

**Reserve Bank of Fiji**  
**Banking Supervision Policy Statement No: 1**  
**CAPITAL ADEQUACY REQUIREMENTS**  
**FOR LICENSED FINANCIAL INSTITUTIONS**

## **Introduction**

The Basle Committee on Banking Supervision published in July 1988 its final recommendations on the '**International Convergence of Capital Measurement and Capital Standards**'. Since then, the Basle Capital framework has been put in place by many banking supervisory authorities worldwide, following the general tenor of the proposals but with minor variations where national discretion has been applied.

The Reserve Bank of Fiji endorsed the international convergence of capital adequacy standards in 1992 and has since begun phasing in similar requirements on banks in Fiji on a voluntary basis pending commencement of the revised Banking Act. The new Act commenced on 1 June 1995 and the Reserve Bank is now formalising the transitional arrangements to establish an 8% capital to risk adjusted assets ratio on licensed banks from 31 December 1997. Banks will be required to maintain the transitional capital adequacy ratio of 6% for the 1996 calendar year and 7% for the 1997 calendar year.

A 10% capital adequacy requirement for licensed credit institutions was advised in March 1995, and is to be formalised under the Act with effect from 1 July 1996.

The Basle Committee has continued to refine the capital adequacy framework since 1988. The Reserve Bank will be monitoring developments in Fiji and internationally in the financial sector environment to ensure that its capital adequacy policies are relevant to the changing risks facing these institutions.

The remainder of this paper sets out the background to capital adequacy requirements and the framework to apply to licensed financial institutions in Fiji as part of the Reserve Bank's prudential rules and standards for the conduct of banking business in Fiji in a safe and sound manner.

## **Background**

The Reserve Bank of Fiji has a primary objective of promoting a sound financial structure in Fiji. Banking institutions, as the major financial intermediaries, are subject to supervision by the Reserve Bank in order to maintain a sound and stable financial system and to minimise detriment to the interests of depositors. Financial institutions which wish to carry out banking business, either as banks or credit institutions, must be licensed and supervised under the Banking Act.

An objective of the recent revisions to the Act has been to strengthen the effectiveness of the supervision of licensed financial institutions and to specifically empower the Reserve Bank to set minimum capital adequacy requirements.

Banking institutions are required to manage a variety of risks in carrying out their day to day operations. The effectiveness of risk management, i.e. the competence of the institution's managers in assessing and limiting those risks, will determine the extent to which the institution may be subject to unexpected losses. The capital contribution by the owners of the institution provides a buffer against the possibility of such losses. Due to the protection it provides against losses being incurred by depositors with financial institutions, the maintenance of adequate capital is one of the principal sources of public confidence in individual institutions and the financial system.

In general, institutions which operate in a high-risk segment of the market are exposed to greater potential for unexpected losses and should expect to hold greater amounts of capital. The Reserve Bank has therefore set a higher minimum capital ratio requirement for credit institutions in Fiji compared with the minimum requirements for banks. Similarly, where managers do not have a sound understanding of the risks they run, or do not carefully monitor and control these risks, such institutions should hold a greater buffer of capital than well managed institutions. It is particularly important that in assessing the adequacy of capital for each institution, banking supervisors must satisfy themselves that each institution has adequately recognised, and made specific provision for all foreseeable losses, both on the loan portfolio and in respect of losses on other operations of the institution. Such provisions must be excluded from capital in considering the adequacy of capital to support the ongoing operations of the institutions.

## **Implementation Arrangements**

Pursuant to Section 6 and Section 14 of the Banking Act 1995, the Reserve Bank is now formalising the capital adequacy requirements for licensed financial institutions in Fiji, whether incorporated in Fiji or overseas. Capital must be held to meet the minimum requirements as set out below:

- i) A formal plan to build the level of capital up to the required 8% level for licensed banks from 31 December 1997 including additional capital injections from the owners where necessary;**
- ii) Eligible Tier 2 capital shall not exceed the Total of Tier 1 Capital for the purpose of calculating the Risk Adjusted Capital Ratio;**

- iii) **The minimum capital ratio required for licensed banks will be:**
  - (a) **for the period from 1 July 1996 to 31 December 1996, 6% ratio of capital to risk adjusted assets;**
  - (b) **for the twelve months from 31 December 1996 to 31 December 1997, 7% ratio of capital to risk adjusted assets;**
  - (c) **from 31 December 1997 until further notice, 8% ratio of capital to risk adjusted assets.**
- iv) **The minimum capital ratio required for licensed credit institutions will be 10% capital to risk adjusted assets from 1 July 1996.**
- v) **The Reserve Bank retains the right to require a licensed financial institution to maintain a higher ratio where special factors so require.**
- vi) **Where the minimum requirement is less than a licensed financial institution's current level of capital, the institution's present policies on maintaining prudent higher levels of capital are expected to remain in place. Any plans to substantially reduce the level of capital in place will require prior consultation and approval by the Reserve Bank.**
- vii) **For the purpose of the minimum requirements, the definitions of components of Capital, Risk Adjusted Assets, Risk weights for on-balance sheet and off-balance sheet exposures and the Reserve Bank's capital ratio return are attached as annexures to this paper.**
- viii) **The minimum required level of capital is to be maintained at all times and will be monitored by the Reserve Bank based on the capital ratio return completed after balance sheet and profit and loss adjustments as at the last day of the preceding quarter.**

The Reserve Bank's capital adequacy return or the abbreviated return for credit institutions will be required to be completed by each institution on a quarterly basis, to measure the capital base and the risk-adjusted on and off balance sheet assets it is related to and will be used to measure compliance with the ratio requirements. It is expected that in due course, external audit scrutiny of each institution's returns will be required at regular intervals, (probably annually) to verify the accuracy of the figures reported to the Reserve Bank.

## **Coverage**

The requirements will be applied on a consolidated basis to the combined operations of the licensed financial institution and its subsidiaries which are controlled by the institution in Fiji (and all subsidiaries and overseas branches of locally incorporated licensed financial institutions) unless otherwise advised in writing by the Reserve Bank. The precise coverage of the reporting group for each licensed financial institution will be agreed between the Reserve Bank and the institution concerned.

## Capital Measurement Framework

The Basle Supervisors' Committee proposals are based on the assessment of capital in relation to credit risk, the major risk facing financial institutions. The denominator of the capital adequacy ratio reflects the relative level of credit risk associated with the institution's asset portfolio and the commitments, contingencies and other off balance sheet arrangements. These credit risks leave it exposed to risk of losses on default or failure of the counterparty to meet its obligations in full.

The Reserve Bank's capital adequacy approach is concentrating on credit risks, and does not at this stage seek to encompass the other forms of risk a financial institution is exposed to, such as liquidity, interest rate and position risks. In some instances, an institution's exposure to such risk might suggest a level of capital above the minimum required under the present framework would be appropriate. The Basle Supervisors' Committee is encouraging supervisors to consider factoring those risks into capital adequacy requirements where appropriate.

The Reserve Bank will continue to keep its policy approach and international developments under review to ensure they remain relevant to the banking environment in Fiji.

The Basle credit risk framework distinguishes between the relative riskiness of on-balance sheet items by assigning a risk weight to each class of counterparty or obligor and multiplying the value of exposures to that class by the risk weight. Risk weights range from 100% for most obligors, to a lower percentage where the obligor clearly and consistently exhibits a lower degree of credit risk. In certain limited circumstances, risk weights for counterparty classes may vary to reflect the nature of collateral; e.g. mortgages on residential property (50% risk weight); or maturity e.g. of long term government-backed securities which normally attract a higher risk than those with upto 12 months to maturity; as a surrogate for the risk of interest rate movements reducing market values.

Off-balance sheet items are subject to prior credit conversion factor where each type of off-balance sheet exposure is converted to an on-balance sheet credit equivalent to take account of the likelihood that the item will result in a credit exposure i.e. to reflect the item's relative degree of credit risk. Thus guarantees serving as direct loan substitutes are assigned a 100% conversion factor (and thus require the same capital support as a normal loan) whereas short term self-liquidating trade contingencies are assigned a 20% conversion factor (and thus require only one fifth the capital support of a normal loan). These credit-converted amounts are then multiplied by the (on-balance sheet) counterparty risk weight to derive the risk-adjusted value of off-balance sheet exposures.

The sum of risk adjusted on and off-balance sheet exposures form the denominator over which the capital base is placed to calculate the capital adequacy ratio on a risk adjusted basis.

It is important to note that the various risk weights established in this framework do not purport to be a detailed guide to the assessment and pricing of particular loan propositions. Banking institutions must continue to make their own judgements on the various factors determining the cost of credit.

The Annexures to this paper set out the details of the measurement of the components of capital, the risk weights and credit conversion equivalents which will be applied in Fiji. In general, there is a close correlation between the Basle Committee's proposals and the approach adopted by the Reserve Bank.

## **Overall Capital Adequacy**

When a licensed financial institution's management is determining the overall level of capital which is appropriate for its operations, there will be several factors in addition to credit risk which will be relevant to the amount of capital each institution should hold. The requirements proposed in this paper are a minimum requirement only and the Reserve Bank would expect each institution to establish a policy on capital adequacy which is appropriate to its own circumstances.

As noted above, adequacy of capital is a function of the degree of risk facing the institution, and the quality of its management. It may be affected by the extent of concentration in the institution's portfolio, for example to counterparty groups, industry sectors or geographical regions, which can make an institution susceptible to a higher risk of loss i.e. from substantial reliance on the performance of a narrow range of exposures, to sustain its profitability and capital growth. It will also need to take into account the liquidity, interest rate and position risk elements in the institution's overall risk profile.

A further factor influencing the adequacy of capital is the institution's long term strategy for growth, which may be achieved either through internally generated expansion or by acquisition. Such strategies can increase the relative riskiness of the institution and the need for additional capital strength if management, accounting and control systems and/or risk assessment processes are not readily able to cope with the expansion achieved.

The Reserve Bank will expect to meet with institutions from time to time for consultations to review, among other matters, the level of capital held by the institution relative to its overall risk profile. The process of on-site examination will also assist the assessment by the Reserve Bank of the adequacy of capital and in forming a judgement on the adequacy of specific provisioning for potential loan losses, which are to be excluded from the capital base for capital adequacy purposes.

The Reserve Bank may determine that the circumstances of a particular institution are such that a higher capital ratio than the minimum requirements is warranted. After discussion with the institution concerned, the higher requirements will be formalised under the provisions of the Banking Act.

### **Attachments**

- Annex I***      ***Definition of Components of Capital***
- Annex II***     ***Risk Weights and Explanatory Comments***
- Annex III***    ***Credit Conversion Factors for Off-Balance Sheet Items***
- Annex IV***     ***Capital Ratio Return for Banks and Credit Institutions***

## DEFINITION OF COMPONENTS OF CAPITAL

### 1. Tier 1: Core Capital

#### (a) **Permanent Shareholders Equity or Assigned Capital from Head Office:**

- (i) issued and paid up capital;
- (ii) assigned capital; and
- (iii) irredeemable non-cumulative preference shares.

(b) **Disclosed Reserves:** in the form of general and other reserves created by appropriation of retained earnings or share premiums on tier 1 capital instruments. Include Foreign Currency Translation Reserves.

(c) **Interim retained profits:** as verified by external auditors (net of proposed dividend payments and profit remittances to head office).

(d) **Minority interests:** arising on consolidation from interests in tier 1 capital.

**Less:** Deductions from tier 1 capital.<sup>1</sup>

(e) **Goodwill** and other intangible assets.

(f) **Current year's losses;** (where not incorporated above) unadjusted for any associated tax benefits.

(g) **Fully paid shareholders equity** issued by capitalising property revaluation reserves (See 2g below).

(h) All **future tax benefits** not deducted elsewhere (e.g. under 2(c) below) net of Deferred Tax liabilities.

**Total Tier 1 Capital equals : Items 1(a) to (d) less items 1(e) to (h)**

### 2. Tier 2: Supplementary Capital

#### (a) **Unaudited Retained Profits:**

- (i) current year's retained profits since external audit review.

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<sup>1</sup> Assets deducted from capital should not be included in the calculation of the total risk adjusted assets.

- (b) **Asset Revaluation Reserves:**
- (i) reserves arising from revaluation of tangible fixed assets;
  - (ii) reserves arising from revaluation of securities holdings, at 45% of the gross value of the revaluations.

Asset revaluation reserves should be adjusted for the full amount of diminution in the value of premises, securities and other assets.

Where revaluation of assets have been recorded either in the balance sheet or notes to the accounts which have been subject to external audit review, they will qualify as part of Tier 2 Capital.

- (c) **General provisions:** include only provisions which have been established to cover potential, but presently unidentified or unforeseeable losses, are not ascribed to a deterioration in particular assets or a group of assets and are freely available to absorb unexpected losses.

The general provisions must be net of any associated future income tax benefit.

The total amount of general provisions eligible for inclusion in Capital is limited to 1.25% of total risk weighted exposures.

- (d) **Hybrid capital instruments:** hybrid forms of debt and preference shares (and associated share premiums) which are:
- (i) redeemable at the option of the issuer with the prior consent of the Reserve Bank;
  - (ii) mandatorily convertible to ordinary shares;
  - (iii) available to participate in losses without the institution being obliged to cease trading;
  - (iv) allow interest payments to be deferred where the profitability of the issuer would not support payment; and
  - (v) fully subordinated in respect of payment of both principal and interest to the claims of all unsubordinated creditors.

- (e) **Term Subordinated debt** and similar instruments: where the claims of holders in respect of payment of both principal and interest are fully subordinated to those of all unsubordinated creditors. The debt must have an original maturity of more than 5 years and will be subject to a straight line amortisation in the last 5 years of its life so that no more than 20% of the original amount issued shall be included in capital in the final year before redemption is possible. Cumulative redeemable preference shares and associated share premiums may be included where they meet these criteria.

Note that Term Subordinated debt and other instruments with limited life may not exceed 50% of Tier 1 Capital for purposes of the capital ratio calculation.

- (f) **Minority interests** arising on consolidation from interests in Tier 2 Capital items.
- (g) **Fully paid shareholders equity** arising from the capitalisation of property revaluation reserves.

**Total Tier 2 Capital equals items 2(a) to (g).**

**Eligible Tier 2 Capital**

Eligible Tier 2 Capital **may not exceed** the Total of Tier 1 Capital for the purposes of the capital ratio calculation.

**3. Total Capital equals sum of Tier 1 and Eligible Tier 2 Capital**

**4. Deductions from Total of Tier 1 and Eligible Tier 2 Capital**

(a) Investments in unconsolidated subsidiaries.

**5. Total Capital equals the sum of Tier 1 Capital and Eligible Tier 2 Capital less deductions in 4 above.**



## **A. RISK WEIGHTS - BALANCE SHEET EXPOSURES**

### **1. Nil Weight**

- Notes, coin and gold bullion;
- Balances with Reserve Bank of Fiji;
- Loans and other claims fully secured against cash of equivalent value lodged with the lending institution;
- Claims on, or claims guaranteed by Fiji Government;
- Claims on, or claims guaranteed by OECD central governments and central banks;
- Claims on, or claims guaranteed by foreign non-OECD central governments and central banks denominated in that country's currency and funded in that currency; and
- Fiji Government and Reserve Bank of Fiji securities not exceeding 12 months to maturity and claims collateralised by these securities.

### **2. 10 Percent Weight**

- Other Fiji Government or Fiji Government guaranteed securities with a maturity of over 1 year and claims collateralised by these securities;
- Securities issued by or guaranteed by OECD central governments and central banks with a maturity of up to 1 year and claims collateralised by these securities; and
- Securities issued by or guaranteed by foreign NON-OECD central governments and central banks with a maturity of up to 1 year where the exposure is denominated in and funded in that country's currency.

### **3. 20 Percent Weight**

- Securities issued by or guaranteed by OECD central government and central banks with a maturity of over 1 year and claims collateralised by these securities;
- Securities issued by or guaranteed by foreign non-OECD central governments and central banks with a maturity of over 1 year where the exposure is denominated in and funded in that country's currency;
- Claims on, and claims guaranteed by Fiji or OECD state or local government, statutory corporations and public sector entities except: (i) where those claims are guaranteed by the central government or, (ii) central government owned companies which are required by government to operate on a commercial basis (to be weighted at 100% except for those claims which carry an explicit Government Guarantee);
- Claims on Fiji and OECD banks, and claims guaranteed by these banks;
- Claims on other banks incorporated outside the OECD with a residual maturity of up to 1 year, and claims of a similar maturity guaranteed by these banks;
- Claims on international development banking agencies and multilateral development banks and claims guaranteed by, or secured by securities issued by these banks; and
- Cash items in the process of collection.

#### 4. **50 Percent Weight**

- Loans which are fully secured by mortgage over residential property that is (or is to be) occupied by the borrower or is rented. *Loans secured over speculative residential construction or property development must not be included here.*

To be eligible for a 50 percent weighting, the lending institution should be involved directly in making credit assessments of individual borrowers, including assessment of the valuations of the associated residential properties secured by mortgage, and have clear and unequivocal access to the residential properties in the event of default by a borrower; the concessional risk weight would not apply to mortgage-backed securities.

#### 5. **100 Percent Weight**

- Claims on the non-bank private sector including non-bank financial institutions, net of specific provisions and interest in suspense;
- Claims on government-owned companies which are required to operate on a commercial basis;
- Claims on, and securities issued by or guaranteed by foreign non-OECD central banks and governments other than those denominated in that country's currency and funded in that currency;
- Claims on foreign non-OECD banks with a residual maturity of one year or more;
- Claims on foreign non-OECD local government, public sector entities and statutory corporations;
- Premises, plants, equipment and other fixed assets;
- Real estate and trade investments;
- Equity investments and capital instruments issued by other banks; and
- All other assets not otherwise specified.

### **B. RISK WEIGHTS - OFF BALANCE SHEET EXPOSURES**

Note that the measurement of off balance sheet exposures involves a two-step process:

- i) the principal (or face value) amount will be converted into on-balance sheet equivalents (credit equivalent amounts) by applying credit conversion factors set out below; and
- ii) the resulting credit equivalent will be assigned the weight appropriate to the counterparty (or in a few limited circumstances, the weight assigned to the guarantor or the collateral security; see Explanatory Note (C)).

#### 1. **100% Credit Conversion Factor**

##### a) **Direct Credit substitutes including:**

- bills accepted (not held in portfolio);
- bills endorsed (without a prior bank name);
- financial guarantees;
- standby letters of credit serving as guarantees; and
- other off balance sheet exposures for which the institution carries the same credit risk as a loan which is made and recorded on balance sheet.

##### b) **Asset sales with recourse** and commitments with certain drawdown:

- asset sales and other transactions with recourse;
- sale and repurchase agreements;
- forward asset purchases;

- forward deposits; and
- partly paid shares and securities.

**2. 50% Credit Conversion Factor**

**a) Transaction-related contingencies:**

- performance bonds and bid bonds;
- warranties and indemnities; and
- standby letters of credit (relating to particular transactions).

b) **Underwriting, subunderwriting** and note issuance facilities.

**c) Commitments to provide financial services with an original maturity of more than 1 year:**

- formal standby facilities granted;
- other credit facilities (granted but not utilised);
- financing leasing commitments (as lessor); and
- undispersed loan commitments

**3. 20% Credit Conversion Factor**

**Trade-related contingent liabilities:**

- documentary letters of credit;
- confirmatory letters of credit; and
- other

**4. 0% Credit Conversion Factor**

Commitments to provide financial services with an original maturity of 1 year or less (see 2(c) above) or which can be unconditionally cancelled or revoked by the institution at anytime (including undrawn overdraft and credit card facilities which may be cut or revoked at the time of annual review).

**5. Foreign Exchange, Interest Rate and other Market-Related Contracts**

The calculation of credit equivalent amounts for these contracts is based on the methodology proposed by the Basle Supervisors Committee in its 1988 paper 'International Convergence of Capital Measurement and Capital Standards' - see Annex III attached. All market related instruments are to be included except:

- foreign exchange contracts with an original maturity of 14 days or less, and
- instruments traded on futures and options exchanges which are subject to daily mark to market and margin payments.

Once the credit equivalent amounts have been calculated for market-related contracts the (on-balance sheet) counterparty weighting must then be applied, except that a maximum counterparty weight of 50% will be applied in respect of counterparties which would otherwise attract a 100% weight, in view of the generally high quality names operating in these markets.

**C. EXPLANATORY NOTES ON RISK WEIGHTS**

**1. General Comments**

The Basle Committee's approach to establishing risk weights attaching to on-and off-balance sheet business is an approximation for the assessment of relative credit risk in broad categories and is only one of many determinants in the market and overall risk assessment of individual banking transactions. The Reserve Bank expects each

institution to exercise judgement in assessing the appropriate risk category for exposures. Guidance will be available where necessary to assist reporting institutions.

## **2. Government and Public Sector Entities**

The Basle Committee has provided some discretion for supervisory authorities in the risk weighting of public sector entities. Claims on Fiji Government or Fiji Government guaranteed borrowing entities and all claims guaranteed by Fiji Government, will be given a 0% weighting (except Government, or government guaranteed securities with over 1 year maturity which will be weighted at 10%).

Other claims on Fiji Government-owned corporations, local authorities and public sector entities will be weighted at 20%, except for those companies owned by the public sector which have been required by Government to operate on a commercial basis. These will be weighted at 100 percent to avoid possible competitive inequality compared with similar private sector commercial enterprises.

## **3. Claims on Government, Public Sector Entities and Banks Outside Fiji**

Claims on Central Governments, Public Sector Entities and Banks in OECD countries have been accorded weightings at the same level as those set for claims on Fiji Government (0%) and Fiji public sector entities and banks (20%). Claims on foreign central governments and central banks outside OECD which are denominated in local currency and funded by local currency liabilities will also attract a 0% weight.

OECD government or government guaranteed securities with a maturity of up to 1 year are weighted at 10% and those with a maturity of over 1 year are weighted at 20% to factor in a proxy for the potential losses arising from holding fixed interest securities in markets where interest rates are more volatile than in Fiji.

Foreign non-OECD government or government guaranteed securities will have the same weights as their OECD counterparts where they are both denominated and funded in the country's currency.

Other claims on or securities issued by or guaranteed by foreign non-OECD central governments and claims on foreign non-OECD banks with a residual maturity of over 1 year will be weighted at 100%.

## **4. Collateral and Guarantees (Risk Reduction Arrangements)**

The importance of collateral in reducing credit risk is recognised to a limited extent only. In particular only loans secured against cash or securities issued by Fiji Government, OECD central governments or multilateral development banks will attract the lower weight given to that collateral (10% or 20%). Loans partially collateralised by those assets will also attract the equivalent low weights on that part of the loan which is fully collateralised.

With respect to loans or other exposures guaranteed by certain third parties, loans guaranteed by central governments, non-commercial government-owned and public sector entities, and banks in Fiji or OECD countries will attract the same weight as a direct claim on the guarantor.

Loans guaranteed by banks incorporated outside OECD (other than those incorporated in Fiji) will receive a 20% weight only where the underlying transaction has a residual maturity not exceeding 1 year.

Where a loan is covered by a partial guarantee from the above parties, only that part of the loan which is covered by the guarantee will attract the reduced weight.

**EXTRACT FROM BASLE SUPERVISORS COMMITTEE PAPER  
INTERNATIONAL CONVERGENCE OF CAPITAL MEASUREMENT AND  
CAPITAL STANDARDS  
JULY 1988**

**CREDIT CONVERSION FACTORS FOR OFF-BALANCE SHEET ITEMS**

The framework takes account of the credit risk on off-balance sheet exposures by applying credit conversion factors to the different types of off-balance sheet instrument or transaction. With the exception of foreign exchange and interest rate related contingencies, the credit conversion factors are set out in the table below. They are derived from the estimated size and likely occurrence of the credit exposure, as well as the relative degree of credit risk as identified in the Committee's paper "The management of banks' off-balance sheet exposures: a supervisory perspective" issued in March 1986. The credit conversion factors would be multiplied by the weights applicable to the category of the counterparty for an on-balance sheet transactions (see Annex II).

**Instruments**

	<b>Credit Conversion Factors</b>
1. Direct credit substitutes, eg. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances)	100%
2. Certain transaction-related contingent items (eg. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)	50%
3. Short-term self-liquidating trade-related contingencies (such as documentary credits collateralised by the underlying shipments).	20%
4. Sale and repurchase agreements and asset sales with recourse <sup>2</sup> , where the credit risk remains with the bank	100%

<sup>2</sup> These items are to be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into. Reverse repos (ie. purchase and resale agreements - where the bank is the receiver of the asset) are to be treated as collateralised loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure on the counterparty. Where the asset temporarily acquired is a security which attracts a preferential risk weighting, this would be recognised as collateral and the risk weighting would be reduced accordingly.

5.	Forward asset purchases, forward deposits and partly-paid shares and securities <sup>1</sup> , which represent commitments with certain drawdown	100%
6	Note issuance facilities and revolving under-writing facilities	50%
7.	Other commitments (eg. formal standby facilities and credit lines) with an original <sup>3</sup> maturity of over one year	50%
8.	Similar commitments with an original <sup>2</sup> maturity of up to one year, or which can be unconditionally cancelled at any time	0%

(N.B. Member countries will have some limited discretion to allocated particular instruments into items 1 to 8 above according to the characteristics of the instrument in the national market.)

### **Foreign Exchange and Interest Rate Related Contingencies**

The treatment of foreign exchange and interest rate related items needs special attention because banks are not exposed to credit risk for the full face value of their contracts, but only to the potential cost of replacing the cash flow (on contracts showing positive value) if the counterparty defaults. The credit equivalent amounts will depend inter alia on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Despite the wide range of different instruments in the market, the theoretical basis for assessing the credit risk on all of them has been the same. It has consisted of an analysis of the behaviour of matched pairs of swaps under different volatility assumptions. Since exchange rate contracts involve an exchange of principal on maturity, as well as being generally more volatile, higher conversion factors are proposed for those instruments which feature exchange rate risk. Interest rate contracts<sup>4</sup> are defined to include single-currency interest rate swaps, basic swaps, forward rate agreements, interest rate futures, interest rate options purchased and similar instruments. Exchange rate contracts<sup>3</sup> include cross-currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased and similar instruments. Exchange rate contracts with an original maturity of 14 calendar days or less are excluded.

A majority of G-10 supervisory authorities are of the view that the best way to assess the credit risk on these items is to ask banks to calculate the current replacement cost by marking contracts to market, thus capturing the current exposure without any need for estimation, and then adding a factor (the “add-on”) to reflect the potential future exposure over the remaining life of the contract. It has been agreed that, in order to calculate the credit equivalent amount of its off-balance sheet interest rate and foreign exchange rate instruments under this current exposure method, a bank would sum:

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<sup>3</sup> But see footnote 5 in the main text.

<sup>4</sup> Instruments traded on exchanges may be excluded where they are subject to daily margining requirements. Options purchased over the counter are included with the same conversion factors as other instruments, but this decision might be reviewed in the light of future experience.

- the total replacement cost (obtained by “marking to market”) of all its contracts with positive value and
- an amount for potential future credit exposure calculated on the basis of the total notional principal amount of its book, split by residual maturity as follows:

<b>Residual Maturity</b>	<b>Interest Rate Contracts</b>	<b>Exchange Rate Contracts</b>
Less than one year	nil	1.0%
One year and over	0.5%	5.0%

No potential credit exposure would be calculated for single currency floating/floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

A few G-10 supervisors believe that this two-step approach, incorporating a “mark to market” element, is not consistent with the remainder of the capital framework. They favour a simpler method whereby the potential credit exposure is estimated against each type of contract and a notional capital weight allotted, no matter what the market value of the contract might be at a particular date. It has therefore been agreed supervisory authorities should have discretion<sup>5</sup> to apply the alternative method of calculation described below, in which credit conversion factors are derived without reference to the current market price of the instruments. In deciding on what those notional credit conversion factors should be, it has been agreed that a slightly more cautious bias is justified since the current exposure is not being calculated on a regular basis.

In order to arrive at the credit equivalent amount using this original exposure method, a bank would simply apply one of the following two sets of conversion factors to the notional principal amounts of each instrument according to the nature of the instrument and its maturity:

<b>Maturity<sup>6</sup></b>	<b>Interest Rate Contracts</b>	<b>Exchange Rate Contracts</b>
Less than one year	0.5%	2.0%
One year and less than two years	1.0%	5.0% (ie. 2% + 3%)
For each additional year	1.0%	3.0%

It is emphasised that the above conversion factors, as well as the “add-ons” for the current exposure method, should be regarded as provisional and may be subject to amendment as a result of changes in the volatility of exchange rates and interest rates.

<sup>5</sup> Some national authorities may permit individual banks to choose which method to adopt, it being understood that once a bank had chosen to apply the current exposure method, it would not be allowed to switch back to the original exposure method.

<sup>6</sup> For interest rate contracts, there is a national discretion as to whether the conversion factors are to be based on original or residual maturity. For exchange rate contracts, the conversion factors are to be calculated according to the original maturity of the instrument.

Careful consideration has been given to the arguments put forward for recognising netting, ie. for weighting the net rather than the gross claims arising out of swaps and similar contracts with the same counterparties. The criterion on which a decision has been based is the status of a netting contract under national bankruptcy regulations. If a liquidator of a failed counterparty has (or may have) the right to unbundle the netted contracts, demanding performance on those contracts favourable to his client and defaulting on unfavourable contracts, there is no reduction in counterparty risk. Accordingly, it has been agreed that:

- banks may net contracts subject to novation<sup>7</sup>, since it appears that counterparty risk is genuinely reduced by the substitution of a novated contract which legally extinguishes the previous obligation. However, since under some national bankruptcy laws liquidators may have the right to unbundle transactions undertaken within a given period under a charge of fraudulent preference, supervisory authorities will have national discretion to require a phase-in period before a novation agreement can be recognised in the weighting framework;
- banks may not for the time being net contracts subject to close-out clauses<sup>8</sup>. The effectiveness of such agreements in an insolvency has not yet been tested in the courts, nor has it been possible to obtain satisfactory legal opinion that liquidators would not be able to overturn them. However, the Committee does not wish to discourage market participants from employing clauses which might well afford protection in certain circumstances in some national jurisdictions and would be prepared to reverse its conclusion if subsequent decisions in the courts support the integrity of close-out netting agreements<sup>9</sup>. In any event, the Committee will continue its work to assess the acceptability of various forms of netting.

Once the bank has calculated the credit equivalent amounts, whether according to the current or the original exposure method, they are to be weighted according to the category of counterparty in the same way as in the main framework, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral. In addition, since most counterparties in these markets, particularly for long-term contracts, tend to be first-class names, it has been agreed that a 50 percent weight will be applied in respect of counterparties which would otherwise attract a 100 percent weight<sup>10</sup>. However, the Committee will keep a close eye on the credit quality of participants in these markets and reserves the right to raise the weights if average credit quality deteriorates or if loss experience increases.

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<sup>7</sup> Netting by novation as defined in this context is a bilateral contract between two counterparties under which any obligation to each other to deliver a given currency on a given date is automatically amalgamated with all other obligations for the same currency and value date, legally submitting one single net amount for the previous gross obligations.

<sup>8</sup> Close-out as defined in this context refers to a bilateral contract which provides that, if one of the counterparties is wound up, the outstanding obligations between the two are accelerated and netted to determine the counterparty's net exposure.

<sup>9</sup> The other principal form of netting, payments netting, which is designed to reduce the counterparty risk arising out of daily settlements, will not be recognised in the capital framework since the counterparty's gross obligations are not in any way affected.

<sup>10</sup> Some member countries reserve the right to apply the full 100 percent weight.



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RESERVE BANK OF FIJI  
PRIVATE MAIL BAG  
SUVA

**QUARTERLY CAPITAL RATIO RETURN  
FOR BANKS**

*[requested pursuant to Section 26(1)(c) of the Banking Act]*

Bank \_\_\_\_\_

Report As At \_\_\_\_\_

A] GENERAL INSTRUCTIONS

1. The capital ratio return is to be completed by all banks, and unless otherwise agreed with the Reserve Bank, should consolidate all Fiji operations including any subsidiary companies owned or controlled in Fiji and any overseas operations of Fiji-incorporated institutions. Banks are required to complete the return as at the end of March, June, September and December each year. Returns must be received by the Reserve Bank within 1 (one) month of the reporting date.
2. The Reserve Bank’s paper entitled “Capital Adequacy Requirements” sets out the approach to be adopted in establishing the risk weighted measurement of capital adequacy. Further instructions for completion are attached to the return.
3. The completed return is to be signed off by a senior authorised officer of the reporting institution and forwarded to:

The Chief Manager  
Financial Institutions  
Reserve Bank of Fiji  
Private Mail Bag  
SUVA

\_\_\_\_\_  
Signature of Authorised Officer  
of Reporting Institution : \_\_\_\_\_

Name : \_\_\_\_\_

Designation : \_\_\_\_\_

Date : \_\_\_\_\_

**INSTRUCTIONS FOR PART I**

**MEASUREMENT OF CAPITAL**

1. Details of individual components of Capital are set out in Annex 1 of “Capital Adequacy Requirements for Licensed Financial Institutions”.
2. Calculation of the Capital Ratio is completed in Part IV of the return.

**PART I MEASUREMENT OF CAPITAL**

<b>1.</b>	<b><u>TIER ONE (CORE CAPITAL)</u></b>	<b><u>(F\$000)</u></b>
a)	<b>PERMANENT SHAREHOLDERS’ EQUITY</b>	
	(i) Paid-up ordinary share capital	.....
	(ii) Assigned Capital	.....
	(iii) Perpetual non-cumulative preferred share capital	.....
b)	<b>DISCLOSED RESERVES AND RETAINED EARNINGS</b>	
	(i) Revenue and similar reserves	.....
	(ii) Retained earnings	.....
c)	<b>AUDITED INTERIM RETAINED PROFITS NET OF APPROPRIATIONS</b>	.....
d)	<b>TIER ONE MINORITY INTERESTS</b>	.....
	Subtotal (sum of a to d)	_____
Less		
	<b>DEDUCTIONS FROM TIER ONE CAPITAL</b>	
e)	Goodwill and other intangible assets	.....
f)	Current year’s losses	.....
g)	Fully paid shareholders equity issued by capitalising property revaluation reserve	.....
h)	Future tax benefits not deducted elsewhere, net of Deferred tax liabilities	.....
	<b>TOTAL DEDUCTIONS FROM TIER ONE CAPITAL</b> (sum of e to h)	_____
	<b>TOTAL TIER ONE CAPITAL</b>	_____
<b>2.</b>	<b><u>TIER TWO (SUPPLEMENTARY CAPITAL)</u></b>	<b><u>(F\$000)</u></b>
a)	<b>UNAUDITED RETAINED PROFITS NET OF APPROPRIATIONS</b>	.....

b)	<b>ASSET REVALUATION RESERVES</b>	
	(i) Fixed asset revaluation reserves	.....
	(ii) Security revaluation reserves <sup>11</sup>	.....
c)	<b>GENERAL PROVISION FOR DOUBTFUL DEBTS<sup>12</sup></b>	.....
d)	<b>HYBRID CAPITAL INSTRUMENTS<sup>13</sup></b> (and associated share premiums)	.....
e)	<b>TERM SUBORDINATED DEBT AND OTHER CAPITAL INSTRUMENTS<sup>14</sup></b> Instruments with a Limited Life	.....
f)	<b>TIER TWO MINORITY INTERESTS</b>	.....
g)	<b>FULLY PAID SHAREHOLDERS EQUITY ARISING FROM CAPITALISATION OF PROPERTY REVALUATION RESERVES</b>	.....
	<b>TOTAL TIER TWO CAPITAL</b> (sum of a to g)	_____

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<sup>11</sup> Where such reserves have not been incorporated into the accounts, they are to be included in Tier 2 capital at 45% of gross value of the revaluations.

<sup>12</sup> The total amount of general provisions eligible for inclusion in Capital is limited to 1.25% of total risk weighted exposures.

<sup>13</sup> The nature of elements recorded under these headings is to be specified by way of a note to this return.

<sup>14</sup> Total of Term Subordinated Debts is not to exceed 50% of Tier 1 Capital.

3. **CALCULATION OF TOTAL CAPITAL**
- a) **TOTAL TIER ONE CAPITAL** (from 1 above) .....
- b) **ELIGIBLE TIER TWO CAPITAL** (must not exceed Total Tier One Capital) .....
4. **DEDUCTIONS FROM TOTAL OF TIER 1 AND ELIGIBLE TIER 2 CAPITAL**
- a) **INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES** .....
5. **TOTAL CAPITAL** \_\_\_\_\_  
 (to be transferred to Part IV) \_\_\_\_\_

**INSTRUCTIONS FOR PART II**  
**RISK WEIGHTED BALANCE SHEET EXPOSURES**

1. Report all Balance Sheet exposures (Assets) in this part of the return. Where legally binding and enforceable Guarantees or collateral arrangements are in place which comply with the requirements of Annex II paragraph C.4 of the “Capital Adequacy Requirements” for recognised risk-reduction arrangements, the relevant exposures should be given the risk weight of the Guarantor or Collateral for that part of the exposure which is fully covered by the risk-reduction arrangements.
2. Items (eg. Goodwill) which are required to be deducted from the capital base in determining Total Capital (see Part 1 of the return) should be deducted from Total Risk Adjusted Values at full value as adjustments. Any items not recorded on the balance sheet which have been added to capital (eg. security revaluation reserves which have not been incorporated into the accounts, at 45% of gross revaluations) should be added to Total Risk Adjusted Value as adjustments.
3. Loans and Advances should be reported net of specific provisions for doubtful debts but gross of general provisions. Loans and Advances should be reported net of unearned income.
4. Risk Adjusted Value equals Book Value multiplied by the relevant Risk Weight for those assets.

**PART II RISK WEIGHTED BALANCE SHEET EXPOSURES**

	<b>(F\$000)</b>
	<b>Book</b>
	<b>Value</b>
<b>1. NIL WEIGHT</b>	
a) Notes, coin and gold bullion	.....
b) Fiji Government or Fiji Government guaranteed securities and Reserve Bank of Fiji securities not exceeding 12 months to maturity	.....
c) Claims fully collateralised by (a) and (b) above	.....
d) Balances with the Reserve Bank of Fiji	.....
e) Claims on, and claims guaranteed by Fiji Government	.....
f) Claims on OECD central governments and central banks and claims guaranteed by these bodies	.....
g) Claims on foreign Non-OECD central governments and central banks and claims guaranteed by these bodies where denominated and funded in that country's currency	.....
<b>SUB TOTAL</b>	<hr/>

	<b>(F\$000)</b> <b>Book</b> <b>Value</b>	<b>(F\$000)</b> <b>Risk Adj</b> <b>Value</b>
<b>2. 10% WEIGHT</b>		
a) Other Fiji Government or Fiji Government guaranteed securities and claims collateralised by those securities	.....	.....
b) Securities issued by or guaranteed by OECD central governments and central banks with a maturity of up to 1 year and claims collateralised by these securities	.....	.....
c) Securities issued by or guaranteed by foreign non-OECD central governments or central banks with a maturity of up to 1 year where the exposure is denominated and funded in that country's currency.		
<b>SUB TOTAL 2</b>	_____	_____
<b>3. 20% WEIGHT</b>		
a) Securities issued by or guaranteed by OECD central governments or central banks with a maturity of over 1 year and claims collateralised by these securities	.....	.....
b) Securities issued by or guaranteed by foreign non-OECD central governments and central banks with a maturity of over 1 year where the exposure is denominated in and funded in that country's currency	.....	.....
c) Claims on and securities issued by Fiji and OECD state or local governments, statutory corporations and public sector entities (other than companies which are required by Government to operate on a commercial basis), and claims on securities guaranteed by those bodies	.....	.....
d) Claims on Fiji and OECD banks and claims guaranteed by these banks	.....	.....

	<b>(F\$000)</b> <b>Book</b> <b>Value</b>	<b>(F\$000)</b> <b>Risk Adj</b> <b>Value</b>
e) Claims on other banks incorporated outside the OECD with a residual maturity of up to 1 year, and claims of a similar maturity guaranteed by these banks	.....	.....
f) Claims on international development banking agencies and multilateral development banks (eg. ADB, IBRD, IMF) and claims guaranteed by, or secured by securities issued by these banks	.....	.....
g) Cash items in process of collection	.....	.....
<b>SUB TOTAL 3</b>	_____	_____
<b>4. 50% WEIGHT</b>		
a) Loans which are fully secured by mortgage over residential property	.....	.....
<b>SUB TOTAL 4</b>	_____	_____

<b>5. 100% WEIGHT</b>	<b>(F\$000) Book Value</b>	<b>(F\$000) Risk Adj Value</b>
a) Claims on non-bank private sector including non-bank financial institutions (net of specific provisions and interest in suspense)	.....	.....
b) Claims on public sector companies required to operate on a commercial basis	.....	.....
c) Claims on and securities issued by or guaranteed by foreign non-OECD central banks and governments which are not denominated and funded in that country's currency	.....	.....
d) Claims on foreign non-OECD banks with a residual maturity of one year or more	.....	.....
e) Claims on foreign non-OECD local governments, public sector entities and statutory corporations	.....	.....
f) Premises, plant, equipment and trade investments	.....	.....
g) Other real estate and trade investments	.....	.....
h) Equity investments and capital instruments issued by other banks	.....	.....
i) All other assets not otherwise specified	.....	.....
<b>SUB TOTAL 5</b>	_____	_____
<b>TOTAL</b> (sum of 1 - 5 Part II)	_____	_____
adjustments (see instruction 2)	.....	_____
<b>6. TOTAL RISK WEIGHTED BALANCE SHEET EXPOSURES</b>		_____



### **INSTRUCTIONS FOR PART III**

#### **RISK WEIGHTED OFF-BALANCE SHEET EXPOSURES**

- [a] All categories of off-balance sheet exposures where there is a credit risk are to be recorded in the return on a Credit Risk Equivalent basis (the third column). This column is arrived at by multiplying the PRINCIPAL AMOUNT of each exposure by the appropriate CREDIT CONVERSION FACTOR. The resulting CREDIT EQUIVALENT amount is then weighted on an individual contract basis according to the nature of the counterparty<sup>15</sup> and each weighted exposure is summed to give the entry for the RISK ADJUSTED EXPOSURE column.
- [b] Items should be recorded so as to avoid the double counting of exposures arising from the same contract. Some facilities, when utilised in part or in whole, will be represented as another off-balance sheet item or balance sheet item. For example, only the undrawn portion of an overdraft facility should be recorded in Part III (the portion drawn down will be recorded in Part II).
- [c] 'Marking-to-market' is the process of recalculating the exposure relating to a trading position in securities, option contracts or futures contracts. For exchange traded contracts, the exchange clearing house marks members' positions to market each day using closing market prices. Members must maintain a certain minimum level of margin at the exchange clearing house and must post additional margin if the marking to market process reduces margin below the minimum for 'over-the-counter' contracts, the mark-to-market value would be the cost to the institution of replacing the cash flows associated with the original contract as a result of the counterparty (or parties) defaulting.
- [d] Detailed information on the various categories of off-balance sheet items is contained in the annexes to the paper "Capital Adequacy Requirements".

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<sup>15</sup> The risk weight to be applied to the credit equivalent amount of an off-balance sheet exposure should be determined in the same way as for Part I of the return, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral.

- [e] In the case of **Foreign Exchange, Interest Rate and Other Market Related Transactions**, the following particular instructions apply:
- [i] For these types of transactions, the Principal Amount is the original face value of the contract. The credit equivalent amount of such transactions is found by using either the current exposure method or the original exposure method. These methods are explained in Annex III of the paper “Capital Adequacy Requirements”.
  - [ii] Exchange rate contracts with an original maturity of 14 calendar days or less are excluded from the calculation of the credit equivalent amount.
  - [iii] Instruments traded on exchanges may be excluded from the calculation of risk adjusted exposures where they are subject to daily margin requirements.
  - [iv] In order to determine the risk adjusted exposure in respect of these types of contracts, the credit equivalent amount is to be weighted according to the nature of the counterparty (as for balance sheet assets), except where this would require the application of 100 percent weight. In the latter case, the appropriate counterparty weight will be 50 percent. Concessionary weights may be applied in respect of exposures backed by eligible collateral or guarantees.
  - [v] No potential exposure should be calculated (under the current exposure method) for basis swaps (single currency floating/floating interest rate swaps). The credit exposure on these contracts is calculated solely by reference to their mark-to-market value.

**PART III RISK WEIGHTED OFF-BALANCE SHEET EXPOSURES**

		(F\$000) Principal Amount	Credit Conv. Fact	Credit Equivalent	(F\$000) Risk Adj. Value
<b>1.</b>	<b>Direct Credit Substitutes</b>				
[a]	Bills of Exchange (not held in portfolio)				
	[i] Bills Accepted	_____	100%	_____	_____
	[ii] Bills Endorsed [without a prior bank name]	_____	100%	_____	_____
[b]	General Guarantees of Indebtedness	_____	100%	_____	_____
[c]	Standby Letters of Credit [serving as financial guarantees]	_____	100%	_____	_____
[d]	Risk Participation in Direct Credit Substitutes	_____	100%	_____	_____
	<b>SUB TOTAL 1</b>	_____	_____	_____	_____
		_____	_____	_____	_____
<b>2.</b>	<b>Asset Sales with Recourse</b>				
[a]	Assets Sales and Other Transactions with Recourse	_____	100%	_____	_____
[b]	Sales and Repurchase Agreements (contracted repurchase cost)	_____	100%	_____	_____
	<b>SUB TOTAL 2</b>	_____	_____	_____	_____
		_____	_____	_____	_____

		(F\$000) Principal Amount	Credit Conv. Fact	Credit Equivalent	(F\$000) Risk Adj. Value
<b>3.</b>	<b>Commitments with Certain Drawdown</b>				
[a]	Forward Purchases of Assets [contracted value]	_____	100%	_____	_____
[b]	Forward Deposits	_____	100%	_____	_____
[c]	Partly Paid Shares and Securities	_____	100%	_____	_____
[d]	Other	_____	100%	_____	_____
	<b>SUB TOTAL 3</b>	_____	_____	_____	_____
<b>4.</b>	<b>Transaction Related Contingent Items</b>				
[a]	Performance Bonds	_____	50%	_____	_____
[b]	Bid Bonds	_____	50%	_____	_____
[c]	Warranties and Indemnities	_____	50%	_____	_____
[d]	Standby Letters of Credit [related to particular transaction]	_____	50%	_____	_____
	<b>SUBTOTAL 4</b>	_____	_____	_____	_____
<b>5.</b>	<b>Underwriting and Sub- Underwriting Facilities</b>	_____	50%	_____	_____
<b>6.</b>	<b>Trade Related Contingent Liabilities</b>				
[a]	Documentary Letters of Credit	_____	20%	_____	_____
[b]	Confirmed Letters of Credit	_____	20%	_____	_____
[c]	Other	_____	20%	_____	_____
	<b>SUB TOTAL 6</b>	_____	_____	_____	_____

	(F\$000) Principal Amount	Credit Conv. Fact	Credit Equivalent	(F\$000) Risk Adj Value
<b>7. Other Commitments to Provide Financial Services</b>				
[a] Other commitments with an Original Maturity of Over One Year				
[i] Formal Standby Facilities Granted [Exclude Standby Letters of Credit]	_____	50%	_____	_____
[ii] Other Credit Facilities [Granted but Unutilised]	_____	50%	_____	_____
[iii] Financing Leasing Commitments [where lessor]	_____	50%	_____	_____
[iv] Undispersed Loan Commitments	_____	50%	_____	_____
[v] Other	_____	50%	_____	_____
[b] Similar Commitments with an Original Maturity of up to One Year or which can be Unconditionally Cancelled at any time	_____	0%	_____	_____
<b>SUB TOTAL 7</b>	_____	_____	_____	_____

	[1] [F\$000] Principal Amount	+	[2] Current Exposure	+	[3] Potential Exposure	=	[4] Credit Equivalent Amount	x	[5] Average <sup>16</sup> Counterparty Weight	=	[6] Risk Adjusted Exposure
<b>8. Foreign Exchange, Interest Rate and Other Market Related Contracts</b>											
[a] <b><u>Exchange Rate Contracts</u></b>											
[i] Forward Foreign Exchange Contracts	_____		_____		_____		_____		_____		_____
[ii] Currency Swaps	_____		_____		_____		_____		_____		_____
[iii] Cross Currency and Interest Rate Swaps	_____		_____		_____		_____		_____		_____
[iv] Currency Futures	_____		_____		_____		_____		_____		_____
[v] Currency Options Purchased	_____		_____		_____		_____		_____		_____
[vi] Other Similar Exchange Rate Contracts	_____		_____		_____		_____		_____		_____
<b>TOTALS</b>	_____		_____		_____		_____		_____		_____

<sup>16</sup> For Foreign Exchange, Interest Rate and Other Market Related Contracts, the maximum Counterparty weight for any contract is limited to 50% for counterparties who would otherwise receive a 100% weight elsewhere in the return.

	[1] [F\$000] Principal Amount	+	[2] Current Exposure	+	[3] Potential Exposure	=	[4] Credit Equivalent Amount	x	[5] Average <sup>17</sup> Counterparty Weight	=	[6] Risk Adjusted Exposure
[b] <b><u>Interest Rate Contracts</u></b>											
[i] Forward Interest Rate Agreements and Similar Products	_____		_____		_____		_____		_____		_____
[ii] Interest Rate Swaps	_____		_____		_____		_____		_____		_____
[iii] Interest Rate Futures	_____		_____		_____		_____		_____		_____
[iv] Interest Rate Options Purchased	_____		_____		_____		_____		_____		_____
[v] Other Similar Interest Contracts	_____		_____		_____		_____		_____		_____
<b>TOTALS</b>	_____		_____		_____		_____		_____		_____
[c] <b><u>Other Market Related Contracts</u></b> <sup>18</sup>	.....		N/A		.....		.....		.....		.....
<b>SUB TOTAL 8</b>	_____		_____		_____		_____		_____		_____
<b>9. Total Risk Weighted Off-Balance Sheet Exposures (sum of sub totals 1 to 8)</b>											_____

<sup>17</sup> For Foreign Exchange, Interest Rate and Other Market Related Contracts, the maximum Counterparty weight for any contract is limited to 50% for counterparties who would otherwise receive a 100% weight elsewhere in the return.

<sup>18</sup> Where individual contract amounts are material, please specify the nature of the contract and the principal amount.

**PART IV      CALCULATION OF CAPITAL RATIO**

**(F\$000)**

[A]    **TOTAL CAPITAL** \_\_\_\_\_  
      (Item 5 PART 1)

[B]    [i]    **TOTAL RISK WEIGHTED BALANCE**  
          **SHEET EXPOSURES** \_\_\_\_\_  
          (Item 6, PART II)

      [ii]    **TOTAL RISK WEIGHTED OFF**  
              **BALANCE SHEET EXPOSURES** \_\_\_\_\_  
              (Item 9, PART III)

[C]    **TOTAL RISK WEIGHTED EXPOSURES** \_\_\_\_\_  
      (sum of B[i] and [ii])

[D]    **CAPITAL RATIO**             $\frac{(A \times 100)}{(C)}$  = \_\_\_\_\_ %



# RESERVE BANK OF FIJI

## ***QUARTERLY CAPITAL RATIO RETURN FOR LICENSED CREDIT INSTITUTIONS***

*[requested pursuant to Section 26(1)(c) of the Banking Act]*

Credit Institution \_\_\_\_\_

Report As At \_\_\_\_\_

A] GENERAL INSTRUCTIONS

1. The capital ratio return is to be completed by all credit institutions, and unless otherwise agreed with the Reserve Bank, should consolidate all Fiji operations including any subsidiary companies owned or controlled in Fiji and any overseas operations of Fiji-incorporated institutions. Credit Institutions are required to complete the return as at the end of March, June, September and December each year. Returns must be received by the Reserve Bank within 1 (one) month of the reporting date.
2. The Reserve Bank’s paper entitled “Capital Adequacy Requirements” sets out the approach to be adopted in establishing the risk weighted measurement of capital adequacy. Further instructions for completion are attached to the return.
3. The completed return is to be signed off by a senior authorised officer of the reporting institution and forwarded to:

The Chief Manager  
 Financial Institutions Department  
 Reserve Bank of Fiji  
 Private Mail Bag  
SUVA

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Signature of Authorised Officer  
 of Reporting Institution : \_\_\_\_\_

Name : \_\_\_\_\_

Designation : \_\_\_\_\_

Date : \_\_\_\_\_

Stamp

Person to Contact for Queries : \_\_\_\_\_

***PART I    MEASUREMENT OF CAPITAL***

**INSTRUCTIONS**

1. Details of individual components of the return are set out in Annexes 1 to 3 of the Reserve Bank’s Paper entitled “Capital Adequacy Requirements for Licensed Financial Institutions”.
2. Calculation of the Capital Ratio is completed in Part IV of this return.
3. Please specify by way of a note the nature and amount of items included in the ‘*other*’ category, where those amounts are material.

<b><u>1. TIER ONE (CORE CAPITAL)</u></b>	<b>(F\$000)</b>
(a) Paid-up capital	.....
(b) Disclosed reserves and retained earnings	.....
(c) Audited interim retained earnings(net of appropriations)	.....
(d) Other (specify)	.....
<b>Less</b>	
(e) Current year’s losses	.....
(f) Goodwill and other intangible assets	.....
(g) Future tax benefits	.....
(h) Other (specify)	.....
<b><i>TOTAL TIER ONE CAPITAL (1)</i></b>	_____
<b><u>2. TIER TWO CAPITAL</u></b>	
(a) Unaudited retained profits (net of appropriations)	.....
(b) Asset revaluation reserves	.....
(c) General provisions for doubtful debts <sup>19</sup>	.....
(d) Other (specify)	.....
<b><i>TOTAL TIER TWO CAPITAL (2)</i></b>	
<i>[must not exceed Total Tier One Capital]</i>	_____
<b>3. TOTAL CAPITAL [Sum of (1) and (2)above]</b>	.....
<b>4. Less investments in unconsolidated subsidiaries</b>	.....
<b>5. TOTAL CAPITAL BASE (3)</b>	
<i>(to be transferred to Part IV of this return)</i>	_____

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1. The total amount of general provisions eligible for inclusion in Capital is limited to 1.25% of total risk weighted exposures.

**INSTRUCTIONS FOR PART II**  
**RISK WEIGHTED BALANCE SHEET EXPOSURES**

1. Report all Balance Sheet exposures (Assets) in this part of the return. Where legally binding and enforceable Guarantees or collateral arrangements are in place which comply with the requirements of Annex II paragraph C.4 of the “Capital Adequacy Requirements” for recognised risk-reduction arrangements, the relevant exposures should be given the risk weight of the Guarantor or Collateral for that part of the exposure which is fully covered by the risk-reduction arrangements.
2. Items (eg. Goodwill) which are required to be deducted from the capital base in determining Total Capital (see Part 1 of the return) should be deducted from Total Risk Adjusted Values at full value as adjustments. Any items not recorded on the balance sheet which have been added to capital (eg. security revaluation reserves which have not been incorporated into the accounts, at 45% of gross revaluations) should be added to Total Risk Adjusted Value as adjustments.
3. Loans and Advances should be reported net of specific provisions for doubtful debts but gross of general provisions. Loans and Advances should be reported net of unearned income.
4. Risk Adjusted Value equals Book Value multiplied by the relevant Risk Weight for those assets.

**PART II RISK WEIGHTED BALANCE SHEET**  
**EXPOSURES**

	(F\$000) Book Value	(F\$000) Risk Adj Value
<b>1. NIL WEIGHT</b>		
a) Notes, Coins and gold bullion	.....	
b) Fiji Government or Fiji Government guaranteed securities and Reserve Bank of Fiji securities not exceeding 12 months to maturity.	.....	
c) Claims fully collateralised by (a) and (b) above	.....	
d) Claims on, or guaranteed by Fiji Government, or OECD Governments or Central Banks	.....	
e) Other (specify)	.....	
<b>SUB TOTAL : 1</b>	_____	
<b>2. 10% WEIGHT</b>		
a) Other Fiji Government or Fiji Government guaranteed securities or claims collateralised by those securities	.....	.....
b) Other (specify)	.....	.....
<b>SUB TOTAL : 2</b>	_____	_____
<b>3. 20% WEIGHT</b>		
a) Claims on and securities issued by Fiji local government , statutory corporations and public sector entities (other than companies which are required by Government to operate on a commercial basis), and claims or securities guaranteed by those bodies.	.....	.....
b) Claims on banks	.....	.....
c) Other (specify)	.....	.....
<b>SUB TOTAL : 3</b>	_____	_____

	(F\$000) Book Value	(F\$000) Risk Adj Value
<b>4. 50 % WEIGHT</b>		
a) Loans which are fully secured by mortgage over residential property	_____	_____
<b>SUB TOTAL : 4</b>	_____	_____
<b>5. 100% WEIGHT</b>		
a) Claims on non-bank private sector including credit card and leasing advances (net of specific provisions)	.....	.....
b) Claims on commercial companies owned by the public sector	.....	.....
c) Premises , plant , equipment and other fixed assets (net of depreciation)	.....	.....
d) All other assets not otherwise specified	.....	.....
<b>SUB TOTAL : 5</b>	_____	
<b>SUM OF 1 TO 5 OF PART II</b>	_____	
<b>ADJUSTMENTS (see instruction 2)</b>	_____	
<b>6. TOTAL RISK WEIGHTED BALANCE SHEET EXPOSURES</b> (to be transferred to Part IV of this return)		_____



## INSTRUCTIONS FOR PART III

### RISK WEIGHTED OFF-BALANCE SHEET EXPOSURES

- [a] All categories of off-balance sheet exposures where there is a credit risk are to be recorded in the return on a Credit Risk Equivalent basis (the third column). This column is arrived at by multiplying the PRINCIPAL AMOUNT of each exposure by the appropriate CREDIT CONVERSION FACTOR. The resulting CREDIT EQUIVALENT amount is then weighted on an individual contract basis according to the nature of the counterparty<sup>20</sup> and each weighted exposure is summed to give the entry for the RISK ADJUSTED EXPOSURE column.
- [b] Items should be recorded so as to avoid the double counting of exposures arising from the same contract. Some facilities, when utilised in part or in whole, will be represented as another off-balance sheet item or balance sheet item. For example, only the undrawn portion of an overdraft facility should be recorded in Part III (the portion drawn down will be recorded in Part II).
- [c] ‘Marking-to-market’ is the process of recalculating the exposure relating to a trading position in securities, option contracts or futures contracts. For exchange traded contracts, the exchange clearing house marks members’ positions to market each day using closing market prices. Members must maintain a certain minimum level of margin at the exchange clearing house and must post additional margin if the marking to market process reduces margin below the minimum for ‘over-the-counter’ contracts, the mark-to-market value would be the cost to the institution of replacing the cash flows associated with the original contract as a result of the counterparty (or parties) defaulting.
- [d] Detailed information on the various categories of off-balance sheet items is contained in the annexes to the paper “Capital Adequacy Requirements”.
- [e] In the case of **Foreign Exchange, Interest Rate and Other Market Related Transactions**, the following particular instructions apply:
- [i] For these types of transactions, the Principal Amount is the original face value of the contract. The credit equivalent amount of such transactions is found by using either the current exposure method or the original exposure method. These methods are explained in Annex III of the paper “Capital Adequacy Requirements”.
- [ii] Exchange rate contracts with an original maturity of 14 calendar days or less are excluded from the calculation of the credit equivalent amount.

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<sup>20</sup> The risk weight to be applied to the credit equivalent amount of an off-balance sheet exposure should be determined in the same way as for Part I of the return, including concessionary weighting in respect of exposures backed by eligible guarantees and collateral.

- [iii] Instruments traded on exchanges may be excluded from the calculation of risk adjusted exposures where they are subject to daily margin requirements.
  
- [iv] In order to determine the risk adjusted exposure in respect of these types of contracts, the credit equivalent amount is to be weighted according to the nature of the counterparty (as for balance sheet assets), except where this would require the application of 100 percent weight. In the latter case, the appropriate counterparty weight will be 50 percent. Concessionary weights may be applied in respect of exposures backed by eligible collateral or guarantees.
  
- [v] No potential exposure should be calculated (under the current exposure method) for basis swaps (single currency floating/floating interest rate swaps). The credit exposure on these contracts is calculated solely by reference to their mark-to-market value.



## **PART III RISK WEIGHTED OFF-BALANCE SHEET EXPOSURES**

	Principal Amount (F\$000)	Credit Equivalent (%)	Counter Party Risk Wt(%)	Risk Wtd Amount (F\$000)
1. Guarantees, Irrevocable liabilities, Direct Credit Substitutes, Bill Acceptances and other off balance sheet exposures for which the institution carries the same risk as a loan which is made and recorded on balance sheet				
1.1 Central government	.....	100	0	.....
1.2 Local authorities, multilateral development banks, other banks	.....	100	20	.....
1.3 Other customers	.....	100	100	.....
2. Transaction - Related Performance Bonds, Warranties and Standby letters of credit				
2.1 Central government	.....	50	0	.....
2.2 Local Authorities, Multilateral development banks, other banks	.....	50	20	.....
2.3 Other Customers	.....	50	100	.....
3. Documentary credits				
3.1 Central Government	.....	20	0	.....
3.2 Local authorities, multilateral development banks other banks	.....	20	20	.....
3.3 Other customers	.....	20	20	.....

4. Forward F.Ex. Contracts maturing in more than 14 days

4.1 Central Government	.....	2	0	.....
4.2 Local authorities, multilateral development banks other banks	.....	2	20	.....
4.3 Other customers	.....	2	50	.....

5. Other (please specify)\*

**6. TOTAL OFF-BALANCE SHEET EXPOSURES**  
**(to be transferred to part IV of this return)**

\_\_\_\_\_

\* Please discuss with Reserve Bank the reporting of other material off-balance sheet exposures not adequately captured on items 1 to 4 of this part. Note that undrawn commitments to lend are not required to be reported unless the commitment may not be reviewed or revoked by the institutions for a period of over 12 months.

**PART IV CALCULATION OF CAPITAL RATIO**

**[A] TOTAL CAPITAL** \_\_\_\_\_  
(item 5 part I)

**[B] (i) TOTAL RISK WEIGHTED  
BALANCE SHEET EXPOSURES** \_\_\_\_\_  
(item 6 part II)

**(ii) TOTAL RISK WEIGHTED  
OFF-BALANCE SHEET EXPOSURES** \_\_\_\_\_  
(item 6 part III)

**[C] TOTAL RISK WEIGHTED EXPOSURES** \_\_\_\_\_  
[sum of B(i) and B(ii)]

**[D] CAPITAL RATIO**  $\frac{[A \times 100]}{[C]}$  \_\_\_\_\_%