Chapter 3

Standardised credit risk
3.1 Application and purpose

Application

3.1.1 BIPRU 3 applies to a BIPRU firm.

Purpose

3.1.2 Pursuant to the third paragraph of article 95(2) of the EU CRR, BIPRU 3 implements:

1. Articles 78 to 80, paragraph (1) of Article 81, Article 83, Annex II and Parts 1 and 3 of Annex VI of the Banking Consolidation Directive;

2. Article 18 of the Capital Adequacy Directive so far as it applies Articles 78 to 80, paragraph (1) of Article 81, Article 83 and Parts 1 and 3 of Annex VI of the Banking Consolidation Directive to investment firms; and


3.1.3 BIPRU 3.1 sets out how a firm should calculate the credit risk capital component, which is one of the elements that make up the credit risk capital requirement under GENPRU 2.1.51 R. Part of that calculation involves calculating risk weighted exposure amounts for exposures in the firm’s non-trading book. The rest of BIPRU 3 sets out how the firm should carry out that calculation.

3.1.4 BIPRU 5 deals with the effect of credit risk mitigation on the calculation of risk weighted exposure amounts. BIPRU 13 deals with the calculation of exposure values for certain kinds of products. BIPRU 14.3 deals with the calculation of the counterparty risk capital component for unsettled transactions in the trading book and non-trading book. BIPRU 14.4 deals with capital resources with respect to free deliveries.

Calculation of the credit risk capital component

3.1.5 The credit risk capital component of a firm is 8% of the total of its risk weighted exposure amounts for exposures falling into BIPRU 3.1.6 R, calculated in accordance with BIPRU 3.
3.1.6

An exposure falls into this rule if:

(1) it is in a firm’s non-trading book; and

(2) it has not been deducted from the firm’s capital resources under GENPRU 2.2.
3.2 The central principles of the standardised approach to credit risk

3.2.1 Subject to BIPRU 13:

(1) the exposure value of an asset item must be its balance-sheet value, subject to any value adjustments required by GENPRU 1.3; and

(2) the exposure value of an off-balance sheet item listed in the table in BIPRU 3.7.2 R must be the percentage of its value set out in that table.

[Note: BCD Article 78(1) part]

3.2.2 The off-balance sheet items listed in the table in BIPRU 3.7.2 R must be assigned to the risk categories as indicated in that table.

[Note: BCD Article 78(1) part]

3.2.3 Where an exposure is subject to funded credit protection, a firm may modify the exposure value applicable to that item in accordance with BIPRU 5.

[Note: BCD Article 78(3)]

3.2.4 BIPRU 13 sets out the method for determination of the exposure value of a financial derivative instrument, with the effects of contracts of novation and other netting agreements taken into account for the purposes of that method in accordance with BIPRU 13.7.

[Note: reference to BCD Article 78(2) first sentence. Implementation in BIPRU 13]

3.2.5 BIPRU 13.3 and BIPRU 13.8 set out the provisions applying to the treatment and determination of the exposure value of repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions (SFTs).

[Note: reference to BCD Article 78(2) second sentence. Implementation in BIPRU 13]

3.2.6 BIPRU 13 also sets out the methods for the determination of exposure values for long settlement transactions.
3.2.7 BIPRU 13.8 provides that, in the case of a firm using the financial collateral comprehensive method under BIPRU 5, where an exposure takes the form of an SFT, the exposure value should be increased by the volatility adjustment appropriate to such securities or commodities set out in BIPRU 5.4.30 R to BIPRU 5.4.65 R (Supervisory volatility adjustments approach and the own estimates of volatility adjustments approach).

[Note: reference to BCD Article 78(1), part. Implementation in BIPRU 13]

3.2.8 BIPRU 13.3.13 R and BIPRU 13.8.8 R set out the provisions relating to determination of the exposure value of certain credit risk exposures outstanding with a central counterparty, where the central counterparty credit risk exposures with all participants in its arrangements are fully collateralised on a daily basis.

[Note: reference to BCD Article 78(4). Implementation in BIPRU 13]

Exposure Classes

A firm must assign each exposure to one of the following exposure classes:

1. claims or contingent claims on central governments or central banks;
2. claims or contingent claims on regional governments or local authorities;
3. claims or contingent claims on administrative bodies and non-commercial undertakings;
4. claims or contingent claims on multilateral development banks;
5. claims or contingent claims on international organisation;
6. claims or contingent claims on institutions;
7. claims or contingent claims on corporates;
8. retail claims or contingent retail claims;
9. claims or contingent claims secured on real estate property;
10. past due items;
11. items belonging to regulatory high-risk categories;
12. claims in the form of covered bonds;
13. securitisation positions;
14. short-term claims on institutions and corporates;
15. claims in the form of CIUs; or
16. other items.

[Note: BCD Article 79(1)]
To be eligible for the retail exposure class, an exposure must meet the following conditions:

(1) the exposure must be either to an individual person or persons, or to a small or medium sized entity;

(2) the exposure must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced; and

(3) the total amount owed to the firm, its parent undertakings and its subsidiary undertakings, including any past due exposure, by the obligor client or group of connected clients, but excluding claims or contingent claims secured on residential real estate collateral, must not, to the knowledge of the firm, exceed €1 million.

[Note: BCD Article 79(2)]

A firm must take reasonable steps to acquire the knowledge referred to in BIPRU 3.2.10 R (3).

[Note: BCD Article 79(2)(c) last sentence]

Securities are not eligible for the retail exposure class.

[Note: BCD Article 79(2) last sentence]

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

[Note: BCD Article 79(3)]

A key driver of the preferential risk weight afforded retail exposures is the lower correlation and systematic risk associated with such exposures. This aspect is unrelated to the absolute number of retail exposures. Accordingly in defining what constitutes a significant number of retail exposures for the purpose of BIPRU 3.2.10 R (2), a firm need only satisfy itself that the number of retail exposures is sufficiently large to diversify away idiosyncratic risk. This assessment will be subject to supervisory review and part of a firm’s SREP. It will be looked at as one of the issues relating to overall diversification.

In deciding what steps are reasonable for the purposes of BIPRU 3.2.11 R, a firm may take into account complexity and cost, as well as the materiality of the impact upon its capital calculation. A firm should be able to demonstrate to the appropriate regulator that it has complied with the obligation to take reasonable steps under BIPRU 3.2.11 R in the way it takes these factors into account.
Retail exposures: Aggregation: Single risk

(1) The definition of group of connected clients is set out in the Glossary. Paragraph (2) of that definition is “two or more persons ... who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties”.

(2) Say that a firm has exposures to A and B. When deciding whether A and B come within paragraph (2) of the definition two conditions should be satisfied. Firstly the connections between A and B should mean that if A experiences financial problems, B should be likely to encounter repayment difficulties. Secondly, the connections between A and B should mean that if B experiences financial problems, A should be likely to encounter repayment difficulties.

(3) The guidance in BIPRU 3.2.16 G is provided for the purpose of BIPRU 3.2.10 R only and not for the purposes of any other provision in the Handbook that uses the defined term group of connected clients.

Retail exposures: Aggregation: Personal and business exposures

If a firm has exposures to an owner of a retail SME in his personal capacity and exposures to the retail SME the firm should aggregate the two types of exposure for the purpose of BIPRU 3.2.10 R (3), although it should not include claims secured on residential real estate collateral. In deciding what steps are reasonable for the purposes of BIPRU 3.2.11 R in aggregating these two types of exposure, a firm may take into account the materiality of those personal exposures. A firm should be able to demonstrate to the appropriate regulator that it has complied with the obligation to take reasonable steps under BIPRU 3.2.11 R when taking into account materiality in this way.

Retail exposures: Exchange rate

Where an exposure is denominated in a currency other than the euro, a firm may calculate the euro equivalent for purposes of BIPRU 3.2.10 R using any appropriate set of exchange rates provided its choice has no obvious bias and that the firm is consistent in its approach to choosing rates.

Retail exposures: Frequency of monitoring

A firm may monitor compliance with the €1m threshold in BIPRU 3.2.10 R on the basis of approved limits provided it has internal control procedures that are sufficient to ensure that amounts owed cannot diverge from approved limits to such an extent as to give rise to a material breach of the €1m threshold.

(1) To calculate risk weighted exposure amounts, risk weights must be applied to all exposures, unless deducted from capital resources, in accordance with the provisions of BIPRU 3.4.
(2) The application of risk weights must be based on the standardised credit risk exposure class to which the exposure is assigned and, to the extent specified in BIPRU 3.4, its credit quality.

(3) Credit quality may be determined by reference to:
   (a) the credit assessments of eligible ECAIs in accordance with the provisions of BIPRU 3; or
   (b) the credit assessments of export credit agencies as described in BIPRU 3.4.

   [Note: BCD Article 80(1)]

3.2.21 R For the purposes of applying a risk weight, as referred to in BIPRU 3.2.20 R, the exposure value must be multiplied by the risk weight specified or determined in accordance with the standardised approach.

   [Note: BCD Article 80(2)]

3.2.22 R Notwithstanding BIPRU 3.2.20 R, where an exposure is subject to credit protection the risk weight applicable to that item may be modified in accordance with BIPRU 5.

   [Note: BCD Article 80(4)]

3.2.23 R Risk weighted exposure amounts for securitised exposures must be calculated in accordance with BIPRU 9.

   [Note: BCD Article 80(5)]

3.2.24 R Exposures the calculation of risk weighted exposure amounts for which is not otherwise provided for under the standardised approach must be assigned a risk weight of 100%.

   [Note: BCD Article 80(6)]

Zero risk-weighting for intra-group exposures: core UK group

3.2.25 R (1) Subject to BIPRU 3.2.35 R, and with the exception of exposures giving rise to liabilities in the form of the items referred to in BIPRU 3.2.26 R, a firm is not required to comply with BIPRU 3.2.20 R (Calculation of risk weighted exposures amounts under the standardised approach) in the case of the exposures of the firm to a counterparty which is its parent undertaking, its subsidiary undertaking or a subsidiary undertaking of its parent undertaking provided that the following conditions are met:

   (a) the counterparty is
      (i) a core concentration risk group counterparty; and
      (ii) an institution, financial holding company, mixed financial holding company, financial institution, asset management company or ancillary services undertaking subject to appropriate prudential requirements;

   (b) [deleted]
(ba) (in relation to a subsidiary undertaking) 100% of the voting rights attaching to the shares in the counterparty’s capital is held by the firm or a financial holding company (or a subsidiary undertaking of the financial holding company), whether individually or jointly, and that the firm or financial holding company (or its subsidiary undertaking) must have the right to appoint or remove a majority of the members of the board of directors, committee of management or other governing body of the counterparty;

(c) the counterparty is subject to the same risk evaluation, measurement and control procedures as the firm;

(d) the counterparty is incorporated in the United Kingdom; and

(e) there is no current or foreseen material practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities from the counterparty to the firm.

(2) Where a firm chooses under (1) not to apply BIPRU 3.2.20 R, it must assign a risk weight of 0% to the exposure.

(3) A firm need not apply the treatment in (1) and (2) to every exposure that is eligible for that treatment.

[Note: BCD Article 80(7)]

3.2.25A G

(1) [deleted]

(2) [deleted]

3.2.26 R

A firm must not apply the treatment in BIPRU 3.2.25 R to exposures giving rise to liabilities in the form of any of the following items:

(1) in the case of a BIPRU firm, any tier one capital or tier two capital; and

(2) in the case of any other undertaking, any item that would be tier one capital or tier two capital if the undertaking were a BIPRU firm.

[Note: BCD Article 80(7), part]

3.2.27 R

(1) [deleted]

(a) [deleted]

(b) [deleted]

(c) [deleted]

(2) [deleted]

3.2.27A R

(1) For the purpose of BIPRU 3.2.25R (1)(e), a firm must be able on an ongoing basis to demonstrate fully to the appropriate regulator the circumstances and arrangements, including legal arrangements, by virtue of which there are no material practical or legal impediments, and none are foreseen, to the prompt transfer of capital resources or repayment of liabilities from the counterparty to the firm.
(2) In relation to a counterparty that is not a firm, the arrangements referred to in (1) must include a legally binding agreement with each firm that is a member of the core UK group that it will promptly on demand by the firm increase the firm’s capital resources by an amount required to ensure that the firm complies with GENPRU 2.1 (Calculation of capital resources requirements) and any other requirements relating to capital resources or concentration risk imposed on a firm by or under the regulatory system.

(3) For the purpose of (2), the obligation to increase the firm’s capital resources may be limited to capital resources available to the counterparty and may reasonably exclude such amount of capital resources that, if transferred to the firm, would cause the counterparty to become balance sheet insolvent in the manner contemplated in Section 123(2) of the Insolvency Act 1986.

3.2.28 For the purpose of BIPRU 3.2.25 R (1)(c) it is the risk management functions of the group that should be integrated, rather than the group’s operational management. A firm should ensure that if risk management functions are integrated in this way it should be possible for the appropriate regulator to undertake qualitative supervision of the management of the integrated risk management function.

3.2.29 In relation to a core concentration risk group counterparty, an undertaking is included within the scope of consolidation of a group on a full basis if it is at the head of the group or if its assets and liabilities are taken into account in full as referred to in BIPRU 8.5.2 G (Basis of inclusion of undertakings in consolidation).

3.2.29A (1) In relation to BIPRU 3.2.25 R (1)(ba), a subsidiary undertaking should generally be 100% owned and controlled by a single shareholder. However, if a subsidiary undertaking has more than one shareholder, that undertaking may be a member of the core UK group if all its shareholders are also members of the same core UK group.

(2) For the purpose of BIPRU 3.2.25R (1)(d) (Incorporation in the UK), if a counterparty is of a type that falls within the scope of the Council Regulation of 29 May 2000 on insolvency proceedings (Regulation 1346/2000/EC) and it is established in the United Kingdom other than by incorporation, a firm wishing to include that counterparty in its core UK group may apply to the appropriate regulator for a waiver of this condition if it can demonstrate fully to the appropriate regulator that the counterparty’s centre of main interests is situated in the United Kingdom within the meaning of that Regulation.

3.2.30 For the purpose of BIPRU 3.2.25R (1)(e) (Prompt transfer of capital resources):

(1) in the case of an undertaking that is a firm the requirement in BIPRU 3.2.25R (1)(e) for the prompt transfer of capital resources refers to capital resources in excess of the capital and financial resources requirements to which it is subject under the regulatory system; and

(2) [deleted]
3.2.31 The requirement in §BIPRU 3.2.25 R (1)(e) for the prompt repayment of liabilities refers to the prompt repayment of liabilities when due.

3.2.32 The guidance in §BIPRU 3.2.30 G - §BIPRU 3.2.31 G does not apply to §BIPRU 2.1 (Solo consolidation) even though the provisions have similar wording. This is because the purpose of the provisions in §BIPRU 2.1 is to define the conditions under which two undertakings should be treated as a single undertaking. The purpose of §BIPRU 3.2.25 R (1) is to define the circumstances in which it is appropriate to apply a zero risk weight.

A firm that has chosen to apply the treatment in §BIPRU 3.2.25 R should monitor the exposures to which a 0% risk weight is applied under that treatment and report these to the appropriate regulator as required.

3.2.34 If a firm has an IRB permission and exposures are exempted from the IRB approach under §BIPRU 4.2.26 R (6) the firm may apply a 0% risk weight to them under §BIPRU 3.2.25 R (2) (Zero risk weighting for intra-group exposures) if the conditions in §BIPRU 3.2.25 R (1) are satisfied.

3.2.35 (1) A firm may not apply §BIPRU 3.2.25 R unless it has a core UK group waiver.
(2) [deleted]

(3) A firm may stop applying BIPRU 3.2.25 R or may stop applying it to some exposures.

(4) [deleted]

(5) A firm must notify the appropriate regulator if it becomes aware that any exposure that it has treated as exempt under BIPRU 3.2.25 R has ceased to meet the conditions for exemption or if the firm ceases to treat an exposure under that rule.

3.2.36 [deleted]

3.2.37 G BIPRU 3 Annex 1 G is a flow chart guide to assessing whether an intra-group exposure can be zero risk weighted using the standardised approach subject to the conditions set out in BIPRU 3.2.25 R - BIPRU 3.2.35 R.

Exposures to recognized third-country investment firms, clearing houses and investment exchanges

3.2.38 R For the purposes of the standardised approach (including as it applies for the purposes of BIPRU 14) and without prejudice to BIPRU 13.3.13 R and BIPRU 13.8.8 R (Exposure to a central counterparty), exposures to recognised third country investment firms and exposures to recognised clearing houses, designated clearing houses, recognised investment exchanges and designated investment exchanges must be treated as exposures to institutions.

[Note: CAD Article 40]
3.3 The use of the credit assessments of ratings agencies

3.3.1 An external credit assessment may be used to determine the risk weight of an exposure in accordance with BIPRU 3.2.20 R to BIPRU 3.2.26 R only if the ECAI which provides it is recognised by the appropriate regulator as an eligible ECAI for the purposes of the standardised approach to credit risk.

[Note: BCD Article 81(1)]

Recognition of ratings agencies

3.3.2 The appropriate regulator will recognise an ECAI as an eligible ECAI for the purposes of BIPRU 3, or will refuse to recognise an ECAI or will revoke its recognition of an ECAI as an eligible ECAI in accordance with the Capital Requirements Regulations 2006.

3.3.3 Regulation 22 of the Capital Requirements Regulations 2006 deals with recognition by the appropriate regulator of eligible ECAIs for exposure risk weight purposes. Regulation 25 deals with revoking recognition.

3.3.4 The criteria which the appropriate regulator must apply when assessing ECAIs for recognition for exposure risk weighting purposes are set out in Regulation 22 and Schedule 1 to the Capital Requirements Regulations 2006. In making an assessment against those criteria and in carrying out the mapping process described in BIPRU 3.3.7 G to BIPRU 3.3.9 G the appropriate regulator will have regard to the approach set out in the Committee of European Banking Supervisors' "Guidelines on the recognition of External Credit Assessment Institutions" dated 20 January 2006. The appropriate regulator does not expect to recognise an ECAI unless the information set out in those guidelines has been submitted to it.

3.3.5 The list of eligible ECAIs is published on the appropriate regulator website. When the appropriate regulator recognises an ECAI as an eligible ECAI, it publishes that decision by amending the list of eligible ECAIs on the appropriate regulator website to include the name of the eligible ECAI. When the appropriate regulator determines that the recognition of an ECAI should be revoked, it publishes that decision by deleting the name of the ECAI from the list on the appropriate regulator website.

3.3.6 The list of eligible ECAIs includes those who have been recognised as eligible for exposure risk weighting purposes by a competent authority of another EEA State and are subsequently recognised as eligible ECAIs by the
appropriate regulator without carrying out its own evaluation process under Regulation 22(2) of the Capital Requirements Regulations 2006.

Mapping of credit assessments

3.3.7 G Under Regulation 22(3) of the Capital Requirements Regulations 2006 the appropriate regulator is obliged to determine, taking into account the requirements set out in Schedule 2 to the Capital Requirements Regulations 2006, with which of the credit quality steps set out in Part 1 of Annex VI of the Banking Consolidation Directive the relevant credit assessments of an eligible ECAI are to be associated. Those determinations should be objective and consistent.

3.3.8 R The credit quality step with which a relevant credit assessment of an eligible ECAI is to be associated is that in the table mapping the credit assessments of eligible ECAIs to credit quality steps published by the appropriate regulator under Regulation 22(3) of the Capital Requirements Regulations 2006.

3.3.9 G The table mapping the credit assessments of eligible ECAIs to credit quality steps is published on the appropriate regulator’s website and amended from time to time in line with additions to and deletions from the list of eligible ECAIs. The table includes mappings made by a competent authority of another EEA State which are subsequently recognised by the appropriate regulator without carrying out its own determination process under Regulation 22(5) of the Capital Requirements Regulations 2006.

[Note: For the most recent version of the table, refer to: http://www.fca.org.uk/your-fca/documents/fsa-ecais-standardised for the FCA and http://www.bankofengland.co.uk/publications/Documents/other/pra/policy/2013/ecaistandardised.pdf for the PRA]
3.4 Risk weights under the standardised approach to credit risk

Risk weights: Exposures to central governments or central banks: Treatment

3.4.1 Without prejudice to BIPRU 3.4.2 R to BIPRU 3.4.9 R, exposures to central governments and central banks must be assigned a 100% risk weight.

[Note: BCD Annex VI Part 1 point 1]

3.4.2 Subject to BIPRU 3.4.4 R, exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available must be assigned a risk weight according to the table in BIPRU 3.4.3 R in accordance with the assignment by the appropriate regulator in accordance with the Capital Requirements Regulations 2006 of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale.

[Note: BCD Annex VI Part 1 point 2]

Table: Exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available

3.4.3 This table belongs to BIPRU 3.4.2 R.

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk weight</td>
<td>0 %</td>
<td>20 %</td>
<td>50 %</td>
<td>100 %</td>
<td>100 %</td>
<td>150 %</td>
</tr>
</tbody>
</table>

3.4.4 Exposures to the European Central Bank must be assigned a 0% risk weight.

[Note: BCD Annex VI Part 1 point 3]

Exposures in the national currency of the borrower

3.4.5 Exposures to EEA States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank must be assigned a risk weight of 0%.

[Note: BCD Annex VI Part 1 point 4]

3.4.6 When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the EEA
assign a risk weight which is lower than that indicated in BIPRU 3.4.1 R to BIPRU 3.4.3 R to exposures to their central government and central bank denominated and funded in the domestic currency, a firm may risk weight such exposures in the same manner.

[Note: BCD Annex VI Part 1 point 5]

### Use of credit assessments by export credit agencies

An export credit agency credit assessment may be recognised by a firm for the purpose of determining the risk weight to be applied to an exposure under the standardised approach if either of the following conditions is met:

1. the credit assessment is a consensus risk score from export credit agencies participating in the OECD "Arrangement on Guidelines for Officially Supported Export Credits"; or
2. the export credit agency publishes its credit assessments, and the export credit agency subscribes to the OECD agreed methodology, and the credit assessment is associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes.

[Note: BCD Annex VI Part 1 point 6]

### Exposures for which a credit assessment by an export credit agency is recognised

Exposures for which a credit assessment by an export credit agency is recognised for risk weighting purposes must be assigned a risk weight according to the table in BIPRU 3.4.9 R.

[Note: BCD Annex VI Part 1 point 7]

<table>
<thead>
<tr>
<th>MEIP</th>
<th>0</th>
<th>1</th>
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<th>3</th>
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<th>7</th>
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<tbody>
<tr>
<td>Risk weight</td>
<td>0%</td>
<td>0%</td>
<td>20%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
</tr>
</tbody>
</table>

### Exposures to regional governments or local authorities: General

Without prejudice to BIPRU 3.4.15 R to BIPRU 3.4.19 R:

1. a firm must risk weight exposures to regional governments and local authorities in accordance with BIPRU 3.4.11 R to BIPRU 3.4.14 R and BIPRU 3.4.19A R; and

2. the preferential treatment for short-term exposures specified in BIPRU 3.4.37 R, BIPRU 3.4.39 R and BIPRU 3.4.44 R must not be applied.

[Note: BCD Annex VI Part 1 point 8]
Exposures to regional governments or local authorities: Central government risk weight based method

3.4.11 Exposures to regional governments and local authorities must be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the regional government or local authority is established are assigned in accordance with the table in BIPRU 3.4.12 R.

(2) Exposures to an unrated regional government or local authority must not be assigned a risk weight lower than that applied to exposures to its central government.

[Note: BCD Annex VI Part 1 points 25 and 26]

Table: Central government risk weight based method

<table>
<thead>
<tr>
<th>Credit quality step to which central government is assigned</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk weight of exposure</td>
<td>20%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
</tr>
</tbody>
</table>

For exposures to regional governments and local authorities established in countries where the central government is unrated, the risk weight must be not more than 100%.

[Note: BCD Annex VI Part 1 point 27]

For exposures to regional governments and local authorities with an original effective maturity of three months or less, the risk weight must be 20%.

[Note: BCD Annex VI Part 1 point 28]

A firm must treat an exposure to a regional government or local authority of the United Kingdom listed in BIPRU 3 Annex 2 R as an exposure to the central government of the United Kingdom.

[Note: BCD Annex VI Part 1 point 9]

The appropriate regulator will include a regional government or local authority in the list in BIPRU 3 Annex 2 R where there is no difference in risk between exposures to that body and exposures to the central government of the United Kingdom because of the specific revenue-raising powers of the regional government or local authority, and the existence of specific institutional arrangements the effect of which is to reduce the risk of default.

[Note: BCD Annex VI Part 1 point 9]
3.4.17 R A firm must treat an exposure to a regional government or local authority of an EEA State other than the United Kingdom as an exposure to the central government in whose jurisdiction that regional government or local authority is established if that regional government or local authority is included on the list of regional governments and local authorities drawn up by the competent authority in that EEA State under a CRD implementation measure with respect to point 9 of Part 1 of Annex VI of the Banking Consolidation Directive.

[Note: BCD Annex VI Part 1 point 9]

3.4.18 R Exposures to churches or religious communities constituted in the form of a legal person under public law must, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments and local authorities, except that R3.4.15 R and R3.4.17 R do not apply.

[Note: BCD Annex VI Part 1 point 10]

3.4.19 R When competent authorities of a third country jurisdiction which apply supervisory and regulatory arrangements at least equivalent to those applied in the EEA treat exposures to regional governments and local authorities as exposures to their central government, a firm may risk weight exposures to such regional governments and local authorities in the same manner.

[Note: BCD Annex VI Part 1 point 11]

3.4.19A R Without prejudice to R3.4.17 R to R3.4.19 R, an exposure to a regional government or local authority of an EEA State denominated and funded in the domestic currency of that regional government or local authority must be assigned a risk weight of 20%.

[Note: BCD Annex VI Part 2(b)]

Exposures to administrative bodies and non-commercial undertakings

3.4.20 R R3.4.21 R to R3.4.26 R set out the provisions applying to exposures to administrative bodies and non-commercial undertakings.

Treatment

3.4.21 R Without prejudice to R3.4.22 R to R3.4.26 R, exposures to administrative bodies and non-commercial undertakings must be assigned a 100% risk weight.

[Note: BCD Annex VI Part 1 point 12]

Public sector entities

3.4.22 R Without prejudice to R3.4.23 R to R3.4.26 R, exposures to public sector entities must be assigned a 100% risk weight.

[Note: BCD Annex VI Part 1 point 13]
A firm may treat an exposure to a public sector entity as an exposure to a regional government or local authority in accordance with BIPRU 3.4.11 R to BIPRU 3.4.14 R.

[Note: BCD Annex VI Part 1 point 14]

In exceptional circumstances a firm may treat an exposure to a public sector entity established in the United Kingdom as an exposure to the central government of the United Kingdom if there is no difference in risk between exposures to that body and exposures to the central government of the United Kingdom because of the existence of an appropriate guarantee by the central government.

[Note: BCD Annex VI Part 1 point 15]

Where a competent authority of another EEA State implements points 14 or 15 of Part 1 of Annex VI of the Banking Consolidation Directive by exercising the discretion to treat exposures to public sector entities as exposures to institutions or as exposures to the central government of the EEA State concerned, a firm may risk weight exposures to the relevant public sector entities in the same manner.

[Note: BCD Annex VI Part 1 point 16]

When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the EEA, treat exposures to public sector entities as exposures to institutions, a firm may risk weight exposures to the relevant public sector entities in the same manner.

[Note: BCD Annex VI Part 1 point 17]

Exposures to multilateral development banks: Treatment

Without prejudice to BIPRU 3.4.28 R to BIPRU 3.4.29 R:

(1) a firm must treat exposures to multilateral development banks in the same manner as exposures to institutions in accordance with BIPRU 3.4.34 R to BIPRU 3.4.39 R (Exposures to institutions: credit assessment based method); and

(2) the preferential treatment for short-term exposures specified in BIPRU 3.4.37 R, BIPRU 3.4.39 R and BIPRU 3.4.44 R must not be applied.

[Note: BCD Annex VI Part 1 point 19]

An exposure to a multilateral development bank listed in point (a) of the definition in the Glossary must be assigned a 0% risk weight.

[Note: BCD Annex VI Part 1 point 20]

A risk weight of 20% must be assigned to the portion of unpaid capital subscribed to the European Investment Fund.

[Note: BCD Annex VI Part 1 point 21]
Exposures to international organisations

3.4.30 R

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

(1) the EU;

(2) the International Monetary Fund; and

(3) the Bank for International Settlements.

[Note: BCD Annex VI Part 1 point 22]

Exposures to institutions: General

3.4.31 R

■ BIPRU 3.4.32 R to ■ BIPRU 3.4.48 R set out the treatment to be accorded to exposures to institutions.

Exposures to institutions: Treatment

3.4.32 R

Without prejudice to ■ BIPRU 3.4.33 R to ■ BIPRU 3.4.47 R, exposures to financial institutions authorised and supervised by the competent authorities responsible for the authorisation and supervision of credit institutions and subject to prudential requirements equivalent to those applied to credit institutions must be risk weighted as exposures to institutions.

[Note: BCD Annex VI Part 1 point 24]

Exposures to institutions: Risk weight floor on exposures to unrated institutions

3.4.33 R

Exposures to an unrated institution must not be assigned a risk weight lower than that applied to exposures to its central government.

[Note: BCD Annex VI Part 1 point 25]

Exposures to institutions: Credit assessment based method

3.4.34 R

Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available must be assigned a risk weight according to the table in ■ BIPRU 3.4.35 R in accordance with the assignment by the appropriate regulator in accordance with the Capital Requirements Regulations 2006 of the credit assessments of eligible ECAls to six steps in a credit quality assessment scale.

[Note: BCD Annex VI Part 1 point 29]

Table: Exposures to institutions with a residual maturity of more than three months for which a credit assessment by a nominated ECAI is available

3.4.35 R

This table belongs to ■ BIPRU 3.4.34 R.

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
<th>6</th>
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<tbody>
<tr>
<td>Risk weight</td>
<td>20%</td>
<td>50%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
<td>150%</td>
</tr>
</tbody>
</table>
Without prejudice to [BIPRU 3.4.33 R], exposures to unrated institutions must be assigned a risk weight of 50%.

[Note: BCD Annex VI Part 1 point 30]

Exposures to an institution with a residual maturity of three months or less for which a credit assessment by a nominated ECAI is available must be assigned a risk weight according to the table in [BIPRU 3.4.38 R] in accordance with the assignment by the appropriate regulator in accordance with the Capital Requirements Regulations 2006 of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale.

[Note: BCD Annex VI Part 1 point 31]

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</tr>
</thead>
<tbody>
<tr>
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<td>20%</td>
<td>20%</td>
<td>50%</td>
<td>50%</td>
<td>150%</td>
</tr>
</tbody>
</table>

Table: Exposures to an institution with a residual maturity of three months or less for which a credit assessment by a nominated ECAI is available

This table belongs to [BIPRU 3.4.37 R].

Without prejudice to [BIPRU 3.4.33 R], exposures to unrated institutions having an original effective maturity of three months or less must be assigned a 20% risk weight.

[Note: BCD Annex VI Part 1 point 32]

Exposures to institutions: Interaction with short-term credit assessments

If there is no short-term credit assessment as set out in [BIPRU 3.4.112 R], the general preferential treatment for short-term exposures as specified in [BIPRU 3.4.37 R] applies to all exposures to institutions of up to three months residual maturity.

[Note: BCD Annex VI Part 1 point 34]

If there is a short-term credit assessment as set out in [BIPRU 3.4.112 R] 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 [BIPRU 3.4.37 R], then the short-term assessment and risk weighting specified in [BIPRU 3.4.112 R] must be used for that specific exposure only. Other short-term exposures must follow the general preferential treatment for short-term exposures, as specified in [BIPRU 3.4.37 R].

[Note: BCD Annex VI Part 1 point 35]

If there is a short-term credit assessment as set out in [BIPRU 3.4.112 R] 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 [BIPRU 3.4.37 R], then the general preferential treatment for short-term
exposures must not be used and all unrated short-term claims must be assigned the same risk weight as that applied by the specific short-term assessment.

[Note: BCD Annex VI Part 1 point 36]

3.4.43 G BIPRU 3 Annex 4 G contains a flow diagram guide to determining the risk weight to be applied to short-term exposures to institutions according to whether a short-term credit assessment is available.

Exposures to institutions: Short-term exposures in the national currency of the borrower

A firm may assign to an exposure to an institution formed under the law of the United Kingdom of a residual maturity of 3 months or less denominated and funded in pounds sterling a risk weight that is one category less favourable than the preferential risk weight, as described in BIPRU 3.4.5 R (Exposures in the national currency of the borrower), assigned to exposures to the central government of the United Kingdom.

[Note: BCD Annex VI Part 1 point 37]

3.4.45 R (1) Where a competent authority of another EEA State implements point 37 of Part 1 of Annex VI of the Banking Consolidation Directive by exercising the discretion to allow the treatment in that point, a firm may assign to the relevant national currency exposures the risk weight permitted by that CRD implementation measure.

(2) When the competent authority of a third country which applies supervisory and regulatory arrangements at least equivalent to those applied in the EEA assigns to an exposure to an institution formed under the law of that third country of a residual maturity of 3 months or less denominated and funded in the national currency a risk weight that is one category less favourable than the preferential risk weight, as described in BIPRU 3.4.6 R (Exposures in the national currency of the borrower), assigned to exposures to the central government of that third country, a firm may risk weight such exposures in the same manner.

[Note: BCD Annex VI Part 1 point 37]

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

[Note: BCD Annex VI Part 1 point 38]

Exposures to institutions: Investments in regulatory capital instruments

Investments in equity or regulatory capital instruments issued by institutions must be risk weighted at 100%, unless deducted from capital resources.

[Note: BCD Annex VI Part 1 point 39]
3.4.48  

**Exposures to institutions: Minimum reserves required by the ECB**

Where an exposure to an institution is in the form of minimum reserves required by the European Central Bank or by the central bank of an EEA State to be held by the firm, a firm may assign the risk weight that would be assigned to exposures to the central bank of the EEA State in question provided:

1. the reserves are held in accordance with Regulation (EC) No. 1745/2003 of the European Central Bank of 12 September 2003 or a subsequent replacement regulation or in accordance with national requirements in all material respects equivalent to that Regulation; and

2. in the event of the bankruptcy or insolvency of the institution where the reserves are held, the reserves will be fully repaid to the firm in a timely manner and will not be available to meet other liabilities of the institution.

[Note: BCD Annex VI Part 1 point 40]

3.4.49  

**Exposures to corporates: General**

BIPRU 3.4.50 R to BIPRU 3.4.52 R set out the treatment to be accorded to exposures to corporates.

3.4.50  

**Exposures to corporates: Treatment**

Exposures for which a credit assessment by a nominated ECAI is available must be assigned a risk weight according to the table in BIPRU 3.4.51 R in accordance with the assignment by the appropriate regulator in accordance with the Capital Requirements Regulations 2006 of the credit assessments of eligible ECAs to six steps in a credit quality assessment scale.

[Note: BCD Annex VI Part 1 point 41]

**Table: Exposures for which a credit assessment by a nominated ECAI is available**

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>1</th>
<th>2</th>
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<td>50%</td>
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<td>150%</td>
<td>150%</td>
</tr>
</tbody>
</table>

3.4.51  

This table belongs to BIPRU 3.4.50 R.

3.4.52  

Unrated exposures must be assigned a 100% risk weight or the risk weight of its central government, whichever is the higher.

[Note: BCD Annex VI Part 1 point 42]
Retail exposures

3.4.53 Exposures that comply with the criteria listed in BIPRU 3.2.10 R must be assigned a risk weight of 75%. However a firm may treat such an exposure under BIPRU 3.2.24 R (100% risk weight).

[Note: BCD Annex VI Part 1 point 43]

Exposures secured by real estate property

3.4.54 BIPRU 3.4.55 R to BIPRU 3.4.94 R set out the treatment to be accorded to exposures secured by real estate property.

3.4.55 Without prejudice to BIPRU 3.4.56 R to BIPRU 3.4.94 R, exposures fully secured by real estate property must be assigned a risk weight of 100%.

[Note: BCD Annex VI Part 1 point 44]

Exposures secured by mortgages on residential property

3.4.56 Without prejudice to BIPRU 3.4.85 R, an exposure or any part of an exposure fully and completely secured, to the satisfaction of the firm, by mortgages on residential property which is or shall be occupied or let by the owner or the beneficial owner in the case of personal investment companies must be assigned a risk weight of 35%.

[Note: BCD Annex VI Part 1 point 45]

3.4.56A (1) A firm must not treat a lifetime mortgage as an exposure fully and completely secured on residential property for the purposes of BIPRU 3.4.56 R unless the amount of the exposure is calculated according to the following formula:

\[
\text{exposure amount} = \frac{P(1+i)^T}{(1+d)^T}
\]

where:
(a) \(P\) is the current outstanding balance on the lifetime mortgage;
(b) \(i\) is the interest rate charged on the lifetime mortgage, which for the purposes of this calculation must not be lower than the discount rate referred to in (c);
(c) \(d\) is the discount rate which is the risk-free rate as represented by the yield on 10-year UK government bonds; and
(d) \(T\) is the projected number of years to maturity of the exposure.

(2) Notwithstanding (1)(c), a firm may calculate an annual average discount rate provided there is no obvious bias in its calculation and it is consistent in its approach.
(1) This paragraph provides guidance on BIPRU 3.4.56A R.

(2) For the purposes of BIPRU 3.4.56A R (2), a firm may use the FTSE UK gilt 10-year yield index which the Council of Mortgage Lenders makes available to its members.

(3) If a firm offers a variable interest rate on a lifetime mortgage, it should calculate an average interest rate in a way which is consistent with the calculation of the discount rate.

(4) To determine the projected number of years to maturity of the exposure, a firm may use the standard mortality tables published by the Institute of Actuaries or the Faculty of Actuaries. For internal risk management purposes, the firm should use factual data or seek actuarial advice to determine how the information in these tables may be adjusted to take account of regional and other relevant variations.

Exposures fully and completely secured, to the satisfaction of the firm, by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of residential property which is or shall be occupied or let by the owner must be assigned a risk weight of 35%.

[Note: BCD Annex VI Part 1 point 46]

Without prejudice to BIPRU 3.4.85 R, an exposure or any part of an exposure to a tenant under a property leasing transaction concerning residential property under which the firm is the lessor and the tenant has an option to purchase, must be assigned a risk weight of 35% provided that the firm is satisfied that the exposure of the firm is fully and completely secured by its ownership of the property.

[Note: BCD Annex VI Part 1 point 47]

An Ijara mortgage is an example of an exposure described in BIPRU 3.4.58 R.

(1) In the exercise of its judgement for the purposes of BIPRU 3.4.56 R to BIPRU 3.4.58 R, a firm may be satisfied only if the conditions in (2) to (6) are met.

(2) The value of the property does not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macroeconomic factors affect both the value of the property and the performance of the borrower.

(3) The risk of the borrower does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral.

(4) The minimum requirements about:
(a) legal certainty in BIPRU 3.4.64 R;
(b) monitoring of property values in BIPRU 3.4.66 R;
(c) documentation in BIPRU 3.4.72 R; and
(d) insurance in BIPRU 3.4.73 R;
are met.

(5) The valuation rules set out in BIPRU 3.4.77 R to BIPRU 3.4.80 R are met.

(6) The value of the property exceeds the exposures by a substantial margin as set out in BIPRU 3.4.81 R, BIPRU 3.4.83 R, BIPRU 3.4.84 R or BIPRU 3.4.85 R (as applicable).

[Note: BCD Annex VI Part 1 point 48]

3.4.61 R

■ BIPRU 3.4.60 R (3) does not apply to exposures fully and completely secured by mortgages on residential property which is situated within the United Kingdom.

[Note: BCD Annex VI Part 1 point 49]

3.4.62 G

The Banking Consolidation Directive permits a competent authority to disapply the condition in ■ BIPRU 3.4.60 R (3), if it has evidence that a well-developed and long-established residential real estate market is present in its territory with loss rates which are sufficiently low to justify such treatment. ■ BIPRU 3.4.61 R implements that option. However, if the evidence changes so that these conditions are no longer satisfied, the appropriate regulator may be obliged to revoke ■ BIPRU 3.4.61 R.

3.4.63 R

If a CRD implementation measure of another EEA State exercises the discretion in point 49 of Part 1 of Annex VI of the Banking Consolidation Directive to dispense with the condition corresponding to ■ BIPRU 3.4.60 R (3) (The risk of the borrower should not materially depend upon the performance of the underlying property or project), a firm may apply a risk weight of 35% to such exposures fully and completely secured by mortgages on residential property situated in that EEA State.

[Note: BCD Annex VI Part 1 point 50]

3.4.64 R

The requirements about legal certainty referred to in ■ BIPRU 3.4.60 R (4)(a) are as follows:

(1) the mortgage or charge must be enforceable in all relevant jurisdictions which are relevant at the time of conclusion of the credit agreement, and the mortgage or charge must be properly filed on a timely basis;

(2) the arrangements must reflect a perfected lien (i.e. all legal requirements for establishing the pledge shall have been fulfilled); and
3.4.65 The term protection agreement in BIPRU 3.4.64 R (3) refers to the contract or deed by which the mortgage or charge is established.

3.4.66 (1) The requirements about monitoring of property values referred to in BIPRU 3.4.60 R (4)(b) are as follows:

(a) the value of the property must be monitored on a frequent basis and at a minimum once every three years for residential real estate;

(b) more frequent monitoring must be carried out where the market is subject to significant changes in conditions;

(c) statistical methods may be used to monitor the value of the property and to identify property that needs revaluation;

(d) the property valuation must be reviewed by an independent valuer when information indicates that the value of the property may have declined materially relative to general market prices; and

(e) for loans exceeding €3 million or 5% of the capital resources of the firm, the property valuation must be reviewed by an independent valuer at least every three years.

(2) For the purposes of (1), 'independent valuer' means a person who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.

3.4.67 A property will need to be revalued over time to ensure that the original purchase price does not overstate the degree of security provided by the property. Ijara providers should undertake revaluations in the same way as providers of conventional mortgages.

3.4.68 For the purposes of BIPRU 3.4.66 R (1)(a), the monitoring of property values should be an inherent part of risk managing and tracking the portfolio. The requirement to monitor property values does not include the physical assessment of each property in the portfolio.

3.4.69 For the purposes of BIPRU 3.4.66 R (1)(d) and (e), the review of a property valuation is more in-depth than the normal monitoring process required by BIPRU 3.4.66 R (1)(a). This requirement is likely to include a review of the property value on an individual exposure basis. Where an exposure is secured by multiple properties, the review can be undertaken at the level of the exposure, rather than at the level of each individual property.
3.4.70 G The review of property values required by BIPRU 3.4.66 R (1)(e) may lead to an amendment of the value assigned to the property under by BIPRU 3.4.80 R.

3.4.71 G For the purposes of BIPRU 3.4.66 R (2), necessary qualifications need not be professional qualifications but the firm should be able to demonstrate that he or she has the necessary ability and experience to undertake the review.

3.4.72 R The requirements about documentation referred to in BIPRU 3.4.60 R (4)(c) are that the types of residential real estate accepted by the firm and its lending policies in this regard must be clearly documented.

[Note: BCD Annex VIII Part 2 point 8(c)]

3.4.73 R The requirements about insurance referred to in BIPRU 3.4.60 R (4)(d) are that the firm must have procedures to monitor that the property taken as protection is adequately insured against damage.

[Note: BCD Annex VIII Part 2 point 8(d)]

3.4.74 G For the purposes of BIPRU 3.4.73 R a firm should, as a minimum, ensure that it is a requirement of each loan that the property taken as collateral must have adequate buildings insurance at all times, which should be reviewed when any new loan is extended against the property.

3.4.75 G A firm may deal with the risk that insurance on properties taken as protection may be inadequate by taking out insurance at the level of the portfolio.

3.4.76 R The valuation rules referred to in BIPRU 3.4.60 R (5) are set out in BIPRU 3.4.77 R to BIPRU 3.4.80 R.

3.4.77 R The property must be valued by an independent valuer at or less than the market value. In those EEA States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions the property may instead be valued by an independent valuer at or less than the mortgage lending value.

[Note: BCD Annex VIII Part 3 point 62]

3.4.78 R Market value means the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value must be documented in a transparent and clear manner.

[Note: BCD Annex VIII Part 3 point 63]

3.4.79 R Mortgage lending value means the value of the property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local
market conditions, the current use and alternative appropriate uses of the property. Speculative elements must not be taken into account in the assessment of the mortgage lending value. The mortgage lending value must be documented in a transparent and clear manner.

[Note: BCD Annex VIII Part 3 point 64]

3.4.80 The value of the collateral must be the market value or mortgage lending value reduced as appropriate to reflect the results of the monitoring required under ■ BIPRU 3.4.60 R (4)(b) and ■ BIPRU 3.4.66 R and to take account of any prior claims on the property.

[Note: BCD Annex VIII Part 3 point 65]

3.4.81 A firm may not treat an exposure as fully and completely secured by residential property located in the United Kingdom for the purpose of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R unless the amount of the exposure or of the secured part of the exposure referred to in ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R, as the case may be, is 80% or less of the value of the residential property on which it is secured.

3.4.82 (1) The application of ■ BIPRU 3.4.81 R may be illustrated by an example. If a firm has a mortgage exposure of £100,000 secured on residential property in the United Kingdom that satisfies the criteria listed in ■ BIPRU 3.4.56 R to ■ BIPRU 3.4.80 R and the value of that property is £100,000, then £80,000 of that exposure may be treated as fully and completely secured and risk weighted at 35%. The remaining £20,000 may be risk weighted at 75% provided the exposure meets the criteria in ■ BIPRU 3.2.10 R. The portion risk weighted at 75% should be treated as a retail exposure for the purposes of the aggregation calculations specified in ■ BIPRU 3.2.10 R (3). A diagrammatic illustration of this example is in (2).

(2) A diagrammatic illustration of this example is in (2).

(3) The same approach applies to exposures described in ■ BIPRU 3.4.58 R. On initiation a 35% risk weight should be applied to the first 80% of the principal/“purchase price” outstanding, with a 75% risk weight being applied to the remainder of the principal (assuming that the exposure meets the requirements in ■ BIPRU 3.2 to be treated as a retail exposure).

3.4.83 A firm may only treat an exposure as fully and completely secured by residential property situated in another EEA State for the purposes of ■ BIPRU 3.4.56 R or ■ BIPRU 3.4.58 R if it would be treated as fully and completely secured by the relevant CRD implementation measures in that
For the purposes of BIPRU 3.4.56 R or BIPRU 3.4.58 R, a firm may only treat an exposure as fully and completely secured by residential property situated in the territory of a third-country competent authority that is listed as equivalent for credit risk in BIPRU 8 Annex 6 R if it would be treated as fully and completely secured under the applicable requirements of that third-country competent authority (including any applicable loan-to-value ceiling).

For the purposes of BIPRU 3.4.56 R or BIPRU 3.4.58 R, where the residential property in question is situated in the territory of a third-country competent authority that is not listed as equivalent for credit risk in BIPRU 8 Annex 3 R:

1. a firm must not treat an exposure as fully and completely secured by the residential property in question unless the value of the property exceeds the exposures by a substantial margin, which must be at least 20%;
2. the firm must apply a risk weight of 50% to the exposure.

For the purposes of BIPRU 3.4.85 R (1) and in order to satisfy itself that an exposure is fully and completely secured by the relevant property, a firm should make its own assessment of the appropriate margin in each case, using its knowledge of the market in the relevant country and of its own portfolio.

If a firm has more than one exposure secured on the same property they should be aggregated and treated as if they were a single exposure secured on the property for the purposes of BIPRU 3.4.56 R and BIPRU 3.4.58 R and BIPRU 3.4.81 R, BIPRU 3.4.83 R and BIPRU 3.4.84 R.

If an exposure is secured on property that is used in part for residential purposes in accordance with BIPRU 3.4.56 R and partly for commercial purposes (such as a farm, public house, guest house or shop) it may be treated as secured by residential real estate if the firm can demonstrate that the property’s main use is, or will be, residential and that the value of the property is not significantly affected by its commercial use.

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

Exposures or any part of an exposure secured by mortgages on offices or other commercial premises which cannot properly be considered to fall within any other standardised credit risk exposure class or to qualify for a lower risk weight under BIPRU 3 must be assigned a risk weight of 100%.

[Note: BCD Annex VI Part 1 point 51]

Exposures fully and completely secured by shares in Finnish housing companies, operating in accordance with the Finnish Housing Company Act
of 1991 or subsequent equivalent legislation, in respect of offices or other commercial premises may be assigned a risk weight of 50%.

[Note: BCD Annex VI Part 1 point 52]

3.4.91 R If a CRD implementation measure in another EEA State implements the discretion in point 51 of Part 1 of Annex VI of the Banking Consolidation Directive, a firm may apply the same treatment as that CRD implementation measure to exposures falling within the scope of that CRD implementation measure which are fully and completely secured by mortgages on offices or other commercial premises situated in that EEA State.

[Note: BCD Annex VI Part 1 points 51 and 57]

3.4.92 R If a CRD implementation measure in another EEA State implements the discretion in point 53 of Part 1 of Annex VI of the Banking Consolidation Directive, a firm may apply the same treatment as that CRD implementation measure to exposures related to property leasing transactions concerning offices or other commercial premises situated in that EEA State and governed by statutory provisions whereby the lessor retains full ownership of the rented assets until the tenant exercises his option to purchase, as long as that exposure falls within the scope of that CRD implementation measure.

[Note: BCD Annex VI Part 1 points 53 and 57]

3.4.93 R In particular, if a firm applies BIPRU 3.4.91 R or BIPRU 3.4.92 R, it must comply with the corresponding CRD implementation measures in relation to points 54-56 of Part 1 of Annex VI of the Banking Consolidation Directive.

[Note: BCD Annex VI Part 1 points 54 to 56]

3.4.94 R (1) If a CRD implementation measure in another EEA State implements the discretion in point 58 of Part 1 of Annex VI of the Banking Consolidation Directive to dispense with the condition in point 54(b) for exposures fully and completely secured by mortgages on commercial property situated in that EEA State, a firm may apply the same treatment as that CRD implementation measure to exposures fully and completely secured by mortgages on commercial property situated in that EEA State falling within the scope of that CRD implementation measure.

(2) However a firm may not apply the treatment in (1) if the eligibility to use that treatment under the CRD implementation measure referred to in (1) ceases as contemplated under point 59 of Annex VI of the Banking Consolidation Directive (condition in point 54(b) must apply where conditions in point 58 are not satisfied).

[Note: BCD Annex VI Part 1 points 58, 59 and 60]

Past due items

3.4.95 R BIPRU 3.4.96 R to BIPRU 3.4.101 R set out the treatment to be accorded to past due items.
3.4.96 R Without prejudice to the provisions contained in BIPRU 3.4.97 R to BIPRU 3.4.101 R, the unsecured part of any item that is past due for more than 90 days (irrespective of the amount of that item or of the unsecured portion of that item) must be assigned a risk weight of:

(1) 150% if value adjustments are less than 20% of the unsecured part of the exposure gross of value adjustments; and

(2) 100% if value adjustments are no less than 20% of the unsecured part of the exposure gross of value adjustments.

[Note: BCD Annex VI Part 1 point 61]

3.4.97 R For the purpose of defining the secured portion of the past due item, eligible collateral and guarantees must be those eligible for credit risk mitigation purposes under BIPRU 5.

[Note: BCD Annex VI Part 1 point 62]

3.4.98 G For the purposes of BIPRU 3.4.97 R, the secured portion of a past due item is dealt with under BIPRU 5 (Credit risk mitigation). A firm may treat the secured portion of an exposure covered by a mortgage indemnity product that meets the relevant CRM eligibility criteria as secured for the purposes of BIPRU 3.4.97 R. The risk weight to be applied to the secured portion is determined under BIPRU 5.7.21 R to BIPRU 5.7.24 R. The risk weight of the unsecured portion is determined in accordance with BIPRU 3.4.96 R.

3.4.99 R Exposures indicated in BIPRU 3.4.56 R to BIPRU 3.4.63 R (Exposures secured by mortgages on residential property) must be assigned a risk weight of 100% net of value adjustments if they are past due for more than 90 days. If value adjustments are no less than 20% of the exposure gross of value adjustments, the risk weight to be assigned to the remainder of the exposure is 50%.

[Note: BCD Annex VI Part 1 point 64]

3.4.100 G The application of BIPRU 3.4.96 R and BIPRU 3.4.99 R may be illustrated on the basis of a £110,000 loan on a property valued at £100,000, where £80,000 of the loan is secured and £30,000 of the exposure is unsecured and provisions of £20,000 are taken:

(1) Option 1 (application of BIPRU 3.4.96 R):

(a) provision of £20,000 taken on £80,000 secured exposure;

(b) provision exceeds 20%, so the firm should risk weight the remaining £60,000 secured exposure at 50%;

(c) the risk weight to be applied to the unsecured exposure of £30,000 is 150%;

(d) the average risk weight to be assigned to the net exposure of £90,000 is 83%.

(2) Option 2 (application of BIPRU 3.4.99 R):

(a) provision of £20,000 taken on £30,000 unsecured exposure;
(b) provision exceeds 20%, so the firm should risk weight the remaining £10,000 unsecured exposure at 100%;

(c) the risk weight to be applied to the secured exposure of £80,000 is 100%;

(d) the average risk weight to be assigned to the net exposure of £90,000 is 100%.

3.4.101 Exposures indicated in BIPRU 3.4.89 R to BIPRU 3.4.94 R (Exposures secured by mortgages on commercial real estate) must be assigned a risk weight of 100% if they are past due for more than 90 days.

[Note: BCD Annex VI Part 1 point 65]

3.4.102 Non past due items to be assigned a 150% risk weight under BIPRU 3.4 and for which value adjustments have been established may be assigned a risk weight of:

(1) 100% if value adjustments are no less than 20% of the exposure value gross of value adjustments; and

(2) 50%, if value adjustments are no less than 50% of the exposure value gross of value adjustments.

[Note: BCD Annex VI Part 1 point 67]

**Items belonging to regulatory high-risk categories**

3.4.103 BIPRU 3.4.104 R sets out the treatment to be accorded to items belonging to regulatory high-risk categories.

3.4.104 Exposures listed in BIPRU 3 Annex 3 R must be assigned a risk weight of 150%.

[Note: BCD Annex VI Part 1 point 66]

3.4.105 For the purposes of point 66 of Part 1 of Annex VI of the Banking Consolidation Directive, the exposures listed in BIPRU 3 Annex 3 R are in the view of the appropriate regulator associated with particularly high risk.

**Exposures in the form of covered bonds**

3.4.106 BIPRU 3.4.107 R to BIPRU 3.4.110 R set out the treatment to be accorded to exposures in the form of covered bonds.

3.4.107 (1) Covered bonds means covered bonds as defined in paragraph (1) of the definition in the glossary (Definition based on Article 22(4) of the UCITS Directive) and collateralised by any of the following eligible assets:

(a) exposures to or guaranteed by central governments, central bank, public sector entities, regional governments and local authorities in the EEA;
(b) (i) exposures to or guaranteed by non-EEA central governments, non-EEA central banks, multilateral development banks, international organisations that qualify for the credit quality step 1;

(ii) exposures to or guaranteed by non-EEA public sector entities, non-EEA regional governments and non-EEA local authorities that are risk weighted as exposures to institutions or central governments and central banks according to ■BIPRU 3.4.23 R, ■BIPRU 3.4.24 R, ■BIPRU 3.4.10 R or ■BIPRU 3.4.16 G to ■BIPRU 3.4.17 R respectively and that qualify for the credit quality step 1; and

(iii) exposures in the sense of this point (b) that qualify as a minimum for the credit quality step 2, provided that they do not exceed 20% of the nominal amount of outstanding covered bonds of issuing institutions;

(c) exposures to institutions that qualify for the credit quality step 1 but so that:

(i) the total exposure of this kind must not exceed 15% of the nominal amount of the outstanding covered bonds of the issuing credit institution;

(ii) exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds must not be comprised by the 15% limit; and

(iii) exposures to institutions in the EEA with a maturity not exceeding 100 days are not comprised by the step 1 requirement but those institutions must as a minimum qualify for credit quality step 2;

(d) loans secured:

(i) by residential real estate or shares in Finnish residential housing companies as referred to in ■BIPRU 3.4.57 R up to the lesser of the principal amount of the liens that are combined with any prior liens and 80% of the value of the pledged properties; or

(ii) by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of an EEA State securitising residential real estate exposures provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the cover pool, be at least 90% composed of residential mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80% of the value of the pledged properties, that the units qualify for credit quality step 1 and that such units do not exceed 10% of the nominal amount of the outstanding issue; or

(e) (i) loans secured by commercial real estate or shares in Finnish housing companies as referred to in ■BIPRU 3.4.57 R up to the
lesser of the principal amount of the liens that are combined with any prior liens and 60% of the value of the pledged properties; or

(ii) loans secured by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of an EEA State securitising commercial real estate exposures provided that the special public supervision to protect bond holders as provided for in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council ensures that the assets underlying such units must, at any time while they are included in the cover pool, be at least 90% composed of commercial mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60% of the value of the pledged properties, that the units qualify for credit quality step 1 and that such units do not exceed 10% of the nominal amount of the outstanding issue; or

(iii) a firm may recognise loans secured by commercial real estate as eligible where the loan to value ratio of 60% is exceeded up to a maximum level of 70% if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10%, and the bondholders' claim meets the legal certainty requirements set out in BIPRU 3 and BIPRU 5; the bondholders' claim must take priority over all other claims on the collateral; or

(f) loans secured by ships where only liens that are combined with any prior liens within 60% of the value of the pledged ship.

(2) For the purposes of BIPRU 3.4.107 R (1)(d)(ii) and BIPRU 3.4.107 R (1)(e)(ii) exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities must not be comprised in calculating the 90% limit.

(3) For the purposes of BIPRU 3.4.107 R to BIPRU 3.4.110 R "collateralised" includes situations where the assets described in subpoints (1)(a) to (1)(f) are exclusively dedicated in law to the protection of the bond-holders against losses.

(4) [deleted]

(4A) Until 31 December 2013, the 10% limit for senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities as specified in (1)(d)(ii) and (1)(e)(ii) does not apply, provided that:

(a) the securitised residential or commercial real estate exposures were originated by a member of the same consolidated group of which the issuer of the covered bonds is also a member or by an entity affiliated to the same central body to which the issuer of the covered bonds is also affiliated (that common group membership or affiliation to be determined at the time the senior units are made collateral for covered bonds); and

(b) a member of the same consolidated group of which the issuer of the covered bonds is also a member or an entity affiliated to the
same central body to which the issuer of the covered bonds is also affiliated retains the whole first loss tranche supporting those senior units.

(5) Until 31 December 2010 the figure of 60% in (1)(f) can be replaced with a figure of 70%.

[Note: BCD Annex VI Part 1 point 68]

\[3.4.108 \text{ R }\]
A firm must for real estate collateralising covered bonds meet the minimum requirements set out in § BIPRU 3.4.64 R to § BIPRU 3.4.73 R and the valuation rules set out in § BIPRU 3.4.77 R to § BIPRU 3.4.80 R.

[Note: BCD Annex VI Part 1 point 69]

\[3.4.109 \text{ R }\]
Notwithstanding § BIPRU 3.4.107 R to § BIPRU 3.4.108 R, covered bonds meeting the definition of Article 22(4) of the UCITS Directive and issued before 31 December 2007 are also eligible for the preferential treatment until their maturity.

[Note: BCD Annex VI Part 1 point 70]

\[3.4.110 \text{ R }\]
Covered bonds must be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the credit institution which issues them. The following correspondence between risk weights applies:

(1) if the exposures to the institution are assigned a risk weight of 20%, the covered bond must be assigned a risk weight of 10%;

(2) if the exposures to the institution are assigned a risk weight of 50%, the covered bond must be assigned a risk weight of 20%;

(3) if the exposures to the institution are assigned a risk weight of 100%, the covered bond must be assigned a risk weight of 50%; and

(4) if the exposures to the institution are assigned a risk weight of 150%, the covered bond must be assigned a risk weight of 100%.

[Note: BCD Annex VI Part 1 point 71]

Items representing securitisation positions

\[3.4.111 \text{ R }\]
Risk weighted exposure amounts for securitisation positions must be determined in accordance with § BIPRU 9.

[Note: BCD Annex VI Part 1 point 72]

Exposures to institutions and corporates with a short-term credit assessment

\[3.4.112 \text{ R }\] Exposures to institutions where § BIPRU 3.4.34 R to § BIPRU 3.4.39 R apply, and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available must be assigned a risk weight according to the
Table: Exposures to institutions where BIPRU 3.4.34 R to BIPRU 3.4.39 R apply, and exposures to corporates for which a short-term credit assessment by a nominated ECAI is available

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>Risk weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>4</td>
<td>150%</td>
</tr>
<tr>
<td>5</td>
<td>150%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
</tr>
</tbody>
</table>

Exposures in the form of collective investment undertakings (CIUs)

<table>
<thead>
<tr>
<th>Credit quality step</th>
<th>Risk weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>4</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>150%</td>
</tr>
<tr>
<td>6</td>
<td>150%</td>
</tr>
</tbody>
</table>

Where a firm considers that a position in a CIU is associated with particularly high risks it must assign that position a risk weight of 150%.

[Note: BCD Annex VI Part 1 point 76]
features (such as high levels of leverage or lack of transparency) that prevent it from meeting the eligibility criteria laid out in BIPRU 3.4.121 R.

Other examples of high risk CIUs are: one in which a substantial element of the CIU's property is made up of items that would attract a risk weight of over 100%; or one whose mandate (as referred to in BIPRU 3.4.124 R) would permit it to invest in a substantial amount of such items.

Where BIPRU 3.4.116 R does not apply, a firm may determine the risk weight for a CIU as set out in BIPRU 3.4.123 R to BIPRU 3.4.125 R, if the following eligibility criteria are met:

(1) one of the following conditions is satisfied:
   (a) the CIU is managed by a company which is subject to supervision in an EEA State; or
   (b) the following conditions are satisfied:
      (i) the CIU is managed by a company which is subject to supervision that is equivalent to that laid down in EU law; and
      (ii) cooperation between competent authorities is sufficiently ensured; and

(2) the CIU's prospectus or equivalent document includes:
   (a) the categories of assets in which the CIU is authorised to invest; and
   (b) if investment limits apply, the relative limits and the methodologies to calculate them; and

(3) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.

[Note: BCD Annex VI Part 1 point 77]

If another EEA competent authority approves a third country CIU as eligible under a CRD implementation measure with respect to point 77(a) of Part 1 of Annex VI of the Banking Consolidation Directive then a firm may make use of this recognition.

[Note: BCD Annex VI Part 1 point 78]

Where a firm is aware of the underlying exposures of a CIU, it may look through to those underlying exposures in order to calculate an average risk weight for the CIU in accordance with the standardised approach.

[Note: BCD Annex VI Part 1 point 79]

Where a firm is not aware of the underlying exposures of a CIU, it may calculate an average risk weight for the CIU in accordance with the standardised approach subject to the following rules: it will be assumed that the CIU first invests, to the maximum extent allowed under its mandate, in
the standardised credit risk exposure classes attracting the highest capital requirement, and then continues making investments in descending order until the maximum total investment limit is reached.

[Note: BCD Annex VI Part 1 point 80]

3.4.125 A firm may rely on a third party to calculate and report, in accordance with the methods set out in BIPRU 3.4.123 R to BIPRU 3.4.124 R, a risk weight for the CIU provided that the correctness of the calculation and report is adequately ensured.

[Note: BCD Annex VI Part 1 point 81]

Other items

3.4.126 BIPRU 3.4.127 R to BIPRU 3.4.133 R set out the treatment to be accorded to other items as referred to in BIPRU 3.2.9 R (16).

Treatment

3.4.127 Tangible assets within the meaning of Article 4(10) of the Bank Accounts Directive must be assigned a risk weight of 100%.

[Note: BCD Annex VI Part 1 point 82]

3.4.128 Prepayments and accrued income for which a firm is unable to determine the counterparty in accordance with the Bank Accounts Directive, must be assigned a risk weight of 100%.

[Note: BCD Annex VI Part 1 point 83]

3.4.129 Cash items in the process of collection must be assigned a 20% risk weight. Cash in hand and equivalent cash items must be assigned a 0% risk weight.

[Note: BCD Annex VI Part 1 point 84]

3.4.130 Holdings of equity and other participations except where deducted from capital resources must be assigned a risk weight of at least 100%.

[Note: BCD Annex VI Part 1 point 86]

3.4.131 Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities must be assigned a 0% risk weight.

[Note: BCD Annex VI Part 1 point 87]

3.4.132 In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight must be that assigned to the assets in question and not to the counterparties to the transactions.

[Note: BCD Annex VI Part 1 point 88]

3.4.133 Where a firm provides credit protection for a number of exposures under terms that the nth default among the exposures triggers payment and that
this credit event terminates the contract, and where the product has an external credit assessment from an eligible ECAI the risk weights prescribed in BIPRU 9 must be assigned. If the product is not rated by an eligible ECAI, the risk weights of the exposures included in the basket must be aggregated, excluding n-1 exposures, up to a maximum of 1250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk weighted asset amount. The n-1 exposures to be excluded from the aggregation must be determined on the basis that they 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.

[Note: BCD Annex VI Part 1 point 89]

3.4.134 R

The exposure value for leases must 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 (i.e. an option the exercise of which is reasonably certain). Any guaranteed residual value fulfilling the set of conditions in BIPRU 5.7.1 R (Eligibility), regarding the eligibility of protection providers as well as the minimum requirements for recognising other types of guarantees provided in BIPRU 5.7.6 R (Minimum requirements: General) to BIPRU 5.7.12 R (Additional requirements for guarantees) must also be included in the minimum lease payments. These exposures must be assigned to the relevant exposure class in accordance with BIPRU 3.2.9 R, BIPRU 3.2.10 R, BIPRU 3.2.11 R, BIPRU 3.2.12 R, BIPRU 3.2.13 R and BIPRU 3.2.14 G. When the exposure is a residual value of leased properties, the risk weighted exposure amounts must be calculated as follows:

\[ \frac{1}{t} \times 100\% \times \text{exposure value}; \]

where \( t \) is the greater of 1 and the nearest number of whole years of the lease term remaining.

[Note: BCD Annex VI Part 1, point 90]
3.5 Simplified method of calculating risk weights

3.5.1 This section (BIPRU 3.5) sets out a simplified approach to calculating risk weights. This approach is only relevant to an exposure class for which risk weights are determined by the ratings of a nominated ECAI or an export credit agency. For other exposure classes a firm should use the normal approach under the standardised approach.

3.5.2 The approach in this section is only likely to be relevant for a limited licence firm or a limited activity firm that has only incidental credit exposures and for whom it would be prohibitively costly to establish the systems needed to include the credit assessments of ECAs and export credit agencies in its regulatory capital calculations. However the approach may be used by other firms if appropriate. A firm should notify the appropriate regulator if it adopts the approach in this section.

3.5.3 Rather than risk weighting exposures individually, a firm eligible to apply the simplified approach should apply a single risk weight to all exposures in each exposure class. The simplified risk weight for exposures in a particular class will be the risk weighting for unrated entities for each exposure class in which the external credit assessments influence risk weights.

3.5.4 The table in BIPRU 3.5.5 G has a summary of the risk weights that a firm should use if it uses the simplified method of calculating risk weights referred to in BIPRU 3.5.1 G.

3.5.5 Table: Simplified method of calculating risk weights

This table belongs to BIPRU 3.5.4 G.

<table>
<thead>
<tr>
<th>Exposure class</th>
<th>Exposure sub-class</th>
<th>Risk weights</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government</td>
<td>Exposures to United Kingdom government or Bank of England in sterling</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Exposure class</td>
<td>Exposure subclass</td>
<td>Risk weights</td>
<td>Comments</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Exposures to United Kingdom government or Bank of England in the currency of another EEA State</td>
<td></td>
<td>0%</td>
<td>See Note 2.</td>
</tr>
<tr>
<td>Exposures to EEA State's central government or central bank in currency of that state</td>
<td></td>
<td>0%</td>
<td>See Notes 2 and 3.</td>
</tr>
<tr>
<td>Exposures to EEA State's central government or central bank in the currency of another EEA State</td>
<td></td>
<td>0%</td>
<td>See next column. The risk weight is whatever it is under local law. See BIPRU 3.4.6 R for precise details.</td>
</tr>
<tr>
<td>Exposures to central governments or central banks of certain countries outside the EEA in currency of that country</td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Exposures to European Central Bank</td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Other exposures</td>
<td></td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in sterling</td>
<td></td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in the currency of another EEA State</td>
<td></td>
<td>0%</td>
<td>See Note 2.</td>
</tr>
<tr>
<td>Exposures to EEA States' equivalent regional/local governments in currency of that state</td>
<td></td>
<td>0%</td>
<td>See BIPRU 3.4.17 R for details of type of local/regional government covered.</td>
</tr>
<tr>
<td>Exposure class</td>
<td>Exposure subclass</td>
<td>Risk weights</td>
<td>Comments</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------</td>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>Exposures to EEA States' equivalent regional/local governments in the currency of another EEA State</td>
<td>0%</td>
<td>See BIPRU 3.4.17 R for details of type of local/regional government covered. See Notes 2 and 3.</td>
<td></td>
</tr>
<tr>
<td>Exposures to local or regional governments of certain countries outside the EEA in currency of that country</td>
<td>0%</td>
<td>See BIPRU 3.4.19 R for details of type of local/regional government covered. See Note 1.</td>
<td></td>
</tr>
<tr>
<td>Exposures to United Kingdom or EEA States' local/regional government in currency of that state if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td>See Note 1.</td>
<td></td>
</tr>
<tr>
<td>Exposures to United Kingdom or EEA States' local/regional government in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td>See Note 2. See Note 3 for local/regional government of an EEA State other than the United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Exposures to local or regional governments of countries outside the EEA in currency of that country if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td>See Note 1.</td>
<td></td>
</tr>
<tr>
<td>Other exposures</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Exposure class

<table>
<thead>
<tr>
<th>Exposure class</th>
<th>Exposure subclass</th>
<th>Risk weights</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSE</td>
<td>Exposures to a PSE of the United Kingdom or of an EEA State if that PSE is guaranteed by its central government and if the exposure is in currency of that PSE's state.</td>
<td>0%</td>
<td>BIPRU 3.4.24 R describes the United Kingdom PSEs covered and BIPRU 3.4.25 R describes the EEA PSEs covered.</td>
</tr>
<tr>
<td></td>
<td>Exposures to a PSE of a country outside the EEA if that PSE is guaranteed by the country's central government and if the exposure is in currency of that country.</td>
<td>0%</td>
<td>See BIPRU 3.4.26 R and Note 1.</td>
</tr>
<tr>
<td></td>
<td>Exposures to a PSE of the United Kingdom or of an EEA State in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td>See Notes 2 and 3.</td>
</tr>
<tr>
<td></td>
<td>Exposures to a PSE of the United Kingdom or of an EEA State in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td>See Note 1.</td>
</tr>
<tr>
<td></td>
<td>Exposures to a PSE of a country outside the EEA in currency of that country if the exposure has original effective maturity of 3 months or less</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other exposures</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Exposure class</td>
<td>Exposure subclass</td>
<td>Risk weights</td>
<td>Comments</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------</td>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>Multilateral development banks</td>
<td>Exposures to multilateral development banks listed in paragraph (1) of the Glossary definition</td>
<td>0%</td>
<td>Simplified approach does not apply. Normal rules apply.</td>
</tr>
<tr>
<td></td>
<td>Other exposures</td>
<td>Various</td>
<td>Treated as an institution</td>
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<tr>
<td>EU, the International Monetary Fund and the Bank for International Settlements</td>
<td></td>
<td>0%</td>
<td>Simplified approach does not apply. Normal rules apply.</td>
</tr>
<tr>
<td>Institutions</td>
<td>Exposures to United Kingdom institution in sterling with original effective maturity of three months or less</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exposures to United Kingdom institution in the currency of another EEA State with original effective maturity of three months or less</td>
<td>20%</td>
<td>See Note 2.</td>
</tr>
<tr>
<td></td>
<td>Exposures to institution whose head office is in another EEA State in the currency of that state with original effective maturity of three months or less</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exposures to institution whose head office is in another EEA State in the currency of another EEA State with original effective maturity of three months or less</td>
<td>20%</td>
<td>See Notes 2 and 3.</td>
</tr>
<tr>
<td>Exposure class</td>
<td>Exposure subclass</td>
<td>Risk weights</td>
<td>Comments</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>--------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td><em>Exposures to institution</em> with a head office in a country outside the EEA in the currency of that country with original effective maturity of three months or less*</td>
<td></td>
<td>20%</td>
<td>See Note 1.</td>
</tr>
<tr>
<td><em>Exposures to United Kingdom institution</em> in sterling with original effective maturity of over three months*</td>
<td></td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td><em>Exposures to United Kingdom institution</em> in the currency of another EEA State with original effective maturity of over three months*</td>
<td></td>
<td>50%</td>
<td>See Note 2.</td>
</tr>
<tr>
<td><em>Exposures to an EEA institution</em> with a head office in another EEA State in the currency of that state with original effective maturity of over three months*</td>
<td></td>
<td>50%</td>
<td>See Notes 2 and 3.</td>
</tr>
<tr>
<td><em>Exposures to an EEA institution</em> with a head office in another EEA State in the currency of another EEA State with original effective maturity of over three months*</td>
<td></td>
<td>50%</td>
<td></td>
</tr>
</tbody>
</table>
## Exposure class | Exposure subclass | Risk weights | Comments
--- | --- | --- | ---
Exposures to institution with a head office in a country outside the EEA in the currency of that country with original effective maturity of over three months | | 50% | See Note 1.
Other exposures | | 100% |
Corporates | | 100% |
Retail exposures | | 75% | Simplified approach does not apply. Normal rules apply.
Mortgages on residential or commercial property | Various | | Simplified approach does not apply. Normal rules apply.
Past due items | Various | | Simplified approach does not apply. Normal rules apply.
High risk items | | 150% | Simplified approach does not apply. Normal rules apply.
Covered bonds | Various | | Risk weights are based on the risk weight of issuer as described in BIPRU 3.4.110 R. The risk weight of the issuer for this purpose should be calculated under the simplified approach.
Securitisation exposures | Generally 1250%. May look through to underlying exposures if BIPRU 9 allows. | | Use the BIPRU 9 rules for unrated exposures under the standardised approach.
Short term exposures with rating | | | See BIPRU 3.4.112 R. Not applicable as uses ECAI ratings.
<table>
<thead>
<tr>
<th>Exposure class</th>
<th>Exposure subclass</th>
<th>Risk weights</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIUs</td>
<td>May look through to underlying under BIPRU 3.4.123 R</td>
<td>Various</td>
<td>Simplified approach does not apply. Normal rules apply. May use simplified approach to underlying if simplified approach applies to underlying.</td>
</tr>
<tr>
<td></td>
<td>May use average risk weight under BIPRU 3.4.124 R</td>
<td>Various</td>
<td>Simplified approach does not apply. Normal rules apply. May use simplified approach to underlyings if simplified approach applies to underlying.</td>
</tr>
<tr>
<td></td>
<td>High risk under BIPRU 3.4.118 R</td>
<td>150%</td>
<td>Simplified approach does not apply. Normal rules apply.</td>
</tr>
<tr>
<td>Others</td>
<td>100%</td>
<td>Various</td>
<td>Simplified approach does not apply. Normal rules apply.</td>
</tr>
</tbody>
</table>

Other items under BIPRU 3.2.9 R (16)

Note 1: The risk weight should not be lower than the risk weight that applies for national currency exposures of the central government of the third country in question under BIPRU 3.5. That means that this risk weight only applies if the third country is one of those to which BIPRU 3.4.6 R (Preferential risk weight for exposures of the central government of countries outside the EEA that apply equivalent prudential standards) applies.

Note 2: This is a transitional measure. It lasts until 31 December 2012.

Note 3: The risk weight should not be lower than the risk weight that applies for exposures of the central government of the EEA State in question in the currency of another EEA State under BIPRU 3.5.

3.5.6 ★ If an exposure is guaranteed and if under ★ BIPRU 5 the firm may treat the exposure as being to the guarantor, the simplified approach may be used for the guarantor. The key provisions are ★ BIPRU 5.7.23 R to ★ BIPRU 5.7.25 R.

3.5.7 ★ If an exposure is collateralised and if under ★ BIPRU 5 the firm may recognise the collateral, the simplified approach may be used to determine the risk weight to be applied to the collateralised exposure. The key provisions are ★ BIPRU 5.4.18 R to ★ BIPRU 5.4.21 R.

3.5.8 ★ If a firm does not nominate one or more eligible ECAs as referred to in ★ BIPRU 3.6.4 R the firm must not use the financial collateral comprehensive method.
3.6 Use of rating agencies' credit assessments for the determination of risk weights under the standardised approach to credit risk

3.6.1 The use of ECAI credit assessments for the calculation of a firm's risk weighted exposure amounts must be consistent and in accordance with BIPRU 3.6. Credit assessments must not be used selectively.

[Note: BCD Article 83(1)]

3.6.2 Where the appropriate regulator's recognition of an ECAI is not limited to its solicited credit assessments, a firm may use an unsolicited credit assessment of an eligible ECAI for the calculation of a firm's risk weighted exposure amounts.

[Note: BCD Article 83(2)]

3.6.3 The appropriate regulator's recognition of an ECAI may be limited to its solicited credit assessments. Where this is the case a firm should not use unsolicited assessments. The appropriate regulator may indicate that the unsolicited ratings of an eligible ECAI are not to be used for the purposes of BIPRU 3 if those assessments are considered to be inferior in quality to the general quality of solicited assessments or if it considers that the ECAI's strategy in relation to the issuing of unsolicited assessments is founded in the placing of undue pressure on the rated entity to pay for a rating.

Treatment

3.6.4 A firm may nominate one or more eligible ECAIs to be used for the determination of risk weights to be assigned to asset and off-balance sheet items.

[Note: BCD Annex VI Part 3 point 1]

3.6.5 A firm which decides to use the credit assessments produced by an eligible ECAI for a certain class of items must use those credit assessments consistently for all exposures belonging to that class.

[Note: BCD Annex VI Part 3 point 2]
3.6.6 A firm which decides to use the credit assessments produced by an eligible ECAI must use them in a continuous and consistent way over time.

[Note: BCD Annex VI Part 3 point 3]

3.6.7 A firm can only use ECAIs' credit assessments that take into account all amounts both in principal and in interest owed to it.

[Note: BCD Annex VI Part 3 point 4]

3.6.8 If only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment must be used to determine the risk weight for that item.

[Note: BCD Annex VI Part 3 point 5]

3.6.9 If two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight must be applied.

[Note: BCD Annex VI Part 3 point 6]

3.6.10 If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights must be referred to. If the two lowest risk weights are different, the higher risk weight must be assigned. If the two lowest risk weights are the same, that risk weight must be assigned.

[Note: BCD Annex VI Part 3 point 7]

3.6.11 (1) If a firm has decided to make use of the credit assessments of export credit agencies, when risk weighting exposures to central governments or central banks, if two or more credit assessments are available to a firm from export credit agencies or if credit assessments are available to a firm from both nominated ECAIs and export credit agencies, the firm must adopt the approach in this rule.

(2) If two credit assessments are available and correspond to different risk weights for a rated item, the higher risk weight must be applied.

(3) If more than two credit assessments are available for a rated item, the assessments generating the two lowest risk weights must be referred to:

(a) if the two lowest risk weights are the same, that risk weight must be applied; or

(b) if the two lowest risk weights are different, the higher of the two must be applied.

(4) If a firm does not for the purposes of BIPRU 3 make any use of the consensus risk scores referred to in BIPRU 3.4.7 R (1) it may treat those scores as not being available to it for the purpose of this rule.

Likewise, if a firm does not for the purposes of BIPRU 3 make any use of the credit assessments of a particular export credit agency as
3.6.12  
Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, this credit assessment must be used to determine the risk weight to be assigned to that item.

[Note: BCD Annex VI Part 3 point 8]

3.6.13  
Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment must be used if it produces a higher risk weight than would otherwise be the case or if it produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer as relevant.

[Note: BCD Annex VI Part 3 point 9]

3.6.14  
■ BIPRU 3.6.12 R and ■ BIPRU 3.6.13 R are not to prevent the application of ■ BIPRU 3.4.107 R to ■ BIPRU 3.4.110 R (Exposures in the form of covered bonds).

[Note: BCD Annex VI Part 3 point 10]

3.6.15  
Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.

[Note: BCD Annex VI Part 3 point 11]

3.6.16  
Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting exposures to institutions and corporates.

[Note: BCD Annex VI Part 3 point 12]

3.6.17  
Any short-term credit assessment may only apply to the item the short-term credit assessment refers to, and it must not be used to derive risk weights for any other item.

[Note: BCD Annex VI Part 3 point 13]

3.6.18  
Notwithstanding ■ BIPRU 3.6.17 R, if a short-term rated facility is assigned a 150% risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term must also be assigned a 150% risk weight.

[Note: BCD Annex VI Part 3 point 14]
3.6.19 Notwithstanding ■BIPRU 3.6.17 R, if a short-term rated facility is assigned a 50% risk weight, no unrated short-term exposure may be assigned a risk weight lower than 100%.

[Note: BCD Annex VI Part 3 point 15]

3.6.20 Domestic and foreign currency items
A credit assessment that refers to an item denominated in the obligor’s domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.

[Note: BCD Annex VI Part 3 point 16]

3.6.21 Notwithstanding ■BIPRU 3.6.20 R, when an exposure arises through a firm’s participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognised in the market, the credit assessment on the obligors’ domestic currency item may be used for risk weighting purposes.

[Note: BCD Annex VI Part 3 point 17]
3.7 Classification of off-balance-sheet items

3.7.1 In accordance with BIPRU 3.2.1 R (2) and BIPRU 3.2.2 R, a firm must:

(1) assign an off-balance sheet item listed in the table in BIPRU 3.7.2 R to the risk category indicated in column 1 of that table; and

(2) determine the exposure value of that item as the percentage of its value for the appropriate risk category as set out in column 3 of the table in BIPRU 3.7.2 R.

Table: Classification of off-balance-sheet items

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full risk</td>
<td>Guarantees having the character of credit substitutes</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Credit derivatives</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Acceptances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Endorsements on bills not bearing the name of another credit institution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transactions with recourse</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Irrevocable standby letters of credit having the character of credit substitutes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assets purchased under outright forward purchase agreements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Forward deposits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The unpaid portion of partly-paid shares and securities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Asset sale and repurchase agreements as defined in Article 12(3) and (5) of the Bank Accounts Directive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other items also carrying full risk</td>
<td></td>
</tr>
<tr>
<td>Medium risk</td>
<td>Documentary credits issued and confirmed (see also medium/low risk).</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Warranties and indemnities (including tender, performance, customs and tax)</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Item</td>
<td>Percentage</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Medium/low risk</td>
<td>Bonds and guarantees not having the character of credit substitutes.</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Irrevocable standby letters of credit not having the character of credit substitutes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs).</td>
<td></td>
</tr>
<tr>
<td>Low risk</td>
<td>Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) which may be cancelled unconditionally at any time without notice, or that do not effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness.</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Retail credit lines may be considered as unconditionally cancellable if the terms permit the firm to cancel them to the full extent allowable under consumer protection and related legislation.</td>
<td></td>
</tr>
</tbody>
</table>
Guidance on the standardised approach zero risk weighting for intra-group exposures

This flow chart belongs to [BIPRU 3.2.25 R - BIPRU 3.2.35 R].

Flowchart - zero risk weighting for intra-group exposures

- Is the firm a solo consolidated subsidiary?
  - Yes
    - The exposure is eliminated on solo consolidation
  - No

- Does the exposure constitute either own funds in the counterparty or is lending of a capital nature?
  - Yes
    - The exposure is deducted from the own funds of the firm.
  - No

- Has the firm a waiver to adopt the IRB approach?
  - Yes
    - Does the IRB waiver include the permanent exemption of exposures from the IRB approach?
      - Yes
      - Exposures are risk weighted following the IRB methodology (BIPRU 4)
      - No
  - No

- The exposure is on the standardised approach
  - Yes
  - No
Will the firm risk weight the exposure following the normal standardised approach (BIPRU 3.1.20R)?

No

The firm has decided to risk weight qualifying intra group exposures using the 0% weighting and has applied to the appropriate regulator for a core UK group waiver (BIPRU 3.2.20R - BIPRU 3.2.33R)

Yes

Does the firm’s counterparty meet all the conditions for the 0% risk weighting set out in BIPRU 3.1.33R so that a core UK group waiver may be granted?

No

Normal standardised approach risk weightings apply (BIPRU 3.2.20R)

The 0% risk weighting for intra group exposures provided in (BIPRU 3.2.20R - BIPRU 3.2.33R) can not be used unless the conditions are met, and these include notifying appropriate regulator

Yes

Exposures to members of the core UK group can be risk weighted at 0% under a core UK group waiver
Regional governments and local authorities eligible for the treatment in BIPRU 3.4.15R

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Scottish Parliament</td>
</tr>
<tr>
<td>2</td>
<td>National Assembly for Wales</td>
</tr>
<tr>
<td>3</td>
<td>Northern Ireland Assembly</td>
</tr>
</tbody>
</table>
High risk exposures

(1) Exposures arising out of venture capital business (whether or not the firm itself carries on the venture capital business).

(2) Any exposure of the type referred to in BIPRU 3.4.118 R (High risk position in a CIU) that is illiquid and held with a view to long-term sale or realisation.
Exposures to institutions: Interaction with short-term credit assessments in BIPRU 3.4.40R

**EXAMPLE**
- £100,000 loan secured on property valued at £150,000
- First £80,000 (53.3% LTV) risk weighted at 35%
- Remaining £20,000 risk weighted at 75% if meets retail criteria counts to retail aggregation calculation
- Overall risk weight = 43%