with the Charge that the exposure is secured by. If there is insufficient information to determine the ranking of other Charges the JIB shall rank the other Charges pari passu with the Charge that the exposure is secured by.
4. The value of the property shall be determined in accordance with Article 124D.

#### **Article 124D Valuation requirements for immovable property for the purposes of the Standardised Approach**

1. This Article applies for the purpose of applying the Standardised Approach to Regulatory Real Estate Exposures only.
2. A JIB shall monitor the market value of the property on a frequent basis. It shall carry out more frequent monitoring where the market is subject to significant changes in conditions.
3. Subject to paragraph 9, the value of the property is equal to the most recent valuation that has been obtained in accordance with paragraphs 4 to 7 and 11 (a qualifying valuation).
4. A JIB shall obtain a valuation when it issues a new loan for the purchase of the property or when the JIB otherwise issues a new loan secured on the property (including for the purpose of replacing an existing loan of an existing or new obligor).
5. A JIB shall obtain an updated valuation of the property within a reasonable amount of time in any of the following circumstances:
  - (a) if an event occurs that results in a likely permanent reduction in the property's value, the JIB shall obtain an updated valuation which confirms the decrease in value;
  - (b) if the JIB estimates that the value of the property has decreased by more than 10% relative to the last qualifying valuation as a result of a broader decrease in market prices, the JIB shall obtain an updated valuation which confirms the decrease in value;
  - (c) where the amount of the loan is more than GBP 2.6 million or 5% of the own funds of the JIB, and three years have passed since the last qualifying valuation took place; or
  - (d) five years have passed since the last qualifying valuation.
6. If modifications are made to the property that unequivocally increase its value, the JIB may obtain an updated valuation to confirm the increase in value.

7. If a JIB has revalued the property in accordance with point (b) of paragraph 5, it may use the date of that valuation, or the date of the previous qualifying valuation that was not obtained in accordance with point (b) of paragraph 5, to calculate whether it has to obtain an updated valuation in accordance with points (c) or (d) of paragraph 5.
8. For the purpose of determining the value of the property or the underlying land value under paragraphs 3 to 7 and 9 to 11, a JIB shall only use a valuation that:
  - (a) is provided by a suitably robust statistical method or by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation;
  - (b) excludes expectations on price increases;
  - (c) where a market value can be determined, is not higher than the market value; and
  - (d) where the mortgage loan is financing the purchase of the property, is not higher than the effective purchase price.
9. Where an exposure is a Self-Build Exposure, the value of the property shall, subject to paragraph 10, be the higher of:
  - (a) the underlying land value obtained by the JIB when the JIB issued a new mortgage loan for the purchase of the property before construction began; and
  - (b) the most recent qualifying valuation of the property multiplied by 0.8.
10. Where a JIB is required to obtain an updated valuation for a Self-Build Exposure in accordance with points (a) or (b) of paragraph 5, the value of the property shall be:
  - (a) where an updated estimate of the underlying land value is not available, the updated property valuation multiplied by 0.8; or
  - (b) where an updated estimate of the underlying land value is available, the higher of:
    - I. the updated property valuation multiplied by 0.8; and
    - II. the updated estimate of the underlying land value.
11. For the purposes of paragraph 3 in relation to exposures incurred before 1 January 2027:
  - (a) paragraph 4 shall be read as if it was in force from the time the exposure was incurred;
  - (b) where one or more of the following circumstances applies:
    - I. it is not reasonably practicable for the JIB to identify a valuation obtained in accordance with paragraph 4;
    - II. the amount of the loan is more than GBP 2.6 million or 5% of the own funds of the JIB, and three years have passed since a valuation was obtained in accordance with paragraph 4; or
    - III. five years have passed since a valuation was obtained in accordance with paragraph 4,
    - IV. the most recent valuation obtained by the JIB before 1 January 2027 shall be a qualifying valuation.

**Article 124E Determining whether a Real Estate Exposure is materially dependent on the cash-flows generated by the property**

1. A JIB shall assess whether a Residential Real Estate Exposure is materially dependent on the cash-flows generated by the property. A Residential Real Estate Exposure is materially dependent on the cash-flows generated by the property unless it is:
  - (a) to one or more natural persons and the exposure is secured by a single property that is the obligor's primary residence;
  - (b) to one or more natural persons that individually meet the three property limit in accordance with paragraph 2;
  - (c) to an entity which was created specifically to finance and/or operate immovable property, where one or more natural persons act as a guarantor to the exposure and receive the sole economic benefit from the residential real estate and the entity meets the three property limit in accordance with paragraph 3;
  - (d) to a public housing company or not-for-profit association regulated in the UK that exists to serve social purposes and to offer tenants long-term housing (a social housing exposure); or
  - (e) to an association or a cooperative of natural persons that exists with the sole purpose of granting its members the use of a primary residence in the property securing the loans.
2. A natural person meets the three property limit referred to in point (b) of paragraph 1 if they have no more than three qualifying properties. A qualifying property is a property that is Residential Real Estate, is not the primary residence of the natural person and that is either:
  - (a) security for a Residential Real Estate Exposure to the natural person, regardless of which lender has the Residential Real Estate Exposure; or
  - (b) security for a Residential Real Estate Exposure to an entity which is created specifically to finance and/or operate immovable property, where the natural person acts as a guarantor to the exposure and receives the economic benefit from the Residential Real Estate, regardless of which lender has the Residential Real Estate Exposure.
3. An entity meets the three property limit referred to in point (c) of paragraph 1 if all of the following conditions are met:
  - (a) the entity does not have more than three qualifying properties. A qualifying property is a property that is Residential Real Estate, is not the primary residence of the guarantor, and is security for a Residential Real Estate Exposure to the entity, regardless of which lender has the Real Estate Exposure;
  - (b) the guarantor or guarantors, if any, are the same for all *residential* Real Estate Exposures to the entity, regardless of which lender has the Real Estate Exposure; and
  - (c) the guarantor or guarantors each themselves meet the three property limit in accordance with paragraph 2.

4. For the purposes of paragraphs 1 to 3, each separate housing unit shall count as an individual property, including for Real Estate Exposures secured by a single Charge.
5. A JIB shall reassess whether a Residential Real Estate Exposure meets any of the conditions of paragraph 1 when it issues a new loan secured by Residential Real Estate to the obligor (including for the purpose of replacing an existing loan to the obligor). A JIB may update its assessment of whether a Residential Real Estate Exposure meets any of the conditions of paragraph 1 at other times, provided new information is gathered and used in a consistent way across its portfolio and updates are not applied selectively in order to reduce own funds requirements.
6. A JIB shall assess whether a Commercial Real Estate Exposure is materially dependent on the cash-flows generated by the property. A Commercial Real Estate Exposure is materially dependent on the cash-flows generated by the property except where each property that the exposure is secured by is predominantly used by the borrower for its own business purpose, and the business purpose does not include generating income from the property on the basis of a rental agreement.
7. A JIB shall reassess at least annually whether the Commercial Real Estate Exposure is materially dependent on the cash-flows generated by the property.

**Article 124F Risk weights for Regulatory Residential Real Estate Exposures that are not materially dependent on the cash-flows generated by the property**

1. A JIB shall assign a risk weight to a Regulatory Residential Real Estate Exposure that is not materially dependent on the cash-flows generated by the property as follows:
  - (a) the part of the exposure up to 55% of the value of the property shall be assigned a risk weight of 20%; and
  - (b) the risk weight of the counterparty shall be applied to the residual part of the exposure, if any, in accordance with Article 124L.
2. For the purposes of point (a) of paragraph 1, where there are Charges on the property that are not held by the JIB and rank in priority either ahead of, or pari passu with, the Charge that the exposure is secured by, the part of the JIB's exposure that is eligible for the 20% risk weight shall be determined as follows:
  - (a) if the exposure is secured by a Junior Charge, the amount of 55% of the value of the property shall be reduced by the amount of any Charges not held by the JIB that rank in priority ahead of the Charge that the exposure is secured by;
  - (b) where Charges not held by the JIB rank pari passu with the Charge that the exposure is secured by, the amount of 55% of the value of the property, reduced by the amount of any Charges not held by the JIB that rank in priority ahead of the Charge that the exposure is secured by, if any, shall be reduced by the product of:
    - I. 55% of the value of the property, reduced by the amount of any Charges that rank in priority ahead of the Charge that the exposure is secured by, if any, including Charges held by and not held by the JIB; and
    - II. the amount of Charges not held by the JIB that rank pari passu with the Charge that the exposure is secured by, divided by the sum of all pari passu Charges, including Charges held and not held by the JIB.

**Article 124G Risk weights for Regulatory Residential Real Estate Exposures that are materially dependent on the cash-flows generated by the property**

1. Subject to paragraph 2, a JIB shall assign a risk weight to the entirety of a Regulatory Residential Real Estate Exposure that is materially dependent on the cash-flows generated by the property in accordance with Table 6B:

Table 6B

<b>Loan-to-value</b>	LTV ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 70%	70% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
<b>Risk weight</b>	30%	35%	40%	50%	60%	75%	105%

2. Where a Regulatory Residential Real Estate Exposure is materially dependent on the cash-flows from the property and there are Charges not held by the JIB ranking in priority ahead of the Charge that the exposure is secured by, the JIB shall multiply the risk weight that would otherwise be assigned in accordance with Table 6B by 1.25 if the LTV is more than 50%.

**Article 124H Risk weights for Regulatory Commercial Real Estate exposures that are not materially dependent on the cash-flows generated by the property**

1. A JIB shall assign a risk weight to a Regulatory Commercial Real Estate Exposure to a natural person or SME that is not materially dependent on the cash-flows generated by the property as follows:
  - (a) the part of the exposure up to 55% of the value of the property shall be assigned a risk weight of 60%; and
  - (b) the risk weight of the counterparty shall be assigned to the residual part of the exposure, if any, in accordance with Article 124L.
2. For the purposes of paragraph 1, where there are Charges on the property that are not held by the JIB that rank in priority either ahead of, or pari passu with, the Charge that the exposure is secured by, the part of the JIB's exposure that is eligible for the 60% risk weight shall be determined as follows:
  - (a) if the exposure is secured by a Junior Charge, the amount of 55% of the value of the property shall be reduced by the amount of any Charges not held by the JIB that rank in priority ahead of the Charge that the exposure is secured by;
  - (b) where Charges not held by the JIB rank pari passu with the Charge that the exposure is secured by, the amount of 55% of the value of the property, reduced by the amount of Charges not held by the JIB that rank in priority ahead of the Charge that the exposure is secured by, if any, shall be reduced by the product of:
    - I. 55% of the value of the property, reduced by the amount of any Charges that rank in priority ahead of the Charge that the exposure is secured by, if any, including Charges held by and not held by the JIB; and
    - II. the amount of Charges not held by the JIB that rank pari passu with the Charge that the exposure is secured by divided by the sum of all pari passu Charges, including Charges held and not held by the JIB.

3. A JIB shall, to the entirety of a Regulatory Commercial Real Estate Exposure that is not to a natural person or an SME and that is not materially dependent on the cash-flows generated by the property, assign a risk weight that is the higher of:
  - (a) 60%; and
  - (b) the lower of:
    - I. the risk weight of the counterparty in accordance with point (e) of Article 124L(1); and
    - II. the risk weight that would be assigned to the exposure under Article 124I if the exposure was materially dependent on the cash-flows generated by the property.

**Article 124I Risk weights for Regulatory Commercial Real Estate Exposures that are materially dependent on the cash-flows generated by the property**

1. Subject to paragraph 3, a JIB shall assign a risk weight of 100% to the entirety of a Regulatory Commercial Real Estate Exposure that is materially dependent on the cash-flows generated by the property where the LTV is less than or equal to 80%.
2. Subject to paragraph 3, a JIB shall assign a risk weight of 110% to the entirety of a Regulatory Commercial Real Estate Exposure that is materially dependent on the cash-flows generated by the property where the LTV is greater than 80%.
3. Where a Commercial Real Estate Exposure is materially dependent on cash-flows generated by the property and there are Charges not held by the JIB that rank in priority ahead of the Charge that the exposure is secured by, a JIB shall assign a risk weight of:
  - (a) 100% to the whole of the exposure if the LTV is less than or equal to 60%;
  - (b) 125% to the whole of the exposure if the LTV is greater than 60% and less than or equal to 80%; or
  - (c) 137.5% to the whole of the exposure if the LTV is greater than 80%.

**Article 124J Risk weights for Other Real Estate Exposures**

1. A JIB shall assign a risk weight of 150% to any Other Real Estate Exposure that is materially dependent on the cash-flows generated by the property.
2. A JIB shall assign a risk weight equal to the risk weight of the counterparty in accordance with Article 124L to any Other Real Estate Exposure that is a Residential Real Estate Exposure and that is not materially dependent on the cash-flows generated by the property.
3. A JIB shall assign to any Other Real Estate Exposure that is a Commercial Real Estate Exposure and that is not materially dependent on the cash-flows generated by the property a risk weight that is the higher of:
  - (a) 60%; and
  - (b) the risk weight of the counterparty in accordance with Article 124L.

**Article 124K Risk weights for ADC Exposures**

1. Subject to paragraph 2, a JIB shall assign a risk weight of 150% to an ADC Exposure.
2. A JIB may assign a risk weight of 100% to an ADC Exposure financing any land acquisition for the development and construction of Residential Real Estate, or financing the development and construction of Residential Real Estate if:

- (a) the exposure is subject to prudent underwriting standards, including for the valuation of any real estate used as security for the exposure; and
- (b) at least one of the following conditions is met:
  - I. legally binding pre-sale or pre-lease contracts for the sale or lease of the relevant land or Residential Real Estate, for which the purchaser or tenant has made a substantial cash deposit which is subject to forfeiture if the contract is terminated, amount to a significant portion of total contracts; or
  - II. the borrower has substantial equity at risk.

**Article 124L Counterparty risk weights for Real Estate Exposures**

1. For the purposes of point (b) of Article 124F(1), Article 124H(1) and (3) and Article 124J(2) and (3), the relevant counterparty risk weights are:
  - (a) for an exposure to a natural person or persons that is not an exposure to an SME, 75%;
  - (b) for an exposure to an SME that would meet the qualifying conditions for a Retail Exposure if Article 123(2) was disapplied, 75%;
  - (c) for an exposure to an SME that does not satisfy the criteria in point (b) of this paragraph, 85%;
  - (d) for Residential Real Estate Exposures that are social housing exposures under point (d) of Article 124E(1), or *residential* Real Estate Exposures to an association or cooperative of natural persons under point (e) of Article 124E(1), the higher of:
    - I. 75%; and
    - II. the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part; or
  - (e) for exposures to other counterparties, the risk weight that would be assigned to an unsecured exposure to that counterparty under this Part.

**Article 125 Exposures fully and completely secured by mortgages on residential property**

**Article 126 Exposures fully and completely secured by mortgages on commercial immovable property**

**Article 127 Exposures in default**

1. Subject to paragraph 3, the part of any item or facility which is not secured by recognised collateral or covered by recognised unfunded credit protection and is a Defaulted Exposure shall be assigned a risk weight of:
  - (a) 150%, where the amount of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) is less than 20% of the outstanding amount of the item or facility; or
  - (b) 100%, where the amount of specific credit risk adjustments (in accordance with Credit Risk: General Provisions (CRR) Part Article 110 and Commission Delegated Regulation (EU) No 183/2014) is equal to or greater than 20% of the outstanding amount of the item or facility.

2. For the purpose of paragraph 1, the part of the Defaulted Exposure not secured by recognised collateral or covered by recognised unfunded credit protection shall be determined based on the collateral or unfunded credit protection that the JIB has recognised under the Credit Risk Mitigation (CRR) Part in accordance with the method the JIB has applied to recognise that collateral or unfunded credit protection under paragraph 2 of Credit Risk Mitigation (CRR) Part Article 191A.
3. A Residential Real Estate Exposure which is a Defaulted Exposure and is not materially dependent on the cash-flows of the property shall be assigned a risk weight of 100%.

**Article 128 Exposures associated with particularly high risk**

1. A JIB shall assign a 150% risk weight to exposures that are associated with particularly high risk.
2. [deliberately left blank]
3. When assessing whether an exposure is associated with particularly high risk, a JIB shall take into account the following risk characteristics:
  - (a) there is a high risk of loss as a result of a default of the obligor;
  - (b) it is impossible to assess adequately whether the exposure falls under point (a).

**Article 129 Exposures in the form of Eligible Covered Bonds**

1. Subject to paragraph 6, Eligible Covered Bonds are CRR covered bonds which meet the requirements in paragraphs 3 and 7 and are collateralised by any of the following eligible assets:
  - (a) exposures to or guaranteed by:
    - I. the central government of the UK;
    - II. the Bank of England;
    - III. a regional government of the UK; or
    - IV. a public sector entity or local authority in the UK;
  - (b) exposures to or guaranteed by:
    - I. Third Country central governments;
    - II. Third Country central banks;
    - III. multilateral development banks;
    - IV. international organisations referred to in Article 118(1);
    - V. Third Country public sector entities that are risk-weighted in accordance with Article 116(1) or (2) and that qualify for the credit quality step 1 as mapped in Article 136A.
    - VI. Third Country regional governments or Third Country local authorities that are risk-weighted in accordance with Article 115(1) or which are risk-weighted as exposures to Institutions or central governments or central banks in accordance with Article 115(4) of CRR and that qualify for the credit quality step 1 as mapped in Article 136A.
    - VII. exposures within the meaning of this point (b) that qualify as a minimum for the

credit quality step 2 as mapped in Article 136A, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of the issuing Institutions;

- (c) exposures to Institutions that have a credit assessment which corresponds with a credit quality step of 1 or 2 as mapped in Article 136A, provided that the total exposures of this kind shall not exceed 15% of the nominal amount of outstanding covered bonds of the issuing Institution;
- (d) loans secured by Residential Real Estate up to the lesser of the principal amount of the Charges that are combined with any prior Charges and 80% of the value of the pledged properties;
- (e) [deliberately left blank]
- (f) eligible loans secured by commercial immovable property up to the lesser of the principal amount of the Charges that are combined with any prior Charges and 60% of the value of the pledged properties. Loans secured by commercial immovable property are eligible for the purpose of this point (f) where:
  - I. the loan to value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10%;
  - II. the bondholders' claim meets the legal certainty requirements set out in the Credit Risk Mitigation (CRR) Part; and
  - III. the bondholders' claim shall take priority over all other claims on the collateral;
- (g) loans secured by maritime liens on ships up to the difference between 60% of the value of the pledged ship and the value of any prior maritime liens.

- 1A. For the purposes of point (c) of paragraph 1, exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the limits referred to in those points.
2. The situations referred to in points (a) to (f) of paragraph 1 shall also include collateral that is exclusively restricted by legislation to the protection of the bondholders against losses.
3. Immovable property collateralising Eligible Covered Bonds shall meet:
  - (a) the requirements set out in Credit Risk Mitigation (CRR) Part Article 208 excluding the requirement to review valuations in the event of default set out in point (b)(i) of paragraph 3 of that Article; and
  - (b) the valuation rules set out in paragraph 1 of Credit Risk Mitigation (CRR) Part Article 229, excluding the adjustments to reflect prior Charges set out in points (b) and (c) of that Article.
4. Eligible Covered Bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight in accordance with Table 7 which corresponds to the credit assessment of the ECAI as mapped in Article 136A.

Table 7

<b>Credit quality step</b>	1	2	3	4	5	6
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<b>Risk weight</b>	10%	20%	20%	50%	50%	100%
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- 4A. A JIB shall conduct due diligence to ensure that the external credit assessments appropriately and prudently reflect the creditworthiness of the Eligible Covered Bonds to which the JIB is exposed. If the due diligence analysis reflects higher risk characteristics than that implied by the credit quality step of the exposure, the JIB shall assign a risk weight associated with a credit quality step that is at least one step higher than the risk weight determined by the external credit assessment.
5. Eligible Covered Bonds for which a credit assessment by a nominated ECAI is not available shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the Institution which issues them. The following correspondence between risk weights shall apply:
- (a) if the exposures to the Institution are assigned a risk weight of 20%, the Eligible Covered Bonds shall be assigned a risk weight of 10%;
  - (aa) if the exposures to the Institution are assigned a risk weight of 30%, the Eligible Covered Bonds shall be assigned a risk weight of 15%;
  - (ab) if the exposures to the Institution are assigned a risk weight of 40%, the Eligible Covered Bonds shall be assigned a risk weight of 20%;
  - (b) if the exposures to the Institution are assigned a risk weight of 50%, the Eligible Covered Bonds shall be assigned a risk weight of 25%;
  - (ba) if the exposures to the Institution are assigned a risk weight of 75%, the Eligible Covered Bonds shall be assigned a risk weight of 35%;
  - (c) if the exposures to the Institution are assigned a risk weight of 100%, the Eligible Covered Bonds shall be assigned a risk weight of 50%; or
  - (d) if the exposures to the Institution are assigned a risk weight of 150%, the Eligible Covered Bonds shall be assigned a risk weight of 100%.
6. CRR covered bonds issued before 31 December 2007 which meet the requirements of paragraph 7 shall be Eligible Covered Bonds until their maturity and shall not be subject to the requirements of paragraphs 1 and 3.
7. CRR covered bonds are only Eligible Covered Bonds where the JIB investing in the CRR covered bonds:
- (a) receives portfolio information at least on:
    - I. the value of the cover pool and outstanding CRR covered bonds;
    - II. the geographical distribution and type of cover assets, loan size, interest rate and currency risks;
    - III. the maturity structure of cover assets and CRR covered bonds; and
    - IV. the percentage of loans more than 90 days past due; and
  - (b) the issuer makes the information referred to in point (a) available to the JIB at least semi-annually.

**Article 130**      **Items representing securitisation positions**

**Article 131**      **Exposures to Institutions and corporates with a short-term credit assessment**

## **Article 132 Own funds requirements for exposures in the form of units or shares in CIUs**

1. A JIB shall calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by multiplying the risk-weighted exposure amount of the CIU's exposures, calculated in accordance with the approaches referred to in the first sub-paragraph of paragraph 2, with the percentage of units or shares held by those JIBs.
2. Where the conditions set out in paragraph 3 are met, a JIB may apply the look-through approach in accordance with Article 132A(1) or the mandate-based approach in accordance with Article 132A(2).

Subject to Article 132B(2), a JIB that does not apply the look-through approach or the mandate-based approach shall assign a risk weight of 1,250% ('fall-back approach') to their exposures in the form of units or shares in a CIU.

A JIB may calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by using a combination of the approaches referred to in this paragraph, provided that the conditions for using those approaches are met.

3. A JIB may determine the risk-weighted exposure amount of a CIU's exposures in accordance with the approaches set out in Article 132A where all the following conditions are met:
  - (a) [deliberately left blank]
  - (b) the CIU's prospectus or equivalent document includes the following:
    - I. the categories of assets in which the CIU is authorised to invest;
    - II. where investment limits apply, the relative limits and the methodologies to calculate them; and
  - (c) reporting by the CIU or the CIU management company to the JIB complies with the following requirements:
    - I. the exposures of the CIU are reported at least quarterly;
    - II. the granularity of the financial information is sufficient to allow the JIB to calculate the CIU's risk-weighted exposure amount in accordance with the approach chosen by the JIB; and
    - III. where the JIB applies the look-through approach, information about the underlying exposures is verified by an independent third party.

By way of derogation from point (c)(i) of the first sub-paragraph, where the JIB determines the risk-weighted exposure amount of a CIU's exposures in accordance with the mandate-based approach, the reporting by the CIU or the CIU management company to the JIB may be limited to the investment mandate of the CIU and any changes thereof and may be done only when the JIB incurs the exposure to the CIU for the first time and when there is a change in the investment mandate of the CIU.

4. A JIB that does not have adequate data or information to calculate the risk-weighted exposure amount of a CIU's exposures in accordance with the approaches set out in Article 132A may rely on the calculations of a third party, provided that all the following conditions are met:
  - (a) the third party is one of the following:
    - I. the depository Institution or the depository Financial Institution of the CIU, provided that the CIU exclusively invests in securities and deposits all securities

at that depository Institution or depository Financial Institution;

II. for CIUs not covered by point (a)(i), the CIU management company;

(b) the third party carries out the calculation in accordance with the approaches set out in Article 132A(1), (2) or (3), as applicable; and

(c) an external auditor has confirmed the correctness of the third party's calculation.

A JIB that relies on third-party calculations shall multiply the risk-weighted exposure amount of a CIU's exposures resulting from those calculations by a factor of 1.2.

By way of derogation from the second sub-paragraph, where the JIB has unrestricted access to the detailed calculations carried out by the third party, the factor of 1.2 shall not apply. The JIB shall be able to, upon request by the JFSC provide those calculations.

5. Where a JIB applies the approaches referred to in Article 132A for the purpose of calculating the risk-weighted exposure amount of a CIU's exposures ('level 1 CIU'), and any of the underlying exposures of the level 1 CIU is an exposure in the form of units or shares in another CIU ('level 2 CIU'), the risk-weighted exposure amount of the level 2 CIU's exposures may be calculated by using any of the three approaches described in paragraph 2. The JIB may use the look-through approach to calculate the risk-weighted exposure amounts of CIUs' exposures in level 3 and any subsequent level only where it used that approach for the calculation in the preceding level. In any other scenario it shall use the fall-back approach.
6. The risk-weighted exposure amount of a CIU's exposures calculated in accordance with the look-through approach and the mandate-based approach set out in Article 132A(1) and (2) shall be capped at the risk-weighted amount of that CIU's exposures calculated in accordance with the fall-back approach.
7. By way of derogation from paragraph 1, a JIB that applies the look-through approach in accordance with Article 132A(1) may calculate the risk-weighted exposure amount for their exposures in the form of units or shares in a CIU by multiplying the exposure values of those exposures, calculated in accordance with Article 111, with the risk weight ( $RW \cdot i$ ) calculated in accordance with the formula set out in Article 132C, provided that the following conditions are met:
  - (a) the JIB measures the value of its holdings of units or shares in a CIU at historical cost but measures the value of the underlying assets of the CIU at fair value if it applies the look-through approach; and
  - (b) a change in the market value of the units or shares for which the JIB measures the value at historical cost changes neither the amount of own funds of the JIB nor the exposure value associated with those holdings.
8.
  - (a) A JIB shall notify the JFSC if either:
    - I. the total risk-weighted exposure amounts for all of its exposures in the form of units or shares in Relevant CIUs exceed 0.5% of the JIB's total risk-weighted exposures for credit risk; or
    - II. the total exposure values for all of its exposures in the form of units or shares in Relevant CIUs exceed GBP 500 million;in each case calculated on an individual or consolidated basis.

- (b) A JIB shall make the notification in point (a) of this paragraph promptly if:
  - I. at any time either of the thresholds in point (a)(i) or (ii) of this paragraph is reached; and
  - II. until such time as it makes a notification under point (c) of this paragraph, on an annual basis thereafter.
- (c) A JIB which has made or is required to have made a notification under point (a) of this paragraph shall also notify the JFSC promptly when both the total risk-weighted exposure amounts and total exposure values are below the relevant thresholds set out in point (a)(i) and (ii) of this paragraph.
- (d) A JIB shall include in the notification made under point (a) of this paragraph:
  - I. a list of the countries in which fund managers of all Relevant CIUs to which it is exposed are located; and
  - II. the total exposure values and total risk-weighted exposure amounts in respect of its exposures in the form of units or shares in Relevant CIUs for each of those countries.

**Article 132A Approaches for calculating risk-weighted exposure amounts of CIUs**

1. Where the conditions set out in Article 132(3) are met, a JIB that has sufficient information about the individual underlying exposures of a CIU shall look through to those exposures to calculate the risk-weighted exposure amount of the CIU, risk weighting all underlying exposures of the CIU as if they were directly held by the JIB.
2. Where the conditions set out in Article 132(3) are met, a JIB that does not have sufficient information about the individual underlying exposures of a CIU to use the look-through approach may calculate the risk-weighted exposure amount of those exposures in accordance with the limits set in the CIU's mandate and relevant law.

A JIB shall carry out the calculations referred to in the first sub-paragraph under the assumption that the CIU first incurs exposures to the maximum extent allowed under its mandate or relevant law in the exposures attracting the highest own funds requirement and then continues incurring exposures in descending order until the maximum total exposure limit is reached, and that the CIU applies leverage to the maximum extent allowed under its mandate or relevant law, where applicable.

3. [deliberately left blank]
4. [deliberately left blank]
5. Where a JIB calculates the risk-weighted exposure amount of a CIU's exposures in accordance with paragraph 2, and where one or more of the inputs required for the calculation in Sections 3, 4 or 5 of Chapter 3 of Counterparty Credit Risk (CRR) Part is not available, the JIB shall carry out the calculation as follows:
  - (a) Where the replacement cost is unknown, the JIB shall set the replacement cost equal to the sum of the notional amounts of the derivatives in the netting set, and where relevant the multiplier referred to in paragraph 1 of Counterparty Credit Risk (CRR) Part Article 278 shall be set equal to 1.
  - (b) Where the potential future exposure is unknown, the JIB shall set the potential future exposure as referred equal to 15% of the sum of the notional amounts of the derivatives in the netting set.

**Article 132B Exclusions from the approaches for calculating risk-weighted exposure amounts of CIUs**

1. A JIB may exclude from the calculations referred to in Article 132 Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, and eligible liabilities instruments held by a CIU which the JIB shall deduct in accordance with Articles 36(1), 56 and 66 of Own Funds (CRR) Part respectively.
2. A JIB may exclude from the calculations referred to in Article 132 the following exposures that are in the form of units or shares in CIUs:
  - (a) Equity Exposures to entities whose credit obligations are assigned a 0% risk weight under this Part, including those publicly sponsored entities where a 0% risk weight can be applied; and
  - (b) Equity Exposures incurred under legislative programmes to promote specified sectors of the economy that provide significant subsidies for the investment to the JIB and involve some form of government oversight and restrictions on the equity investments,and, in each case, apply the treatment set out in Article 133 to those exposures instead.

**Article 132C Treatment of off-balance-sheet exposures to CIUs**

1. A JIB shall calculate the risk-weighted exposure amount for their off-balance sheet items with the potential to be converted into exposures in the form of units or shares in a CIU by multiplying the exposure values of those exposures calculated in accordance with Article 111 with the following risk weight:
  - (a) for all exposures for which a JIB uses one of the approaches set out in Article 132A:

$$RW_i^* = \frac{RWEA_i}{E_i^*} \cdot \frac{A_i}{EQ_i}$$

where:

$RW_i^*$  = the risk weight;

$i$  = the index denoting the CIU;

$RWEA_i$  = the risk weighted - exposure amount calculated in accordance with Article 132A for a CIU $_i$ ;

$E_i^*$  = the exposure value of the exposures of CIU $_i$ ;

$A_i$  = the accounting value of assets of CIU $_i$ ; and

$EQ_i$  = the accounting value of the equity of CIU $_i$ .

- (b) for all other exposures,  $RW_i^* = 1,250\%$ .

**Article 133 Subordinated debt, equity and other own funds instruments**

1. An exposure that is a subordinated debt instrument, an own funds instrument or an equity instrument (including any relevant investments referred to in paragraph 1A) shall be categorised as an Equity Exposure if:
  - (a) the return of invested funds can be achieved only by the sale of the investment or sale of the

rights to the investment or by the liquidation of the issuer;

- (b) it does not put an obligation on the issuer; and
- (c) it conveys a residual claim on the assets or income of the issuer.

1A. For the purposes of paragraph 1, relevant investments include:

- (a) a holding of derivative instruments tied to equity interests, and holdings in corporations, partnerships, limited liability companies or other types of enterprises that issue ownership interests and are engaged principally in the business of investing in equity instruments;
- (b) a debt obligation or other security, partnership, derivative or other vehicle structured with the intent of conveying the economic substance of equity ownership, including liabilities from which the return is linked to that of equities; and
- (c) equities that are recorded as a loan but arise from a debt/equity swap made as part of the orderly realisation or restructuring of the debt.

2. In addition to instruments falling within scope of paragraph 1, exposures that are any of the following instruments shall be categorised as Equity Exposures:

- (a) an instrument with the same structure as those permitted as Tier 1 Capital for Institutions; or
- (b) an instrument that puts an obligation on the issuer and meets any of the following conditions:
  - i. the issuer may defer indefinitely the settlement of the obligation;
  - ii. the obligation requires (or permits at the issuer's discretion) settlement by issuance of a fixed number of the issuer's equity shares;
  - iii. the obligation requires (or permits at the issuer's discretion) settlement by issuance of a variable number of the issuer's equity shares and (all else being equal) any change in the value of the obligation is attributable to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer's equity shares; or
  - iv. the holder has the option to require that the obligation be settled in equity shares, unless:
    - 1. in the case of a traded instrument, the JIB is able to demonstrate that the instrument trades more like the debt of the issuer than like its equity;
    - 2. in the case of a non-traded instrument, the JIB is able to demonstrate that the instrument should be treated as a debt position.

3. An equity exposure shall be assigned a risk weight of 250%, unless the exposure is a *higher risk equity exposure*, in which case the treatment in paragraph 4 applies, or is within scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

4. A Higher Risk Equity Exposure shall be assigned a risk weight of 400%, unless the exposure is within the scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

5. A JIB shall assign a risk weight of 150% to an exposure that is a subordinated debt instrument, an own funds instrument or an equity instrument and is not classified as an Equity Exposure, unless the exposure is within scope of paragraph 6, in which case the treatment referred to in paragraph 6 applies.

6. The exposures within scope of this paragraph are:

- (a) exposures required to be deducted from own funds in accordance with the Own Funds Part;

- (b) exposures assigned a risk weight of 1,250% in accordance with the Own Funds Part; and
- (c) exposures assigned a risk weight of 250% in accordance with the Own Funds Part.

#### **Article 134 Other items**

1. Tangible assets within the meaning of item 10 under the heading 'Assets' in Article 4 of Directive 86/635/EEC UK law shall be assigned a risk weight of 100%.
2. Prepayments and accrued income for which a JIB is unable to determine the counterparty in accordance with Directive 86/635/EEC UK law shall be assigned a risk weight of 100%.
3. Cash items in the process of collection shall be assigned a 20% risk weight. Cash in hand and equivalent cash items shall be assigned a 0% risk weight.
4. Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0% risk weight.
5. In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.
6. Where a JIB provides credit protection for a number of exposures subject to the condition that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, the risk weights of the exposures included in the basket shall be aggregated, excluding n-1 exposures, up to a maximum of 1,250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted exposure amount. The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk-weighted exposure amount than the risk-weighted exposure amount of any of the exposures included in the aggregation.
7. The exposure value for leases shall be the discounted minimum lease payments. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make and any bargain option the exercise of which is reasonably certain. Where a party other than the lessee is required to make a payment related to the residual value of a leased property and that payment obligation fulfils the set of conditions in Credit Risk Mitigation (CRR) Part Article 201 regarding the eligibility of protection providers as well as the requirements for recognising other types of guarantees provided in Credit Risk Mitigation (CRR) Part Articles 213 to 215, that payment obligation may be taken into account as unfunded credit protection under the Credit Risk Mitigation (CRR) Part. These exposures shall be assigned to the relevant exposure class in accordance with Article 112. When the exposure is a residual value of leased assets, the risk-weighted exposure amounts shall be calculated as follows:  $1/t * 100% * \text{residual value}$ , where t is the greater of 1 and the nearest number of whole years of the lease remaining.

### **Section 3 Recognition and mapping of credit risk assessment**

#### **Sub-section 1 Recognition of ECAIs**

#### **Article 135 Use of credit assessments by ECAIs**

1. An external credit assessment may be used to determine the risk weight of an exposure under this Part only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009.
2. [deliberately left blank]

**Article 136 Mapping of ECAI's credit assessments**

**Article 136A`The correspondence of the rating categories of each ECAI with the credit quality steps set out in this Part**

1. The correspondence of the rating categories of each ECAI with the credit quality steps set out in this Part shall be that set out in the following table:

Credit quality step	1	2	3	4	6	6
<b>A.M. Best Europe Rating Services Limited</b>						
Long-term issuer credit rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, e, f, s
Long-term issue rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, s
Financial strength rating scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term issuer rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB-4, d, e, f, s		
Short-term issue rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB-4, d, s		
<b>ARC Ratings (UK) Limited</b>						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurance Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, D		
<b>Banque de France</b>						
Global ANACOT long-term issuer credit rating scale	1+	1, 1-	2+, 2, 2-	3+, 3, 3-, 4+, 4, 4-, 5+	5, 5-, 6+, 6, 6-	7, 8, P
<b>Creditreform Rating AG</b>						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, SD, D

Credit quality step	1	2	3	4	6	6
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	C, D
Short-term rating scale	L1	L2	L3	NEL, D		
<b>DBRS Ratings Limited</b>						
Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, R
Expected loss rating scale	AAA(el), AA(el)	A(el)	BBB(el)	BB(el)	B(el)	CCC(el), CC(el), C(el)
<b>Egan-Jones Ratings Co.</b>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1+	A-1	A-2	A-3, B, C, D		
<b>Fitch Ratings Limited</b>						
Long-term issuer default rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations — long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Long-term international Insurer Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty rating scale	AAA dcr, AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr, RD dcr, D dcr
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS rating scale	F1+	F1	F2, F3	B, C		
<b>HR Ratings de México, S.A. de C.V.</b>						

Credit quality step	1	2	3	4	6	6
Global long-term rating scale	HR AAA(G) / HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G) / HR D(G)
Global short-term rating scale	HR+1(G) / HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HRD(G)		
<b>Japan Credit Rating Agency Ltd</b>						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit rating scale	J-1+	J-1	J-2	J-3, NJ, D		
<b>Kroll Bond Rating Agency UK Limited</b>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
<b>Moody's Investors Service Limited</b>						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		
<b>Scope Ratings UK Limited</b>						
Long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D /SD
Short-term rating scale	S-1+	S-1	S-2	S-3, S-4, D / SD		
<b>S&amp;P Global Ratings UK Limited</b>						
Long-term issuer credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD /D
Long-term issue credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

Credit quality step	1	2	3	4	6	6
Insurer financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD / D, R
Long-term Financial Institution Resolution Counterparty Ratings	AAA, AA	A	BBB	BB	B	CCC, CC, SD, D
Mid-Market Evaluation rating scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8 MMD
Short-term issuer credit rating scale	A-1+	A-1	A-2, A-3	B, C, R, SD, D		
Short-term issue credit rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term Financial Institution Resolution Counterparty Ratings	A-1+	A-1	A-2, A-3	B, C, SD / D		

2. Where a rating scale is not mapped to credit quality steps in paragraph 1, for the purposes of assigning a risk weight to an exposure to an institution, the correspondence of the rating categories within that rating scale to the credit quality steps shall be the same as that of a different rating scale which is mapped in paragraph 1, if the following conditions are met:
- (d) the rating scales are produced by the same ECAI;
  - (e) the rating methodologies and key rating assumptions that the ECAI uses to assign items to the rating categories within the unmapped rating scale do not incorporate assumptions of implicit government support; and
  - (f) the rating methodologies and key rating assumptions that the ECAI uses to assign items to the rating categories in the relevant mapped and unmapped rating scales are identical except for the consideration given to assumptions of implicit government support.

### Sub-section 3 Use of credit assessments by Export Credit Agencies

#### Article 137 Use of credit assessments by Export Credit Agencies

1. For the purpose of Article 114, JIBs may use credit assessments of an Export Credit Agency that the JIB has nominated, if either of the following conditions is met:
- (a) it is a consensus risk score from Export Credit Agencies participating in the Organisation for Economic Co-operation and Development (OECD) 'Arrangement on Guidelines for Officially Supported Export Credits'; or
  - (b) the Export Credit Agency publishes its credit assessments, and the Export Credit Agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIPs) that the OECD agreed methodology establishes. A JIB may revoke its nomination of an Export Credit Agency. A JIB shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce capital requirements.

2. Exposures for which a JIB uses a credit assessment by an Export Credit Agency that is recognised for risk weighting purposes shall be assigned a risk weight in accordance with Table 9 instead of Table 1 of Article 114(2).

Table 9

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

### Section 3 Use of the ECAI credit assessments for the determination of risk weights

#### Article 138 General requirements

1. A JIB may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items. A JIB may revoke its nomination of an ECAI. A JIB shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce capital requirements. A JIB shall nominate ECAIs for risk weighting in a way that is consistent with its use of ECAIs in its risk management processes. In using a credit assessment, JIBs shall comply with all of the following requirements:
  - (a) a JIB that has nominated one or more ECAIs shall use the credit assessments produced by the nominated ECAI (or ECAIs) for risk-weighting all types of exposures for which the nominated ECAI (or ECAIs) produce credit assessments;
  - (b) a JIB which decides to use the credit assessments produced by an ECAI shall use them in a continuous and consistent way over time;
  - (c) a JIB shall only use credit assessments that take into account all amounts both in principal and in interest owed to it;
  - (d) where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item;
  - (e) where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
  - (f) where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight of the two shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned; and
  - (g) a JIB shall not use a credit assessment that incorporates assumptions of implicit government support for the purposes of assigning a risk weight to an exposure to a JIB, unless the respective credit assessment applies to a JIB owned by or set up and sponsored by central governments, regional governments or local authorities.
2. A JIB may only use unsolicited credit assessments if:
  - (a) the unsolicited credit assessments of an ECAI do not differ in quality from solicited assessments of that ECAI; and
  - (b) the ECAI has not used an unsolicited credit assessment to put pressure on a rated entity to place an order for a credit assessment or other services,

otherwise, a JIB shall only use solicited credit assessments.

#### **Article 139 Issuer and issue credit assessments**

1. Where a JIB invests in a particular issue that has an issue-specific credit assessment available from a nominated ECAI, that credit assessment shall be used to determine the risk weight to be assigned to exposures to that issue.
  2. Where no directly applicable issue-specific credit assessment from a nominated ECAI exists for a particular issue, but a general credit assessment exists for the issuer, or the issuer has an issue-specific credit assessment for a different issue, then that credit assessment shall be used in either of the following cases:
    - (a) where the credit assessment produces a higher risk weight than if the issue were treated as unrated and the exposure in question ranks pari passu or junior in all respects to either the senior unsecured exposures of that issuer (if a general credit assessment exists for the issuer) or to the rated issue, as relevant;
    - (b) subject to paragraph 2A, where the credit assessment produces a lower risk weight than if the issue were treated as unrated and the exposure in question ranks pari passu or senior in all respects to either the senior unsecured exposures of that issuer (if a general credit assessment exists for the issuer) or to the rated issue, as relevant, and in all other cases, the exposure shall be treated as unrated.
- 2A. Where a general credit assessment is available for an issuer which:
- (a) produces a lower risk weight than if the item were unrated; and
  - (b) only applies to a limited class of liabilities,
- the credit assessment may be used only in respect of exposures that fall within that class.
- 2B. Paragraphs 2 and 2A do not apply for the purposes of Article 122B(1).
- 2C. A credit assessment used by a JIB shall take into account and reflect the entire amount of credit risk exposure the JIB has, in the case of a general credit assessment for a JIB, to the obligor or, in the case of an issue specific credit assessment, in respect of its exposure to the issue.
3. This Article does not prevent the application of Article 129, Article 141, and, subject to paragraph 6, Article 138.
  4. A general credit assessment for an issuer within a corporate group cannot be used as a credit assessment of another issuer within the same corporate group.
  5. A JIB shall not take into account credit risk mitigation where the JIB has relied on an issue-specific credit assessment that reflects the use of that credit risk mitigation.
  6. A JIB, when determining the risk weight of an exposure to an issue where:
    - (a) the obligor is a JIB; and
    - (b) there is no issue-specific credit assessment available from a nominated ECAI that does not incorporate assumptions of implicit government support in accordance with the requirements of point (g) of Article 138(1),

shall use the higher of the following risk weights:

- I. the risk weight that would be assigned to the exposure in accordance with paragraphs 2 to 2B and 4, and Article 138;

- II. if an issue-specific credit assessment is available from a nominated ECAI, the risk weight that would be assigned to the exposure if the JIB used an issue-specific credit assessment, disregarding point (g) of Article 138(1).

**Article 140 Long-term and short-term credit assessments**

1. A JIB shall only use short-term credit assessments for short-term asset and off-balance sheet items constituting exposures to Institutions and corporates in accordance with Articles 120 and 122 respectively.
2. A JIB shall only use a short-term credit assessment for the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:
  - (a) if a short-term rated facility is assigned a 150% risk weight, then all unrated unsecured exposures to that obligor whether short-term or long-term shall also be assigned a 150% risk weight;
  - (b) if a short-term rated facility is assigned a 50% risk weight, no unrated short-term exposure to that obligor shall be assigned a risk weight lower than 100%.

**Article 141 Domestic and foreign currency items**

1. A credit assessment for an item denominated in a currency other than the obligor's domestic currency may only be used to derive a risk weight for exposures to the same obligor that are denominated in a currency other than the domestic currency of the obligor.
2. A credit assessment for an item denominated in the obligor's domestic currency may only be used to derive a risk weight for exposures to the same obligor that are denominated in the domestic currency of the obligor.
3. Notwithstanding paragraphs 1 and 2, when an exposure denominated in a currency other than the domestic currency of the obligor arises through a JIB's participation in a loan that has been extended, or has been guaranteed against convertibility and transfer risk, by a Multilateral Development Bank whose preferred creditor status is recognised in the market and which is listed in Article 117(2), a credit assessment that refers to an item denominated in the obligor's domestic currency may be used to derive a risk weight for the exposure in accordance with Articles 138 and 139.