



LESOTHO

Government Gazette

Vol. 68

Friday – 11th August, 2023

No. 59

CONTENTS

No.

Page

LEGAL NOTICE

- | | | |
|----|---|-----|
| 83 | Financial Institutions (Computation of Capital Charge
for Credit, Operational and Market Risks)
Regulations, 2023 | 763 |
|----|---|-----|

Published by the Authority of His Majesty the King
Price: M147.00

LEGAL NOTICE NO. 83 OF 2023

Financial Institutions (Computation of Capital Charge for Credit, Operational and Market Risks) Regulations, 2023

In the exercise of the power conferred upon the Commissioner of Financial Institutions by sections 71(1) and 23 of the Financial Institutions Act, 2012, the Commissioner makes the following regulations:

PART I - PRELIMINARY

Citation and commencement

1. These Regulations may be cited as the Financial Institutions (Computation of Capital Charge for Credit, Operational and Market Risks) Regulations, 2023 and shall come into operation on the date of publication in the Gazette.

Interpretation

2. In these Regulations, unless the context otherwise requires -

“Act” means the Financial Institutions Act, 2012;

“Additional Tier I Capital” means instruments issued by a bank that are not included in Common Equity Tier I Capital but which provides loss absorption on a going-concern basis;

“bank” has a meaning ascribed to the term in the Act;

“banking book” means positions that are not assigned to the trading book;

“business indicator” means a combination of interest services and financial components of income statement of a bank;

“capital adequacy” means the minimum capital reserve of a bank;

“capital adequacy ratio” means a measurement of the available capital of a bank expressed as a percentage;

“capital countercyclical buffer” means a capital buffer that protects a bank against losses caused by cyclical risks;

“capital conservation buffer” means a capital buffer that a bank build up outside any period of stress;

“capital restoration plan” means a plan that restores a capital of a bank to a level acceptable to the Commissioner;

“collateralised transaction” means a transaction which a bank has a credit exposure or potential credit exposure hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty;

“Common Equity Tier I Capital” means a permanent equity of a shareholder plus disclosed reserves, audited interim profits and minority interest in consolidated subsidiaries of a bank;

“commodity” means a physical product that can be traded;

“consolidated basis” means a capital adequacy of a bank based on its capital strength and risk profile after consolidating the assets and liabilities of all its banking group entities;

“credit sensitive dividend” means a dividend or coupon that is reset periodically based in whole or in part on the credit standing of a banking organization;

“equity risk” means a risk that movement in equity prices shall adversely affect the value of equity positions;

“Gross Income” means a net interest income plus net non-interest income which shall -

- (a) be gross of any provisions, including those for loan losses or credit impairments;
- (b) be gross of operating expenses, including fees paid for outsourcing services, and fees received by banks from outsourcing services;

-
- (c) excludes realized profits or losses from sale of securities in the banking book; and
 - (d) excludes extraordinary or irregular items, as well as income generated from insurance;

“hair cut” means an adjustment to be applied to a credit protection held by a bank or the exposure of a bank;

“ICAAP” means Internal Capital Adequacy Assessment Process;

“mark to market” means a revaluation of a transaction, contract or recognized credit risk mitigation at current market rates;

“maturity mismatch” occurs where a residual maturity of a credit risk mitigation is less than that of an underlying credit exposure;

“solo basis” means a capital adequacy of a reporting bank based on its stand-alone capital strength and risk profile;

“standardised approach” means a set of operational, market and credit risk measurement techniques proposed under Basel II Capital Adequacy Rules for banking institutions;

“Tier I Capital” means the sum of Common Equity Tier I Capital and Additional Tier I Capital;

“Tier II Capital” means the components of capital as enumerated in regulation 9(1);

“trading book” means positions in financial instruments and commodities held -

- (a) with trading intent; or
- (b) to hedge other elements of a trading book excluding open equity investments in hedge funds and private equity investments.

PART II –OBJECTIVE AND SCOPE OF APPLICATION

Objective

3. The objectives of these Regulations are to -
 - (a) ensure that a bank -
 - (i) maintains adequate level of capital to protect its depositors, and creditors;
 - (ii) maintains consistency and transparency of regulatory capital; and
 - (iii) holds adequate capital to support credit, operational and market risks exposure;
 - (b) promote public confidence;
 - (c) improve quality of regulatory capital; and
 - (d) provide a common approach in which a bank shall compute the appropriate capital charge for pillar I risks.

Scope

4. These Regulations shall apply to all banks licensed to operate in Lesotho on a solo and consolidated basis.

PART III – THE CATEGORIES OF CAPITAL

Categories of capital

5. (1) The total regulatory capital shall consist of a sum of the following categories:
 - (a) Tier I Capital which includes -
 - (i) Common Equity Tier I; and

(ii) Additional Tier I.

(b) Tier II Capital.

(2) A bank shall compute capital by placing greater emphasis on common equity tier I capital.

Minimum requirements for categories of capital

6. Categories of capital in regulation 5(1) shall be net of the associated regulatory adjustment and restrictions as prescribed in Schedule 1.

Components of Common Equity Tier I

7. (1) Common Equity Tier I Capital shall consist of the sum of the following components -

- (a) common shares issued by a bank which meets the criteria as common shares for regulatory purposes or an equivalent for non-joint stock companies;
- (b) share premium resulting from the issue of instruments included in Common Equity Tier I;
- (c) retained earnings or accumulated losses as outlined in the latest audited financial statements of a bank;
- (d) a reserve account prescribed under section 22(3) of the Act;
- (e) accumulated other comprehensive income and other disclosed reserves including year to date profits or losses;
- (f) common shares issued by consolidated subsidiary of a bank and held by a third party provided that a subsidiary is a bank and shall meet the criteria for classification as common shares if issued by a bank; and
- (g) any other regulatory adjustments.

(2) For a financial instrument to be included in Common Equity Tier I Capital, it shall meet the following criteria:

- (a) it must represent the most subordinated claim in liquidation of a bank;
- (b) the holder of instrument must be entitled to a claim on the residual assets proportional with its share of issued capital, after all senior claims have been repaid in liquidation;
- (c) the principal amount of the instrument shall be perpetual and never repaid outside of liquidation;
- (d) a bank shall not create an expectation at issuance that an instrument shall be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature, which might give rise to such an expectation;
- (e) distributions shall be paid out of distributable items;
- (f) distributions referred to in subregulation (2)(e) -
 - (i) entails that the level of distributions shall not be tied or linked to the amount paid in at issuance; and
 - (ii) shall not be subject to a contractual cap except to the extent that a bank is unable to pay distributions that exceed the level of distributable items;
- (g) there are no circumstances under which the distributions are obligatory;
- (h) distributions are paid only after all obligations are met, and payments on more senior capital instruments are made;
- (i) only the issued capital takes the first and proportionately

greatest share of any losses as they occur and within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and ranking equal with all the others;

- (j) the paid in amount is recognised as equity capital and not as a liability for determining balance sheet insolvency;
- (k) the paid in amount is classified as equity under the relevant accounting standards;
- (l) the instrument is directly issued and paid-in and a bank shall not directly or indirectly fund the purchase of the instrument;
- (m) the paid in amount is neither secured nor covered by a guarantee of the issuer or related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim;
- (n) the instrument is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the Board of Directors or by other persons duly authorised by the owners; and
- (o) the instrument is clearly and separately disclosed on the balance sheet of a bank.

Components of Additional Tier I Capital

8. Additional Tier I Capital shall consist of the sum of the following components -

- (a) instruments issued by a bank that meet the criteria for inclusion in Additional Tier 1 Capital as prescribed in schedule 2;
- (b) share premium resulting from issuance of instruments

- included in Additional Tier I Capital;
- (c) instruments issued by consolidated subsidiaries of a bank and held by third parties; and
- (d) regulatory adjustments applied in the calculation of Additional Tier I Capital.

Components of Tier II Capital

9. (1) Tier II Capital shall consist of a sum of the following components -
- (a) fixed assets revaluation reserves from a prudent revaluation of an immovable property carried out by independent professional appraisers on a basis satisfactory to both the Commissioner and the external auditors;
 - (b) the revaluation referred to in subregulation (1)(a) shall only be permitted every three years from the date of last revaluation;
 - (c) share premium resulting from the issue of instruments included in Tier II Capital;
 - (d) undisclosed or hidden reserves accepted by the Commissioner with same intrinsic value as published retained earnings, and which represent accumulations of post-tax profits not encumbered by any known liability and not routinely used for absorbing operating losses;
 - (e) general provisions or general reserves;
 - (i) for losses on assets, which refer to provisions and reserves not ascribed to specific assets; and
 - (ii) made for specific assets not eligible for inclusion in capital;
 - (f) general provisions or general loan loss reserves eligible

for inclusion in Tier II subject to a maximum of 1.25 percent of credit risk-weighted assets; and

- (g) hybrid debt capital instruments which refer to a range of instruments that combine the characteristics of equity capital and of debt, provided they -
 - (i) are unsecured, subordinated and fully paid;
 - (ii) are not redeemable at the discretion of the holder or without prior consent of the Commissioner;
 - (iii) shall be available to absorb losses; and
 - (iv) shall allow service obligations attached to an instrument to be deferrable where profitability of a bank fails to support a payment.

(2) For an instrument to be included in Tier II Capital it shall meet the following criteria -

- (a) It shall;
 - (i) be issued and paid-in;
 - (ii) be subordinated to depositors and general creditors of a bank;
 - (iii) have minimum original maturity of at least five years;
 - (iv) not be secured or covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim against depositors and general creditors of a bank;
- (b) the remaining five years before maturity shall be amortised on a straight line basis;

- (c) there shall be no step-ups or other incentive to redeem it;
- (d) it may be callable at the initiative of the issuer only after a minimum of five years; and to exercise a call option, a bank shall -
 - (i) receive prior supervisory approval;
 - (ii) not do anything that creates an expectation that a call will be exercised; and
 - (iii) not exercise a call unless -
 - (aa) they replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of a bank; or
 - (bb) a bank demonstrates that its capital position is well above the minimum capital position requirements after a call option is exercised.
- (e) an investor shall have no rights to accelerate the repayment of future scheduled coupon or principal payments except in bankruptcy and liquidation;
- (f) an instrument shall not have a credit sensitive dividend;
- (g) a bank or related party over which a bank exercises control or significant influence cannot purchase an instrument, or directly or indirectly fund the purchase of an instrument; and
- (h) if an instrument is not issued out of an operating entity or a holding company in the consolidated group, proceeds shall be immediately available without limitation to an operating entity or a holding company in the con-

solidated group in a form which meets or exceeds all of the criteria for inclusion in Tier II Capital.

Regulatory adjustment for capital

10. The following adjustments shall be applied -
- (1) On Common Equity Tier I Capital -
 - (a) goodwill from the acquisition of another company shall be deducted;
 - (b) deduct other intangible assets;
 - (c) increase in equity capital from securitisation transaction shall not be recognised;
 - (d) unrealised gains and losses from changes in the fair value of liabilities shall not be recognised; and
 - (e) investments of a bank in own shares held directly or indirectly, shall not be recognised.
 - (2) On regulatory capital -
 - (a) investments in unconsolidated subsidiaries engaged in banking or financial activities shall not be recognised as capital;
 - (b) deficiencies in provision for losses on loans and other assets as may be determined by the Commissioner unless a significant improvement in the quality of the assets is reported by a bank and accepted by the Commissioner; and
 - (c) other deductions, which may impair, distort or dilute core capital, as may be determined by the Commissioner.

PART IV- RESPONSIBILITY OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT IN RELATION TO CAPITAL REQUIREMENTS

Board of Directors and senior management responsibility to capital requirements

11. The Board of Directors and senior management shall ensure that -
- (a) a bank is well capitalized and meets capital requirements prescribed in these regulations at all time;
 - (b) the capital of a bank is commensurate with the level of risk as informed by ICAAP;
 - (c) a bank maintains a level of transparency relevant to enable the stakeholders of a bank to make informed decision about its performance; and
 - (d) a bank has adequate capital restoration plan.

PART V- CAPITAL CHARGE FOR CREDIT RISK

Standardised approach for credit risk-on-balance sheet exposures

12. (1) A bank shall compute its capital adequacy ratio in relation to credit risk by using standardised approach and shall complete the relevant reporting template prescribed in schedule 20.
- (2) A bank shall obtain its credit risk capital requirement as prescribed in schedule 20.
- (3) Where on-balance sheet claim on counterparty is secured against qualifying collateral, qualifying guarantee or credit derivative, a bank may use credit risk mitigation technique prescribed in schedule 3.

Risk weights and exposure types

13. The supervisory risk weights to be assigned to various types of exposures shall be as prescribed in schedule 4.

Credit risk mitigation techniques excluding over the counter derivatives

14. Credit risk mitigant for regulatory capital shall be recognized if they comply with regulation 15.

Legal certainty

15. (1) In order for a bank to obtain capital relief for any use of credit risk mitigation techniques, the following minimum standards shall be met -

- (i) documentation used in collateralised transactions and for documenting on balance sheet netting, guarantees and credit derivatives shall be binding on all parties and legally enforceable in all relevant jurisdictions; and
- (ii) a bank shall conduct sufficient legal review to verify the requirements in subregulation (1)(i) and have a well-founded legal basis for this conclusion, and undertake such further review as may be necessary to ensure continuing enforceability.

(2) A bank shall apply a comprehensive approach for the treatment of collateral to compute counterparty risk charges for over the counter derivatives and repo-style transactions booked in the trading book.

(3) A transaction in which credit risk mitigation techniques are used shall not receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.

(4) Credit risk mitigation shall not be recognised for regulatory capital purposes on claims for which an issue-specific rating has been used and already reflects that credit risk mitigation.

(5) Where a bank has multiple credit risk mitigation techniques covering a single exposure the following shall apply -

- (a) subdivide the exposure into portions covered by each type of credit risk mitigation technique; and
- (b) the risk-weighted assets of each portion be computed

separately.

(6) When credit risk mitigation provided by a single protection provider has differing maturities, they shall be subdivided into separate protections.

Collateralised transactions

16. (1) A bank with eligible financial collateral shall reduce its credit exposure to counterparty when calculating capital requirements.

(2) The selected approach for the collateralised transactions technique shall be the simple approach for banking book, which substitutes the risk weighting of the collateral for the risk weighting of the counterparty for the collateralised portion of the exposure generally subject to a twenty percent floor.

(3) The selected approach for the trading book shall be the comprehensive approach prescribed in schedule 5.

(4) Partial collateralisation shall be recognised in both simple and comprehensive approach.

(5) Mismatches in the maturity of the underlying exposure and collateral shall only be allowed under the comprehensive approach.

(6) The following standard shall be met before capital relief is granted in respect of any form of capital under both simple and comprehensive approach -

- (a) there shall be an enforceable contract between parties that gives the bank the right to dispose off collateral to recover its dues in the event of a default;
- (b) a bank shall comply with laws governing collateral for obtaining and maintaining an enforceable security interest;
- (c) the credit quality of the counterparty and the value of the collateral shall not have a material positive correlation as approved by the Commissioner for collateral to pro-

vide protection;

- (d) a bank shall have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed and that collateral can be liquidated promptly; and
- (e) a bank shall take reasonable steps to ensure that the custodian segregates the collateral from its own assets where a custodian holds the collateral on its behalf.

(7) A regulatory capital requirement shall be applied to a bank on either side of the collateralized transaction.

(8) Where a bank acts as an agent, it shall be liable to a customer in full where it -

- (a) arranges a repo-style transaction between a customer; and a third party; and
- (b) provides a guarantee to the customer that the third party will perform its obligations.

(9) The risk to a bank in subregulation (8) shall be the same as if a bank had entered into a transaction as a principal and a bank shall compute its capital requirements as if it were itself the principal.

On-balance sheet netting

17. (1) A bank with legally enforceable netting arrangements for loans and deposits shall compute capital requirements based on net credit exposures when -

- (a) there is a netting or offsetting agreement enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt;
- (b) a bank is able at any time to determine assets and liabilities with the same counterparty that is subject to the

netting agreement;

(c) there is monitoring and control of the -

(i) roll-off risks of a bank; and

(ii) relevant exposures on a net basis.

(2) A loan shall be treated as exposure and a deposit as collateral for purposes of computing the net credit exposure in subregulation (1).

(3) In computing the net credit exposure in subregulation (1) and (2), haircuts shall be zero except where currency mismatch exists.

Guarantees and credit derivatives

18. (1) A bank shall take account of guarantees and credit derivatives in computing capital requirements where -

(a) they are direct, explicit, irrevocable, unconditional; and

(b) the Commissioner deems the risk management processes satisfactory.

(2) Only guarantees issued by or protections provided by protection providers with a lower risk weight than the counterparty shall lead to reduced capital charges.

(3) The protected portion of the counterparty exposure shall be assigned the risk weight of the protection provider and the uncovered portion shall retain the risk weight of the underlying counterparty.

Maturity mismatch

19. (1) Credit risk mitigation shall not be recognised for regulatory capital purposes where maturity mismatch exists and the credit risk mitigation has an original maturity of less than one year.

(2) Notwithstanding subregulation (1), where maturity mismatch exist, partial recognition shall be given to the credit risk mitigation for regulatory

capital purposes as prescribed in schedule 6.

(3) Maturity mismatches shall not be allowed under the simple approach.

(4) For the purpose of this regulation maturity mismatch shall be as outlined in schedule 6.

Financial collateral

20. The financial collateral instruments eligible for recognition in the simple approach shall be as prescribed in schedule 7.

Operational requirements common to guarantees and credit derivatives

21. (1) A guarantee, counter-guarantee or credit derivative shall -

- (a) represent a direct claim on the protection provider; and
- (b) be explicitly referenced to specific exposures or a pool of exposures.

(2) A guarantee or credit derivative shall be irrevocable except for non-payment by a protection purchaser in respect of the credit protection contract.

(3) A credit protection contract in subregulation (2) shall not contain a clause which allows the protection provider to unilaterally cancel the credit cover or increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.

(4) There shall be no clause in the credit protection contract that is outside the direct control of a bank that shall prevent the protection provider, from being obliged to pay out in a timely manner in the event, the original counterparty fails to make a payment due.

Additional operational requirements for guarantees

22. (1) In order for a guarantee to be recognised, the following conditions shall be met -

- (a) on the qualifying default or non-payment of the counterparty, a bank may in a timely manner pursue a guarantor for any monies outstanding under the documentation governing a transaction.
- (b) the guarantor may -
 - (i) make one lump sum of all monies under such documentation to a bank; or
 - (ii) assume the future payment obligations of a counterparty covered by a guarantee; and
- (c) a guarantee shall cover all types of payments the underlying obligor is expected to make under the documentation governing a transaction such as notional amount and margin payments.

(2) Where a guarantee covers payment of principal only, interests and other uncovered payments shall be treated as an unsecured amount.

Eligible credit protection providers

23. The following entities shall be recognized as eligible protection providers -

- (a) sovereign entities;
- (b) public sector entities with zero risk weight;
- (c) banks;
- (d) regulated securities firms with a lower risk weight than a counterparty;
- (e) parent, subsidiary and affiliate companies with lower risk weight than the obligor; and
- (f) other entities rated 'A' or better by globally accepted rating agencies.

Risk weights assigned to protected and unprotected credit exposures

24. (1) The protected portion of a credit exposure shall be assigned a risk weight of a protection provider.

(2) The uncovered portion of a credit exposure shall be assigned a risk weight of an underlying counterparty.

(3) Materiality threshold on a payment below which no payment is made in an event of loss is equivalent to retained first loss position and must be deducted in full from the capital of a bank purchasing a credit protection.

Currency mismatches

25. Where credit protection is denominated in a currency different from that which an exposure is denominated, an amount of an exposure deemed to be protected shall be reduced by an application of a haircut, as prescribed in schedule 8.

PART-VI CAPITAL CHARGE FOR OPERATIONAL RISK**Sound practices of operational risk management**

26. (1) A bank shall adopt the following sound practices of operational risk management -

- (a) develop specific policies and prudent documented procedure for allocating income in the current business activities of a bank;
- (b) comply with Basel's principles on sound management of operational risk;
- (c) forecast their on-balance sheet and profit & loss statement including operational losses and risk-weighted assets forward in time in order to stress their prudential ratios;
- (d) adjust their business indicator and loss data by continuously developing operational risk models for internal management purposes and to assist with ICAAP, stress

testing and calibration of Pillar 2;

- (e) analyse loss events in order to find causes of large losses and information on whether control failures are isolated or systematic;
- (f) compare external loss data with internal loss data to explore possible weaknesses in the control environment and consider previously unidentified risk exposures; and
- (g) capture and monitor operational risk contributions to credit and market risks related losses to obtain a more complete view of their operational risk exposures.

(2) Internal loss data in subregulation (1)(f), shall be linked to a current business activities of a bank, technological processes and risk management procedures.

Standardised approach for computation of capital charge for operational risk

27. (1) A bank shall use a standardised approach as adopted by the Commissioner for computation of capital charge for its operational risk exposures.

(2) The standardised approach in subregulation (1), shall be made up of a combination of the following:

- (a) a financial statement operational risk exposure proxy termed the business indicator as outlined under this part;
- (b) the business indicator component, which is a product of a regulatory marginal coefficient and business indicator; and
- (c) operational loss data specific to an individual bank, reflected in the internal loss multiplier which is a scaling factor based on a historical losses of a bank and the business indicator component as outlined under this part.

Business indicator

28. (1) A bank shall compute business indicator as a recent three-year average for the three components prescribed in schedule 9.

(2) Business indicator computed in subregulation (1) shall determine a specific bucket of a bank as prescribed in schedule 9.

Internal loss multiplier

29. Internal losses shall be factored into standardized measurement approach computation through an internal loss multiplier using a formula prescribed in schedule 10.

Computation of capital charge for operational risk

30. (1) Computation of operational risk for capital requirement shall be as follows -

- (a) for Business indicator bucket 1, banks operational risk capital equals business indicator component;
- (b) for business indicator bucket 2 and 3, operational risk capital of a bank shall equal business indicator component multiplied by internal loss multiplier;
- (c) amounts used in the business indicator component, shall follow the equations in subregulations (1)(a) and (b); and
- (d) computation of internal loss multiplier shall be as prescribed in schedule 10.

(2) For a bank that is part of a consolidated entity, standardised approach computation shall incorporate -

- (a) fully consolidated business indicator amounts, net all intragroup income and expenses; and
- (b) at subsidiary level, business indicator amounts from specific subsidiaries.

(3) If a business indicator amounts for a subsidiary reach the bucket 2 level, a bank shall incorporate its own loss experiences and not of other members of the group.

(4) If a subsidiary of a bank in buckets 2 and 3 fails to meet the qualitative standards associated with using the loss component, the computation of capital under standardized approach shall be computed using 100 percent of the business indicator component.

Identification, collection, and treatment of operational loss data

31. (1) The general criteria to be followed by a bank, that incorporate the loss component into the standardized approach computation, shall be as follows -

- (a) documented processes and procedures shall be in place for the identification, collection and treatment of internal loss data;
- (b) maintenance of information on each operational risk event shall include -
 - (i) gross loss amounts;
 - (ii) the date of occurrence;
 - (iii) the date of discovery; and
 - (iv) the date of accounting;
- (c) loss data accuracy shall be comprehensive and reviewed independently;
- (d) operational risk losses tied to credit risk, risk-weighted assets shall be excluded from the computation;
- (e) operational risk losses tied to market risk shall be included in the standardised approach computation;
- (f) any criteria used to allocate losses to specific event types

shall be documented;

- (g) historical internal loss data shall be categorised into the appropriate level 1 supervisory categories per the Basel II Accord and provided to supervisors upon request; and
- (h) internal loss data shall be comprehensive in nature and capture all material exposures and activities across all geographic locations and subsystems.

(2) Categories of operational risk events shall be as prescribed in schedule 11.

(3) For the purpose of this regulation, a gross loss is a loss before any recoveries and a net loss takes into account the impact of recoveries.

(4) Subject to the general criteria in subregulation (1), the following specific criteria shall be followed by a bank -

- (a) a policy shall exist for each bank that sets the criteria for when an operational risk event or loss is included in the loss data set for computing the standardised approach regulatory capital;
- (b) for all operational loss events, banks shall be able to identify specific gross loss amounts, insurance recoveries and noninsurance recoveries;
- (c) standardised approach loss data shall include losses net of insurance recoveries;
- (d) in computing the gross loss for a standardised approach loss data set, the following components shall be included -
 - (i) external expenses directly tied to the operational risk event itself and any repair or replacement costs needed to restore a bank to its status quo;
 - (ii) settlements, impairments, write-downs and any

- other direct charges to an income statement of a bank due to the operational risk event;
- (iii) any reserves or provisions tied to the potential operational loss impact and booked to the income statement;
 - (iv) losses tied to operational risk events and definitive in terms of financial impact and remain as pending losses as they are in transition or suspense accounts not reflected on the income statement; and materiality will dictate whether a loss is included in the data set; and
 - (v) timing losses booked in the current financial accounting period material in nature and due to events that give rise to legal risk and cross more than one financial accounting period;
- (e) in computing the gross loss for the Standardised approach loss data set, the following components shall be excluded -
- (i) total costs of improvements, upgrades and risk assessment enhancements and initiatives incurred after the risk event occurs;
 - (ii) insurance premiums; and
 - (iii) the costs associated with general maintenance contracts on property, plant and equipment;
- (f) any losses related to a common operational risk event or are related by operational risk events over time, but posted to accounts over many years, allocation must be on year of the loss.

(5) The date a bank shall use to build its standardised approach loss data shall be the date of accounting.

(6) For legal loss events, the date of accounting shall be the latest date for the loss data set.

PART-VII CAPITAL CHARGE FOR MARKET RISK

Scope and coverage of capital charge for market risk

32. (1) Market risk positions subject to capital charge requirement shall include -

- (a) risks pertaining to interest rate related to instruments in trading book;
- (b) equities in trading book;
- (c) foreign exchange risk in both banking and trading books; and
- (d) commodities including open position in precious metals in both banking and trading books.

(2) Trading book shall consist of positions in financial instruments and commodities held either with trading intent or to hedge other elements of a trading book.

(3) On-balance sheet assets held in a trading book shall be subject to market risk capital requirements.

(4) On-balance sheet assets held outside trading book, funded by another currency and unhedged for foreign exchange exposure, shall be subject to both market and credit risks capital requirements.

(5) Derivatives, repurchases or reverse repurchases, securities lending and other transactions booked in a trading book shall be subject to both market and counterparty credit risks capital requirements.

Governance and management of market risk

33. (1) A bank shall have policies and procedures for determining which exposures to include and exclude from a trading book for computing its regula-

tory capital.

(2) A bank shall ensure compliance with criteria for trading book and take into account the risk management capabilities and practises of a bank.

(3) Policies and procedures for overall management of a trading book of a bank shall include -

- (a) the activities a bank considers to be trading and as constituting part of a trading book for regulatory capital purposes;
- (b) the extent to which -
 - (i) an exposure can be marked-to-market daily by reference to an active, liquid two-way market;
 - (ii) a bank shall generate valuations for the exposure to be validated externally in a consistent manner;
 - (iii) legal restrictions or other operational requirements impede the ability of a bank to effect an immediate liquidation of the exposure;
 - (iv) a bank shall actively manage risk inherent in the exposure within its trading operations; and
 - (v) a bank may transfer risk or exposures between banking and trading books and criteria for such transfers.

(4) A bank shall manage market risks on an ongoing basis and ensure that capital requirements for market risks are maintained on a continuous basis.

(5) Securities already matured and remain unpaid shall not attract regulatory capital for market risk.

(6) Securities in subregulation (5) shall attract capital only for credit

risk on completion of ninety days' delinquency and shall be classified as non-performing assets.

Eligibility for trading book

34. (1) The following requirements shall be met for positions to be eligible to receive trading book treatment for computing capital -

- (a) financial instruments shall be free of any restrictive covenants on their tradability or be hedged completely; and
- (b) positions shall be frequently and accurately valued and the portfolio be actively managed.

(2) A bank shall ensure that the following broad principles for qualification in trading book are in place -

- (a) documented trading strategy for positions or portfolios approved by senior management which include expected holding horizon;
- (b) defined policies and procedures for the active management of the position, which shall require that -
 - (i) positions be managed on a trading desk;
 - (ii) positions limits be set and monitored for appropriateness;
 - (iii) dealers have the autonomy to enter into or manage the positions within agreed limits and strategy;
 - (iv) at a minimum positions be marked to market daily as part of the internal risk management process;
 - (v) positions be reported to senior management as an integral part of the risk management process

of a bank; and

- (vi) positions be actively monitored with reference to market information.
- (c) policy and procedures to monitor positions against the trading strategy of a bank inclusive of monitoring of turnover and stale positions in the trading book of a bank;
- (d) policy for allocating transactions inclusive of internal deals to the trading or non-trading book and procedures to ensure compliance with the policy; and
- (e) audit trail for each transaction.

(3) Where a bank engages in trading activities or where there are amendments to the trading activities, it shall annually submit to the Commissioner, a policy statement covering -

- (a) definition of trading activities;
- (b) financial instruments traded or used for hedging the trading book portfolios; and
- (c) principles for transferring positions between trading and banking books.

(4) A bank shall ensure that no abusive switching between trading and banking books exist.

(5) (a) Other eligibility criteria for specific instruments shall include -

- (i) where a bank hedges a banking book credit risk exposure by using a credit derivative booked in a trading book, a banking book exposure shall not be deemed hedged for capital purposes unless a bank purchases, from an eligible third-party protection provider, a credit derivative which meets the requirements of credit risk mit-

igation;

- (ii) where a third-party protection is purchased and recognized as a hedge of a banking book exposure for regulatory capital purposes, the internal or external credit derivative hedge shall not form part of a trading book for regulatory capital purposes; and
 - (iii) term trading-related repo-style transactions that a bank accounts for in its banking book so long as all such repo-style transactions are included.
- (b) All repo-style transactions shall be subject to a banking book counterparty credit risk charge regardless of where they are booked.

Prudent valuation guidance

35. (1) A bank shall submit the valuation report to the Commissioner on a quarterly basis.

(2) The Commissioner shall assess a valuation report of a bank in subregulation (1) to determine a valuation adjustment of a bank for regulatory purposes.

(3) A bank shall mark to market trading positions on a daily basis.

(4) A framework for prudent valuation practices shall at a minimum include components prescribed in schedule 12.

Level of Significance

36. (1) Significant trading book shall be five percent of the total assets of a bank, both on and off balance sheet.

(2) A bank with a significant trading book shall hold capital in accordance with these regulations.

(3) A bank with an insignificant trading book shall -

- (a) have processes in place to ensure the adequacy of its capital against risks; and
- (b) not hold regulatory capital for the risks referred to in subregulation (4).

(4) Capital charges on trading book instruments which relate to interest rates and equity positions risks, shall not apply unless a bank has a significant trading book.

(5) To compute the ratios of trading book business to the total business of a bank, both balance sheet business and off-balance sheet business shall be summed as prescribed in schedule 13.

Standardized approach for market risk

37. (1) A bank shall use standardized approach to compute capital charge for market risks.

(2) A bank shall compute total capital requirement for market risk by using a building-block approach and by adding individual capital requirements for the four various categories of market risks which include -

- (a) interest rate risk;
- (b) equity positions risk;
- (c) foreign exchange risk; and
- (d) commodity price risk.

(3) Separate capital charges for specific and general market risks arising from debt and equity positions shall be computed for interest rate and equity positions risks categories.

(4) A general market risk capital requirement shall apply for commodity price and foreign exchange risks.

(5) A bank shall review and distinguish all assets and liabilities entries to be classified either in a trading book or banking book subject to the in-

ternal market risk management policy of a bank.

(6) In determining the overall capital requirements for a bank, the total market risk capital requirement shall be multiplied by 12.5 percent to derive at risk weighted assets equivalent.

Computation of capital charge for interest rate risk

38. (1) A bank shall compute two separate charges to determine the minimum capital requirement.

(2) Instruments in a trading book, such as debt securities of fixed or floating rate and non-convertible preference shares and other convertible debt that trades like debt securities, shall attract a computation for -

- (a) specific risk of each security; and
- (b) general risk in the portfolio where long and short positions in different securities or instruments shall be offset.

Computation of capital charge for specific interest rate risk

39. In computing capital charge for specific interest rate risk, a bank shall comply with the requirements prescribed in schedule 14.

Computation of capital charge for general market interest rate risk

40. In computing capital charge for general market interest rate risk, a bank shall comply with the requirements prescribed in schedule 15.

Computation of capital charge for foreign exchange risk

41. (1) Minimum capital standard to cover the risk of holding or taking positions in foreign currencies including gold shall be as set out in accordance with these regulations.

(2) Capital requirement for foreign exchange risk shall apply to both trading and banking books for holding or taking positions in foreign currencies, including gold.

- (3) A bank shall -
 - (a) compute capital charge for foreign exchange risk by computing the net open positions for currencies and gold; and
 - (b) apply capital charge to the higher of the net long positions or the net short positions.

Measuring the exposure in a single foreign currency

42. (1) The net open position of a bank in each foreign currency shall be computed by adding -

- (a) the net spot position including all asset items less all liability items and accrued interest denominated in that currency;
- (b) the net forward position, including, all amounts to be received less all amounts to be paid under forward foreign exchange transactions, currency futures and the principal on currency swaps not included in the spot position;
- (c) guarantees and similar instruments certain to be called and likely to be irrecoverable;
- (d) net future income or expenses not yet accrued but already fully hedged at the discretion of a bank;
- (e) any other item representing a profit or loss in foreign currencies; and
- (f) the net delta-based equivalent of the total book of foreign currency options.

(2) Positions in composite currencies such as special drawing rights shall be reported separately.

(3) Positions in subregulation (1) shall be treated as a currency in their own right or split into their component parts on a consistent basis when measuring the open positions of a bank.

The treatment of interest, other income and expenses

43. (1) Accrued interest earned but not received and accrued interest expenses shall form part of a position.

(2) Expected future interest not earned and anticipated expenses may be excluded unless the amounts are certain and are hedged.

(3) Where a bank includes future income or expenses, it shall be on a consistent basis and not only on selected expected future flows that reduce its position.

The measurement of forward currency and gold positions

44. (1) Forward currency and gold positions shall be valued at current spot market exchange rates.

(2) Application of forward exchange rates shall not be permissible as it would result in measured positions reflecting current interest rate differentials.

(3) Notwithstanding subregulation (1) and (2), a bank which base its normal management accounting on net present values shall use the net present values of each position discounted using current interest rates and valued at current spot rates for measuring its forward currency and gold positions.

Capital charges for positions in foreign currencies and gold

45. A bank shall use shorthand method prescribed in schedule 16 to compute capital charge for positions in foreign currencies and gold.

Computation of capital charge for commodity risk

46. (1) Commodity risk shall be captured in both trading and banking books.

(2) A bank shall -

(a) hold capital charge to cover the risk of holding or taking positions in commodities; and

- (b) compute capital charge for commodity risk in respect of physical holdings traded including precious metals.

(3) Positions in commodities resulting from derivatives contracts or off-balance sheet instruments shall be included under computation of capital charge for commodity risk.

(4) Commodity derivatives and other off-balance-sheet positions affected by changes in commodity prices shall also be included in the computation of capital charge for commodity risk excluding options and the associated underlying instruments.

(5) Commodity derivatives shall be converted into notional commodity positions in line with current spot price.

(6) A bank shall use one of the following approaches when measuring commodity position risk -

- (a) simplified approach as prescribed in schedule 17; or
- (b) maturity ladder approach as prescribed in schedule 18.

(7) A bank shall be consistent in the method used when adopting any of the two approaches in subregulation (6).

(8) A bank shall not switch from one approach to the other without prior approval of the Commissioner.

Offsetting for commodity risk for capital charge

47. When commodity risk is measured, offsetting shall -

- (a) be allowed between long and short positions in each commodity to compute open positions; and
- (b) not be allowed between positions in different commodities.

Computation of capital charge for equity position risk

48. (1) A bank shall hold capital to cover the risk of taking long or short

positions both in equities or equity-like instruments and non-convertible preference shares in their trading book.

(2) The following instruments shall qualify as equity -

- (a) voting and non-voting common stocks;
- (b) equity-like convertible securities;
- (c) commitments to buy or sell equity securities;
- (d) depository receipts;
- (e) equity derivatives;
- (f) stock indices;
- (g) index arbitrage; and
- (h) any other on-balance sheet or off-balance sheet positions affected by changes in equity prices.

(3) Capital charge for equity position risk shall be the sum of the charges for general and specific market risks.

(4) A bank shall compute capital charge for risks in subregulation (3) separately as follows -

- (a) general market risk charge of eight percent shall be applied to the net overall position; and
- (b) specific market risk charge of eight percent shall be applied to the gross equity position.

(5) Notwithstanding subregulation (4)(b), where the portfolio is both liquid and well-diversified the charge shall be four percent.

(6) Where a bank hold equities in different national markets, separate calculations for general and specific risk shall be carried out.

Equity derivatives

49. (1) Capital charge shall be computed for equity derivatives and off-balance sheet positions affected by changes in equity prices including futures and swaps on both individual equities and on stock indices.

(2) Positions in equity derivatives shall be converted into notional positions in the relevant underlying stock or portfolio of stocks.

Computation of positions

50. To compute specific and general market risk capital charges, positions in derivatives shall be converted into notional equity positions as follows -

- (a) futures and forward contracts relating to individual equities shall in principle be reported at current market prices;
- (b) futures relating to stock indices shall be reported as the marked-to-market value of the notional underlying equity portfolio;
- (c) equity swaps shall be treated as two notional positions; and
- (d) equity options and stock index options shall be carved out together with the associated underlying instrument.

Risk in relation to an index

51. A two percent capital charge shall apply to the net long or short position in an index contract comprising a diversified portfolio of equities.

Computation of capital charge for options

52. (1) A Bank shall hold a limited range of purchased options and not to write options.

(2) A bank shall use simplified approach for computation of capital charge for options as prescribed in schedule 19.

(3) Simplified approach positions for options and associated underlying cash or forward shall not be subject to the standardised methodology.

(4) Notwithstanding subregulation (3), positions for options and associated underlying cash or forward shall be carved out; and subject to separately computed capital charges which incorporate both general market risk and specific market risk.

(5) Specific market risks related to the issuer of an instrument shall continue to apply to options positions for equities, equity indices and corporate debt securities.

(6) In addition to capital charge market risks, purchased options shall be subject to credit risk capital requirements specified in credit risk market related off-balance sheet.

Record keeping

53. A bank shall maintain adequate records to enable proper computation of capital adequacy.

Submission of reports

54. A bank shall, on a quarterly basis or as required, submit to the Commissioner capital adequacy reports in the format prescribed in schedule 20.

PART VIII - ENFORCEMENT

Penalties

55. Where a bank fails to comply with these regulations, the Commissioner may pursue any remedial or punitive measures as prescribed in the Act; or its disposal, including -

- (a) requiring a bank to desist from engaging in any further foreign exchange or other market risk or capital market activities;
- (b) requiring a bank to suspend lending, investment or other credit extension operations of a bank;

- (c) restrict the declaration or payment of dividends or remittance of profit of a bank;
- (d) restrict establishment of new branches of facilities; or
- (e) prohibit payment of bonuses, salary incentives, management fees or other discretionary compensation to directors or officers of the bank.

PART IX-MISCELLANEOUS PROVISIONS

Transitional provision

56. A bank shall comply with the requirements of these Regulations within six months of the coming into operation of these Regulations.

Repeal

57. The Financial Institutions (Risk-Based Capital Requirements) Regulations, 2016 are repealed.

DATED:

**DR. EMMANUEL MALUKE LETETE
GOVERNOR OF THE CENTRAL BANK OF LESOTHO SIGNING ON
BEHALF OF THE COMMISSIONER**

NOTE

SCHEDULE 1

Minimum requirements for categories of Capital(regulation 6)

1. All banks shall maintain minimum capital as outlined in the table below and as follows -

- (a) common equity tier I shall at a minimum be 4.5 percent of risk-weighted assets at all times.
- (b) tier I capital shall at a minimum be 6.0 percent of risk-weighted assets at all times.
- (c) total capital that is Tier I Capital plus Tier II Capital shall at a minimum be 8.0 percent of risk-weighted assets at all times.

Capital Tiers	Common Equity Tier I (%)	Tier I Capital (%)	Total Capital (%)
Minima	4.5	6.0	8.0
Conservation Buffer	2.0	2.0	2.0
Countercyclical Buffer	0	0	0
D-SIBs	0	0	0
Minima plus			
Conservation	6.5	8.0	10.0
Prudential minima	7.0 Plus Pillar 2	8.0 Plus Pillar 2	10.0 Plus Pillar 2

Minimum capital conservation standards (%)

Common Equity ratio	Minimum Capital Conservation Ratios (Expressed as % of Earnings)
4.50 - 5.125	100
5.125 - 5.750	80
5.750 > 5.75 - 6.375	60
>6.375 - 7.0	40
>7.0	0

SCHEDULE 2**Criteria for inclusion in Additional Tier I capital (regulation 8 (a))**

1. Instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1 capital and not included in Common Equity Tier 1 shall be -

- (a) issued and paid-in;
- (b) subordinated to depositors, general creditors and subordinated debt of the bank;
- (c) neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors;
- (d) perpetual, that is, there is no maturity date and there are no step-ups or other incentives to redeem; and
- (e) callable at the initiative of the issuer only after a minimum of five years.

2. To exercise a call option a bank shall receive prior supervisory approval and -

- (a) not do anything which creates an expectation that the call shall be exercised; and
- (b) not exercise a call unless -
 - (i) they replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
 - (ii) the bank demonstrates that its capital position is well above the minimum capital requirements after the call

option is exercised.

3. Any repayment of principal including repurchase or redemption shall be with prior supervisory approval and banks shall not assume or create market expectations that supervisory approval shall be given.
4. On dividend or coupon discretion -
 - (a) the Bank shall have full discretion at all times to cancel distributions or payments;
 - (b) cancellation of discretionary payments shall not be an event of default;
 - (c) banks shall have full access to cancelled payments to meet obligations as they fall due; and
 - (d) cancellation of distributions or payments shall not impose restrictions on the bank except in relation to distributions to common stockholders.
5. Dividends or coupons shall be paid out of distributable items.
6. The instrument shall not have a credit sensitive dividend feature, that is a dividend or coupon that is, reset periodically based in whole or in part on the banking organisation's credit standing.
7. The instrument shall not contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.
8. Instruments classified as liabilities for accounting purposes shall have principal loss absorption through either -
 - (a) Conversion to common shares at an objective pre-specified trigger point; or
 - (b) a write-down mechanism, which allocates losses to the instru-

ment at a pre-specified trigger point.

(c) The write-down in paragraph (b) shall have the following effects -

- (i) reduce the claim of the instrument in liquidation;
- (ii) reduce the amount re-paid when a call is exercised; and
- (iii) partially or fully reduce coupon/dividend payments on the instrument.

9. Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.

10. The instrument shall have any features that hinder recapitalisation, including provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

11. If the instrument is not issued out of an operating entity or the holding company in the consolidated group such as a special purpose vehicle – “SPV”, proceeds shall be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier I capital.

SCHEDULE 3

Credit Risk Mitigation Techniques excluding OTC(regulation 12(3))

1. Credit risk mitigants for regulatory capital purposes shall be recognised so long as they meet the legal certainty as prescribed in paragraph 2.
2. For banks to obtain capital relief for any use of credit risk mitigation techniques, the following minimum standards for legal documentation must be met -
 - (a) all documentation used in collateralised transactions and for documenting on balance sheet netting, guarantees and credit derivatives must be binding on all parties and legally enforceable in all relevant jurisdictions; and
 - (b) banks must conduct sufficient legal review and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.
3. The comprehensive approach for the treatment of collateral shall also be applied to compute the counterparty risk charges for OTC derivatives and repo-style transactions booked in the trading book.
4. No transaction in which credit risk mitigation techniques are used shall receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.
5. To avoid double counting the effects of credit risk mitigation, credit risk mitigation shall not be recognised for regulatory capital purposes on claims for which an issue-specific rating has been used and already reflects that CRM.

SCHEDULE 4

Risk weights and exposure types(regulation 13)

1. Risk Weights on Claims on Sovereign -

- (a) Claims to the Government of Lesotho and the Central Bank of Lesotho, denominated and funded in maloti, shall be assigned a risk weight of 0 percent, and shall include securities issued by the Central Bank and loans fully guaranteed by such securities.
- (b) The table below outlines risk weights on claims on Sovereigns :

Table on Claims on Sovereign

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk weight (%)	20	50	100	100	150	100

2. Risk weights on claims to Public Sector Entities

- (a) Claims or loans to local governments, statutory boards and other public sector entities denominated in Maloti and fully guaranteed by the Government of Lesotho shall be assigned a risk weight of 0 percent.
- (b) Claims or loans to local government departments and Government ministries shall be treated as claims on sovereign and shall be assigned a risk weight of 0 percent.
- (c) Claims on domestic public sector entities not guaranteed by the Government of Lesotho shall be rated to claims on banks.
- (d) Under claims on banks entities shall be assigned a risk weight one category less favourable than that assigned to claims on sovereign.

- (e) The table below outlines risk weight on claims to public sector entities :

Table on Claims on Public Sector Entities

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk weight (%)	20	50	100	100	150	100

3. Risk weights on Claims on Multilateral Development Banks

- (a) The risk weights applied to claims on multilateral development Banks shall generally be based on external credit assessments.
- (b) Criteria for 0 percent risk weight shall be applied to claims on highly rated Multilateral Development Banks that fulfil the following criteria and as prescribed in the table below -
- (i) very high quality long-term issuer ratings, that is, a majority of a Multilateral Development Banks external assessments shall be AAA;
 - (ii) shareholder structure is comprised of a significant proportion of sovereigns with long-term issuer credit assessments of AA- or better, or the majority of Multilateral Development Banks fund-raising are in the form of paid-in equity or capital and there is little or no leverage;
 - (iii) strong shareholder support demonstrated by the amount of paid-in capital contributed by the shareholders; the amount of further capital the Multilateral Development Banks have the right to call, if required, to repay their liabilities; and continued capital contributions and new pledges from sovereign shareholders;

- (iv) adequate level of capital and liquidity a case-by-case approach is necessary in order to assess whether each Multilateral Development Banks capital and liquidity are adequate; and
- (v) strict statutory lending requirements and conservative financial policies, which would include among other conditions a structured approval process, internal creditworthiness and risk concentration limits per country, sector, and individual exposure and credit category, large exposures approval by the board or a committee of the board, fixed repayment schedules, effective monitoring of use of proceeds, status review process, and rigorous assessment of risk and provisioning to loan loss reserve.

Table on Claims on other Multilateral Development Banks

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk weights (%)	20	50	50	100	150	50
Risk weights for short-term claims (%)	20	20	20	50	150	20

4. Risk weights on Claims or Exposure on Banks

- (a) Claims on Banks shall be risk weighted based on their external credit assessments, with claims on unrated Banks being risk-weighted at 50 percent as prescribed in the table below.
- (b) The preferential risk weight that is one category more favourable may be applied to claims with an original maturity of three months or less, subject to a floor of 20 percent.
- (c) The treatment in paragraph (b), shall be available to both rated and unrated banks, not to banks risk weighted at 150 percent.

- (d) Notwithstanding paragraphs (a) and (b), claims with original maturity, under 3 months expected to be rolled over, shall not qualify for preferential treatment for capital adequacy purposes.

Table on Claims on Banks (%)

Credit Assessment	AAA to	A+ to	BBB+ to	BB+ to	Below	Unrated
Risk weights (%)	AA-	A-	BBB-	B-	B-	
	20	50	50	100	150	50
Risk weights for short-term claims (%)						
	20	20	20	50	150	20

5. Risk weights on Claims on Securities Firms

- (a) Claims on security firms subjected to prudential supervision and regulation in particular, risk-based capital requirements, shall be treated as claims on banks and shall follow rules for claims on banks.
- (b) Claims on security firms that fail to meet the criteria in paragraph (a), shall be treated as claims on corporates and shall follow rules for claims on corporates.

6. Risk weights on claims or Exposure on Corporates

- (a) Claims on corporates including claims on insurance companies, shall be risk weighted applying their credit assessment ratings as prescribed in the table below.
- (b) As part of supervisory review process, a risk weight higher than 100 percent may be assigned to corporate claims held by individual banks based on its credit quality.

Table on claims on Corporates

Credit Assessment Risk weight (%)	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
	20	50	100	150	100

7. Risk weights on claims included in the Regulatory Retail Portfolio
- (a) Claims that meet the criteria for regulatory retail portfolio, shall be risk weighted at 75 percent.
 - (b) To be included in regulatory retail portfolio, claims in paragraph (a), shall meet the following three criteria -
 - (i) Orientation criterion: The exposure is to an individual person or persons or to a small business as defined by Micro-Small and Medium Enterprises policy for Lesotho;
 - (ii) Product criterion: The exposure takes the form of any of the following -
 - (aa) revolving credits and lines of credit including credit cards and overdrafts;
 - (bb) personal term loans and leases such as personal loans, car loans and leases, student, educational loans and others;
 - (cc) small business facilities and commitments;
 - (dd) securities such as bonds and equities, listed or not, are specifically excluded from this category; and
 - (ee) mortgage loans which do not qualify for

treatment as claims secured by residential property.

(iii) Granularity criterion: The exposure shall -

(aa) be sufficiently diversified to a degree that reduces the risks in the portfolio; and

(bb) no aggregate exposure to one counterpart shall exceed 0.2 percent of the overall regulatory retail portfolio.

8. Risk weight on Claims Secured by Residential Property

Lending fully secured by mortgages on residential property, occupied by the borrower or rented, shall be risk weighted at 35 percent.

9. Risk weight on Claims Secured by Commercial Real Estate

Claims secured by commercial real estate shall be risk weighted at 100 percent.

10. Risk weight on deferred tax assets

Deferred tax assets shall be risk weighted at 250%.

11. Risk weight on Past Due Loans

(a) The unsecured portion of any loan, that is past due for more than 90 days, net of specific provisions including partial write-offs, shall be assigned risk weights as follows -

(i) 150 percent risk weight when specific provisions are less than 20 percent of the outstanding loan amount;

- (ii) 100 percent risk weight when specific provisions are 20 percent or more but less than 50 percent of the outstanding loan amount; and
 - (iii) 50 percent risk weight when specific provisions are 50 percent or more of the outstanding loan amount.
- (b) In determining the secured portion of the past due loan, eligible collateral and guarantees shall be treated in the same manner as for credit risk mitigation purposes.
- (c) Past due retail loans shall be excluded from the overall regulatory portfolio when assessing the granularity criterion specified in these regulations for risk-weight purposes.
- (d) Where a past due loan is fully secured by forms of collateral not recognized in these regulations, a 100 percent risk weight shall apply when provisions reach 15 percent of the outstanding amount of the loan.
- (e) Qualifying residential mortgage loans, which are 90 days past due shall be assigned 100 percent risk weight net of specific provisions.

12. Risk weights on higher-risk categories

The Commissioner may apply a 150% or higher risk weight on high risk categories such as venture capital and private equity investments.

13. Risk weights on other Assets

- (a) Cash and balances with the Central Bank of Lesotho shall be risk weighted at zero percent.
- (b) Claims fully secured by cash deposited with the reporting bank or by Government of Lesotho or Central Bank of Lesotho securities and guarantees shall be risk weighted at zero percent.

- (c) Cash items in the process of collection by the bank shall be risk weighted at 20 percent.
- (d) Premises, plant, equipment, and any other assets shall be assigned a risk weight of 100 percent.
- (e) Investment in equity or regulatory capital instruments issued by banks or security firms shall be risk weighted at 100 percent, unless deducted from the capital base.

14. Risk-weighting for off-balance sheet items

- (a) The credit conversion factors to be applied to various off-balance sheet exposures shall be as prescribed in the table below.
- (b) Counterparty risk weightings for over-the-counter derivative transactions shall not be subject to any specific ceiling.
- (c) Credit equivalent amount of over-the-counter derivatives and Securities Financing Transactions that expose a bank to over-the-counter derivatives shall be computed under rules set for the treatment of counterpart credit risk; and
- (d) All banks shall closely monitor securities, commodities, and foreign exchange transactions which failed from inception.

Off-balance sheet items	Credit Conversion Factors (CCF)
Commitment with original maturity of up to one year	20%
Commitment with original maturity of more than one year	50%
Commitments that are unconditionally cancellable at any time without prior notice or that provide for automatic cancellation due to the deterioration of the borrower's credit worthiness.	0%

Short term self-liquidating trade letters of credits arising from the movement of goods such as documentary credits collateralised by the underlying shipments to both issuing and confirming banks.	20%
Direct credit substitute e.g. general guarantees of indebtedness (including stand by letter of credit serving a financial guarantees for loans and securities) and acceptance	100%
Sales and repurchase agreement and assets sale with recourse where the credit risk remain with the banks	100%
Lending of banks securities or the posting of security as collateral by banks including instances where these arise out of repo-style transaction	100%
Forward assets purchase, forward deposits and partly-paid shares and securities which represent commitment with certain draw down	100%
Certain transaction-related contingent items such as performance bond, bid bonds, warranties and standby letters and credit related to particular transactions	50%
Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs)	50%

SCHEDULE 5

The Comprehensive Approach (regulation 16 (3))

1. The comprehensive approach allows fuller offset of collateral against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral.
2. When taking collateral, Banks shall need to compute their adjusted exposure to a counterparty for capital adequacy purposes in order to take account of the effects of that collateral.
3. Using haircuts, banks must adjust both the amount of the exposure to the counterparty and the value of any collateral received in support of that counterparty to take account of possible future fluctuations in the value occasioned by market movements. This shall produce volatility adjusted amounts for both exposure and collateral. Unless either side of the transaction is cash, the volatility-adjusted amount for the exposure will be higher than the exposure and for the collateral, it will be lower.
4. Additionally, where the exposure and collateral are held in different currencies an additional downwards adjustment shall be made to the volatility adjusted collateral amount to take account of possible future fluctuations in exchange rates.
5. Where the volatility-adjusted exposure amount is greater than the volatility-adjusted collateral amount including any further adjustment for foreign exchange risk, banks shall compute their risk-weighted assets as the difference between the two multiplied by the risk weight of the counterparty and the framework for performing these calculations shall be as set out in these regulations.
6. In principle, banks have two ways of calculating the haircuts as follows -
 - (a) standard supervisory haircuts, using parameters set by these regulations, and

- (b) own-estimate haircuts, using banks' own internal estimates of market price volatility.
7. A Bank shall obtain prior approval of the Commissioner to use own-estimate haircuts. The approval shall be granted only when a bank meets specific qualitative and quantitative criteria outlined in these regulations. If banks seek to use their own-estimate haircuts, they shall do so for the full range of instrument types for which they would be eligible.
 8. The size of the individual haircuts shall depend on the type of instrument, type of transaction and the frequency of marking-to-market and re-margining. For example, repo-style transactions subject to daily marking-to-market and to daily re-margining shall receive a haircut based on a 5-business day holding period and secured lending transactions with daily mark-to-market and no re-margining clauses shall receive a haircut based on a 20-business day holding period. These haircut numbers shall be scaled up using the square root of time formula depending on the frequency of re-margining or marking-to-market.
 9. For certain types of repo-style transactions broadly speaking, government bond repos as defined in these regulations supervisors may allow Banks using standard supervisory haircuts or own-estimate haircuts not to apply these in calculating the exposure amount after risk mitigation.
 10. The effect of master netting agreements covering repo-style transactions shall be recognised for the calculation of capital requirements subject to the conditions in these regulations.

SCHEDULE 6

Maturity mismatches (regulation 19 (2) and (4))

1. The maturity of the underlying exposure and the maturity of the hedge shall both be defined conservatively. The effective maturity of the underlying shall be gauged as the longest possible remaining time before the counterparty is scheduled to fulfil its obligation, taking into account any applicable grace period. For the hedge, embedded options which may reduce the term of the hedge shall be taken into account so that the shortest possible effective maturity is used.
2. Where a call is at the discretion of the protection seller, the maturity shall at all times be at the first call date. If the call is at the discretion of the protection-buying Bank but the terms of the arrangement at origination of the hedge contain a positive incentive for the Bank to call the transaction before contractual maturity, the remaining time to the first call date shall be deemed the effective maturity.
3. As outlined in these regulations, hedges with maturity mismatches are only recognized when their original maturities are greater than or equal to one year. The maturity of hedges for exposures with original maturities of less than one year shall be matched to be recognised. In all cases, hedges with maturity mismatches shall no longer be recognised when they have a residual maturity of three months or less.
4. When there is a maturity mismatch with recognized credit risk mitigants the following adjustment shall apply -

$$Pa = Px (t - 0.25)/(T - 0.25)$$

Where:

Pa = value of the credit protection adjusted for maturity mismatch

T = minimum (5, residual maturity of the exposure) expressed in years

t = minimum (T, residual maturity of the credit protection)

Px = credit protection adjusted for any haircuts

SCHEDULE 7

Financial Collateral (regulation 20)

1. Eligible financial collateral
 - (a) The following collateral instruments are eligible for recognition in the simple approach -
 - (i) cash and certificates of deposit or comparable instruments issued by the lending bank on deposit with the bank which is incurring the counterparty exposure;
 - (ii) gold;
 - (iii) debt securities rated by a recognized external credit assessment institution where these are either -
 - (aa) at a minimum BB- when issued by sovereigns or PSEs that are treated as sovereigns by the national supervisor;
 - (bb) at a minimum BBB- when issued by other entities including banks and securities firms; or
 - (cc) at a minimum A-3/P-3 for short-term debt instruments.
 - (iv) debt securities not rated by a recognized external credit assessment institution where these are -
 - (aa) issued by a bank;
 - (bb) listed on a recognized exchange;
 - (cc) classified as senior debt;

- (dd) all rated issues of the same seniority by the issuing bank shall be rated at least BBB- or A-3/P-3 by a recognized external credit assessment institution;
- (ee) the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB- or A-3/P-3 as applicable; and
- (ff) the supervisor is sufficiently confident about the market liquidity of the security; equities including convertible bonds that are included in a main index, subject to conditions of the Act;
- (v) undertakings for Collective Investments Schemes and mutual funds where -
 - (aa) a price for the units is publicly quoted daily; and
 - (bb) the Collective Investments Scheme /mutual fund is limited to investing in the instruments listed as per the eligible financial collateral;
- (vi) government securities including treasury bills and bonds issued by the Government of Lesotho;
- (vii) full amount of the guarantee provided by the Government of Lesotho;
- (viii) full amount of the guarantee by a Multilateral Development Banks;
- (ix) guarantee provided by a local bank, only 50 percent is recognized as credit mitigation;
- (x) guarantee by a parent company or non-bank, where the

parent is another bank or regulated financial institution, only 50 percent of Guarantee shall be recognized;

- (xi) commercial paper issued by financial institutions licensed by the Commissioner and rated corporates, shall qualify subject to 50 percent haircut, that is, only 50 percent of the market value will be recognized as credit risk mitigation; and
 - (xii) credit insurance, shall qualify with a risk weight of 50 percent or depending upon the risk weight of the insurer.
- (b) The following collateral instruments are eligible for recognition in the comprehensive approach -
- (i) all of the instruments in paragraphs 1 (a), (i) to (xii);
 - (ii) equities including convertible bonds which are not included in a main index but listed on a recognized exchange; and
 - (iii) collective investments scheme or mutual funds, including such equities.
-
- (c) Calculation of Capital Requirement shall be as follows -

$$E^* = \max \{0, [E (1+He) - C (1-Hc - Hf)]\}$$

Where:

*E** = the exposure value after risk mitigation

E = current value of the exposure

He = haircut appropriate to the the exposure

C = the current value of the collateral received

Hc = haircut appropriate to the collateral

Hf = haircut appropriate for the currency mismatch between the collateral and

Exposure

- (i) The exposure amount after risk mitigation shall be multiplied by the risk weight of the counterparty to obtain the risk-weighted asset amount for the collateralised transaction.
- (ii) The treatment for transactions where there is a mismatch between the maturity of the counterparty exposure and the collateral are as provided in these regulations.
- (iii) Where the collateral is a basket of assets, the haircut on the basket will be $H_i = \sum a_i H_i$, where a_i is the weight of the asset as measured by units of currency in the basket and H_i the haircut applicable to that asset.

Table on Forms of collateral eligible for financial collateral

Issue rating for debt securities	Residual Maturity	Sovereigns	Other issuers
AAA to AA-/A-1	~ 1 year	0.5	1
	>1 year, ~ 5 years	2	4
	> 5 years	4	8
A+ to BBB-I A-2/ A-3/P-3 and unrated bank securities	~ 1 year	1	2
	>1 year, ~ 5 years	3	6
	> 5 years	6	12
BB+ to BB-	All	15	
Main index equities (including convertible bonds) and Gold	15		

Other equities (including convertible bonds) listed on a recognised exchange	25
UCITS/Mutual funds	Highest haircut applicable to any security in which the fund can invest
Cash in the same currency	0

- (d) Standard supervisory haircuts shall entail -
- (i) standard supervisory haircuts assuming daily mark-to-market, daily re-margining and a 10-business day holding period, expressed as percentages;
 - (ii) haircut for currency risk where exposure and collateral are denominated in different currencies is 8 percent based on a 10-business day holding period and daily mark-to-market; and
 - (iii) transactions in which the bank lends non-eligible instruments including noninvestment grade corporate debt securities, the haircut to be applied on the exposure shall be the same as the one for equity traded on a recognised exchange that is not part of a main index.

2. Own estimates for haircuts

- (a) Supervisors may permit banks to compute haircuts using their own internal estimates of market price volatility and foreign exchange volatility. Permission to do so shall be conditional on the satisfaction of minimum qualitative and quantitative standards stated in this regulation. When debt securities are rated BBB-/A-3 or higher, supervisors may allow banks to compute a volatility estimate for each category of security.

- (b) In determining relevant categories, institutions shall take into account -
 - (i) the type of issuer of the security;
 - (ii) its rating,
 - (iii) its residual maturity; and
 - (iv) its modified duration.
- (c) Volatility estimates shall be representative of the securities actually included in the category for that bank. For debt securities rated below BBB-/A-3 or for equities eligible as collateral, the haircuts shall be computed for each individual security.
- (d) Banks shall estimate the volatility of the collateral instrument or foreign exchange mismatch individually. Estimated volatilities for each transaction shall not take into account the correlations between unsecured exposure, collateral and exchange rates.

3. Application of quantitative criteria

- (a) In calculating the haircuts, a 99th percentile, one-tailed confidence interval is to be used.
- (b) The minimum holding period shall be dependent on the type of transaction and the frequency of re-margining or marking to market.
- (c) The minimum holding periods for different types of transactions are presented in the guideline.
- (d) Banks may use haircut numbers computed according to shorter holding periods.
- (e) Banks shall take into account the illiquidity of lower-quality as-

sets. The holding period shall be adjusted upwards in cases where it becomes inappropriate given the liquidity of the collateral.

- (f) Banks shall also identify where historical data may understate potential volatility, e.g. a pegged currency and such cases shall be dealt with by subjecting the data to stress testing;
- (g) The choice of historical observation period sample period for calculating haircuts shall be a minimum of one year. For banks that use a weighting scheme or other methods for the historical observation period, the “effective” observation period shall at a minimum be one year that is, the weighted average time lag of the individual observations shall not be less than 6 months.
- (h) Banks shall update their data sets at least quarterly and also reassess them whenever market prices are subject to material changes. This implies that haircuts shall be computed at a minimum of three months. The supervisor may also require a bank to compute its haircuts using a shorter observation period if, in the supervisor's judgement, this is justified by a significant upsurge in price volatility.
- (i) No particular type of model is prescribed. So long as each model used captures all the material risks run by the bank, banks shall be free to use models based on, for example, historical simulations and Monte Carlo simulations.

4. Application of Qualitative criteria

The estimated volatility data and holding period shall be used in the day-to-day risk management process of the bank as follows -

- (a) banks shall have robust processes in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operation of the risk measurement sys-

tem;

- (b) the risk measurement system shall be used in conjunction with internal exposure limits;
- (c) an independent review of the risk measurement system shall be carried out regularly in the bank's own internal auditing process.
- (d) a review of the overall risk management process shall take place at regular intervals ideally not less than once a year and shall specifically address, at a minimum, the following -
 - (i) the integration of risk measures into daily risk management;
 - (ii) the validation of any significant change in the risk measurement process;
 - (iii) the accuracy and completeness of position data;
- (e) the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources and the accuracy and appropriateness of volatility assumptions.

5. Adjustment for different holding periods and non-daily mark-to-market or re-margining

- (a) For some transactions, depending on the nature and frequency of the revaluation and re-margining provisions, different holding periods are appropriate. The framework for collateral haircuts distinguishes between repo-style transactions that is, repo/reverse repos and securities lending/borrowing, "other capital-market-driven transactions" that is, OTC derivatives transactions and margin lending and secured lending.
- (b) In capital-market-driven transactions and repo-style transactions,

the documentation contains re-margining clauses; in secured lending transactions, it generally does not.

- (c) The minimum holding period for various products is summarised in the following table -

Table on Minimum holding periods

Transaction type	Minimum holding period	Condition
Repo-style transaction	five business days	daily re-margining
Other capital market transactions	ten business days	daily re-margining
Secured lending	twenty business days	daily revaluation

- (i) When the frequency of re-margining or revaluation is longer than the minimum, the minimum haircut numbers shall be scaled up depending on the actual number of business days between re-margining or revaluation using the square root of time formula below -

$$H = HM \sqrt{\frac{NR + (TM - 1)}{TM}}$$

Where:

H = haircut

HM = haircut under the minimum holding period

TM = minimum holding period for the type of transaction

NR = actual number of business days between remargining for capital market

transaction or revaluation for secured transactions.

- (ii) When a bank computes the volatility on a TN day holding period which is different from the specified minimum holding period TM, the HM shall be computed using the square root of time formula as follows -

$$HM = HN \sqrt{\frac{TM}{TN}}$$

Where:

TN = holding period used by bank for deriving HN

- (iii) For example, for banks using the standard supervisory haircuts, the 10-business day haircuts provided in these regulations as in table of standard supervisory haircuts, shall be the basis and this haircut shall be scaled up or down depending on the type of transaction and the frequency of re-margining or revaluation using the formula below -

$$H = H10 \sqrt{\frac{NR + (TM - 1)}{10}} \quad (4)$$

Where:

H = haircut

H10 = 10 - business day standard supervisory haircut for instrument

TM = minimum holding period for the type of transaction

NR = actual number of business days between remargining for capital market transactions or revaluation for secured transaction

6. Conditions for Zero H

- (a) For repo-style transactions where the following conditions are satisfied, and the counterparty is a core market participant, supervisors may choose not to apply the haircuts specified in the comprehensive approach and may instead apply a haircut of

zero -

- (i) both the exposure and the collateral are cash or a sovereign security or public sector entities security qualifying for a 0 risk weight in the standardised approach;
 - (ii) both the exposure and the collateral are denominated in the same currency;
 - (iii) either the transaction is overnight or both the exposure and the collateral are marked-to-market daily and are subject to daily re-margining;
 - (iv) following a counterparty's failure to re-margin, the time that is required between the last mark-to-market before the failure to re-margin and the liquidation of the collateral is considered to be no more than four business days;
 - (v) the transaction is settled across a settlement system proven for that type of transaction;
 - (vi) the documentation covering the agreement is standard market documentation for repo-style transactions in the securities concerned;
 - (vii) the transaction is governed by documentation specifying that if the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable; and
 - (viii) upon any default event, regardless of whether the counterparty is insolvent or bankrupt, the bank has the unfettered, legally enforceable right to immediately seize and liquidate the collateral for its benefit.
- (b) Core market participants may include, at the discretion of the

national supervisor, the following entities -

- (i) sovereigns, central banks and public sector entities;
 - (ii) banks and securities firms;
 - (iii) other financial companies including insurance companies eligible for a 20 risk weight in the standardised approach;
 - (iv) regulated mutual funds that are subject to capital or leverage requirements;
 - (v) regulated pension funds; and
 - (vi) recognised clearing organisations.
- (c) The Commissioner allows a banking institution incorporated in Lesotho with a subsidiary operating in a jurisdiction where the local supervisor applies a specific carve-out to repo-style transactions in securities issued by its domestic government, to adopt the same approach to the same transactions.

7. Treatment of repo-style transactions covered under master netting agreements

- (a) The effects of bilateral netting agreements covering repo-style transactions shall be recognized on a counterparty-by-counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt.
- (b) In addition, netting agreements shall -
 - (i) provide the non-defaulting party the right to terminate and close-out in a timely manner all transactions under the agreement upon an event of default, including in the

-
- event of insolvency or bankruptcy of the counterparty;
- (ii) provide for the netting of gains and losses on transactions including the value of any collateral terminated and closed out under it so that a single net amount is owed by one party to the other;
 - (iii) allow for the prompt liquidation or setoff of collateral upon the event of default; and
 - (iv) be, together with the rights arising from the provisions required in subparagraphs (i) to (iii), legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of the counterparty's insolvency or bankruptcy.
- (c) Netting across positions in the banking and trading book shall only be recognized when the netted transactions fulfil the following conditions -
- (i) all transactions are marked to market daily; and
 - (ii) the collateral instruments used in the transactions are recognised as eligible financial collateral in the banking book.
- (d) The formula for calculating the exposure value after risk mitigation (E^*) shall be adapted to compute the capital requirements for transactions with netting agreements. For banks using the standard supervisory haircuts or own-estimate haircuts, the framework below shall apply to take into account the impact of master netting agreements.

$$E^* = \max \{0, [(\sum(E) - \sum(c) + \sum(Es \times Hs) + \sum(Ef \times Hf \times x))]\}$$

Where:

*E** = the exposure value after risk mitigation

E = current value of the exposure

C = the value of the collateral received

E_s = absolute value of the net position in a given security

H_s = haircut appropriate to *E_s*

H_{fx} = haircut appropriate for currency mismatch

E_{fx} = absolute value of the net position in a currency different from the settlement currency

- (e) The framework in paragraph (d) is intended to obtain a net exposure amount after netting of the exposures and collateral and have an add-on amount reflecting possible price changes for the securities involved in the transactions and for foreign exchange risk if any.
- (f) The net long or short position of each security included in the netting agreement shall be multiplied by the appropriate haircut. All other rules regarding the calculation of haircuts stated in the regulations equivalently apply for banks using bilateral netting agreements for repo-style transactions.

8. The simple approach – Minimum conditions

- (a) For collateral to be recognised in the simple approach, the collateral shall be pledged at a minimum for the life of the exposure and be marked to market and revalued with a minimum frequency of two (2) years.
- (b) Portions of claims collateralised by the market value of recognised collateral receive the risk weight applicable to the collateral instrument.
- (c) The risk weight on the collateralised portion shall be subject to a floor of 20 percent except under the conditions specified in these regulations.
- (d) The remainder of the claim shall be assigned to the risk weight

appropriate to the counterparty and capital requirement shall be applied to banks on either side of the collateralised transaction for example, both repos and reverse repos shall be subject to capital requirements.

9. Exceptions to the risk weight floor

- (a) Transactions which fulfil the criteria outlined in these regulations and are with a core market participant, as defined in these regulations, receive a risk weight of 0 percent. If the counterparty to the transactions is not a core market participant, the transaction shall receive a risk weight of 10 percent.
- (b) Over the counter derivative transactions subject to daily mark-to-market, collateralised by cash and where there is no currency mismatch shall receive a 0 percent risk weight. Such transactions collateralised by sovereign or PSE securities qualifying for a 0 percent risk weight in the standardised approach shall receive a 10 percent risk weight.
- (c) The 20 percent floor for the risk weight on a collateralised transaction shall not be applied and a 0 percent risk weight shall be applied where the exposure and the collateral are denominated in the same currency, and either -
 - (i) the collateral is cash on deposit as defined in the regulations; or
 - (ii) the collateral is in the form of sovereign/PSE securities eligible for a 0 per cent risk weight, and its market value has been discounted by 20 percent.

10. Collateralised over the counter derivatives transactions

- (a) Under the Current Exposure Method, the calculation of the counterparty credit risk charge for an individual contract shall be as follows -

$$\text{Counterparty charge} = [(RC + \text{Add-on}) \times r \times 8\%]$$

Where:

RC = the replacement cost,

r = the risk weight of the counterparty

Add-on = the amount for potential future exposure calculated according to the guideline

Table on Credit Conversion Factor for Market-related OBS transactions (%)

Residual Maturity	Interest Rate	FX and Gold	Equities	Precious Metal (except Gold)	Other Commodities
One year or less	0.0	1.0	6.0	7.0	10.0
Over 1 year to five years	0.5	5.0	8.0	7.0	12.0
Over five years	1.5	7.5	10.0	8.0	15.0

- (b) For contracts structured to settle outstanding exposures following specified payment dates and where the terms are reset such that the market value of the contract is zero on these dates, the residual maturity shall be set equal to the time until the next reset date. In the case of interest rate contracts that meet these criteria, and the remaining time to final maturity of the contracts is more than one year, the add-on factor is subject to a floor of 0.5%.
- (c) Forwards, swaps, purchased options and similar derivative contracts other than those contracts the value of which is derived from the value of exchange rate, gold, interest rate, equity, or precious metal, should have applied the add-on factors applica-

ble to “Other Commodities”.

- (d) No potential future credit exposure would be computed for single currency floating/floating interest swaps, the credit exposure on these contracts would be evaluated solely based on their mark to market value.

SCHEDULE 8**Currency mismatches (regulation 25)**

1. The formula applicable under currency mismatches is as follows -

$$GA = G \times (1 - HFX)$$

Where:

G = nominal amount of the credit protection

HFX = haircut appropriate for currency mismatch between the credit protection and underlying obligation

2. The appropriate haircut based on a 10-business day holding period assuming daily marking to-market shall be applied. If a bank uses the supervisory haircuts, it shall be 8 percent. The haircuts shall be scaled up using the square root of time formula, depending on the frequency of revaluation of the credit protection as prescribed in these regulations.

SCHEDULE 9

The Business Indicator (BI) (regulation 28 (1) and (2))

1. Definition of business indicator components shall be as follows -

Business Indicator definitions

BI Compomet	P&L or balance shee items	Description	Typical sub-items
	Interest income	Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets)	<ul style="list-style-type: none"> •Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operational leases •Interest income from hedge accounting derivatives •Other interest income •Profits from leased assets
Interest, lease and dividend		Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and	<ul style="list-style-type: none"> •Interest expenses from deposits, debt securities issued, financial leases, and operating leases •Interest expenses from hedge accounting derivatives

		operating leases, losses, depreciation and impairment of operating leased assets)	<ul style="list-style-type: none"> •Other interest expenses •Losses from leased assets •Depreciation and impairment of operating leased assets
	Interest earning assets (balance sheet item)	Total gross outstanding loans, advances, interest bearing securities (including government bonds), and lease assets measured at the end of each financial year.	
	Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	
Services	Fee and commission income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	Fee and commission income from: <ul style="list-style-type: none"> •Securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) •Clearing and settlement; Asset management; Custody; Fiduciary transactions; Payment services; Structured finance; and guarantees given; and foreign

		transactions Servicing of securitisations; Loan commitments
Fee and commission expenses	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g logistical, IT, human resources)	Fee and commission expenses from: •Clearing and settlement; Custody; Servicing of securitisations; Loan commitments and guarantees received; and Foreign transactions
Other operating income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded)	•Rental income from investment properties •Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37)
Other operating expenses	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded)	•Losses from non-current assets

and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS5.37)

- Losses incurred as a consequence of operational loss settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years
- Expenses related to establishing provisions/reserved for operational loss events

Financial

Net profit (loss) on the trading book

- Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities)
- Net profit/loss from hedge accounting
- Net profit/loss from exchange differences

Net profit (loss) on the banking book

- Net profit/loss on financial assets and liabilities measured at fair value through profit and loss
- Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost)
- Net profit/loss from hedge accounting

-
- Net profit/loss from exchange differences

The following P&L items do not contribute to any of the items of the BI:

- Income and expenses from insurance or reinsurance businesses
- Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased
- Administrative expenses, including staff expenses, outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources), and other administrative expenses (eg IT, utilities, telephone, travel, office supplies, postage)
- Recovery of administrative expenses including recovery of payments on behalf of customers (eg taxes debited to customers)
- Expenses of premises and fixed assets (except when these expenses result from operational loss events)
- Depreciation/amortisation of tangible and intangible assets (except depreciation related to operating lease assets, which should be included in financial and operating lease expenses)
- Provisions/reversal of provisions (eg on pensions, commitments and guarantees given) except for provisions related to operational loss events.
- Expenses due to share capital repayable on demand
- Impairment/reversal of impairment (eg on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates)
- Changes in goodwill recognised in profit or loss
- Corporate income tax (tax based on profits including current tax and deferred).

2. The formula applicable under business indicator is as follows -

$$BI = ILDCavg + SCavg + FCavg$$

Where:

ILDC = Interest, Lease, Dividend Component

SC = Services Component

FC = Financial Component

3. The three individual components in paragraph (2) are computed as follows, using three years of average data -

$$ILDCavg = \text{Min} [\text{abs}(IIavg - IEavg); 0.0225 * IEAavg] + DIavg$$

Where:

Abs = absolute value

II = interest income

IE = interest expenses

IEA = interest earning assets

DI = dividend income

$$SCavg = \text{Max}[(OOIavg;OOEavg)] + \text{Max}(FIavg;FEavg) \quad (11)$$

Where:

OOI = other operating income

OOE = other operating expenses

FI = fee income

FE = fee expenses

$$FCavg = \text{Abs} (\text{Net P\<Bavg}) + \text{Abs} (\text{Net P\&L BBavg})$$

Where:

P&L = Profit & loss statement line item

TB = trading book

BB = banking book

4. For the purposes of calculating capital under the standardized approach, banks based on their size for the business indicator component are di-

vided into three buckets as outlined in the table below -

Table on Business Indicator Buckets in the Business Indicator Component

Bucket	BI Range (in billion M)	BI Component
1	≤ 16	0.12
2	$16 < BI \leq 480$	0.15
3	> 480	0.18

SCHEDULE 10**Internal Loss Multiplier (regulation 29 and 30(d))**

1. The applicable formula under internal loss multiplier is as follows -

$$ILM = Ln \left[(e^1 - 1) \left(\frac{\text{Loss component}}{\text{BI Component}} \right)^{0.8} \right]$$

Where:

Loss component = 15 × average annual operational risk loss over the last 10 years.

2. A bank shall have 10 years of quality data to compute the averages that go into the loss component calculation. If 10 years are not available, banks may use 5 years and add more years as time progresses until they reach the 10-year requirement. If a bank does not have 5 years of data, then the BI component becomes the only component of the SA calculation. Banks are expected to start building internal loss data with effect from the issuance of this regulations.
3. The loss component serves to reflect the operational loss exposure based on a bank's internal loss experiences.

SCHEDULE 11
Categories of operational risk events (regulation 31 (2))

1. The table below illustrates components of a framework for prudent valuation practices -

Event Category	Definition
Execution, Delivery, and Process Management	Losses from failed transaction processing or process management from relations with trade counterparties and vendors.
Clients, Products, and Business Practices	Losses arising from unintentional or negligent failures to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product
Business Disruption and System Failures	Losses arising from disruption of business or system failures.
Internal Fraud	Losses due to acts intended to defraud, misappropriate property, or circumvent regulations, the law, or company policy.
External Fraud	Losses due to acts intended to defraud, misappropriate property, or circumvent the law, by a third party.
Employment Practices and Workplace Safety	Losses arising from acts inconsistent with employment, health, or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.

Damage to Physical Assets Losses arising from loss or damage to physical assets from natural disaster or other events such as vandalism or terrorism.

SCHEDULE 12

Components of a framework for prudent valuation practices(regulation 35 (4))

Systems and Controls

1. Banks shall establish and maintain adequate systems and controls sufficient to give the management and the supervisors the confidence that valuation estimates are prudent and reliable. These systems shall be integrated with other risk management systems within the bank, such as credit analysis.
2. Systems in paragraph 1 shall include -
 - (a) board-approved policies and procedures on valuation process. This includes clearly defined responsibilities of the various parties involved in the valuation process, sources of market information and review of their appropriateness, frequency of independent valuation, timing of closing prices, procedures for adjusting valuations, end of the month and ad-hoc verification procedures; and
 - (b) clear and independent reporting lines for the department accountable for the valuation process.

Valuation methodologies- Marking-to-market

1. Marking-to-market is atleast the daily valuation of positions at readily available close out prices that are sourced independently.
2. Banks shall mark-to-market as far as possible. The more prudent side of the bid offer shall be used unless the bank is a significant market maker in a particular position type and it can close out at mid-market.
3. Banks shall maximize the use of relevant observable inputs and minimize the use of unobservable inputs when estimating fair value using a

valuation technique.

4. Observable inputs or transactions may not be relevant, in a forced liquidation or distressed sale, or transactions may not be observable, when markets are inactive. In such circumstances, the unobservable data shall be considered, but may not be determinative.

Independent Price Verification

1. Independent price verification is distinct from daily mark-to-market. It is the process by which market prices are regularly verified for accuracy. While daily marking-to-market may be performed by dealers, verification of market prices shall be performed by a unit independent of the dealing room, at a minimum monthly or, depending on the nature of the market trading activity, more frequently.
2. Independent price verification in paragraph (a), may not be performed as frequently as daily mark-to-market, as the objective is to reveal any error or bias in pricing, resulting in the elimination of inaccurate daily marks.
3. Independent price verification entails a higher standard of accuracy in that the market prices are used to determine profit and loss figures, whereas daily marks are used primarily for management reporting in between reporting dates.
4. Where pricing sources are more subjective, that is only one broker quote is available, prudent measures such as valuation adjustments may be appropriate for independent price verification.

Valuation adjustments or reserves

1. All banks shall establish and maintain procedures for considering valuation adjustments or reserves to be deducted in the calculation of common equity tier 1 Capital.
2. At the minimum the following valuation adjustments shall be formally

considered -

- (a) unearned credit spreads;
 - (b) closeout costs;
 - (c) operational risks;
 - (d) early termination;
 - (e) investing and funding costs and;
 - (f) future administrative costs.
3. All Banks shall consider the need for establishing a downward adjustment for less liquid positions. The appropriateness of the adjustments shall be subjected to an ongoing review.
4. Closeout prices for concentrated positions and or stale positions are more likely to be adverse.
5. All Banks shall consider all relevant factors in determining valuation adjustment necessary for less liquid items.
6. Factors in paragraph(5) shall include the -
- (i) amount of time taken to hedge out the risks within the position;
 - (ii) average volatility of bid or offer spreads;
 - (iii) availability of market quotes; and
 - (iv) average and volatility of trading volumes.

SCHEDULE 13**Calculation of trading book business regulation 36 (5)**

1. For the purpose of calculating trading book business the following shall be applied -
 - (a) bonds must be taken at their market value or their par value;
 - (b) equities must be taken at their market value;
 - (c) derivatives must be taken at their market value or the par value of their underlying assets; and
 - (d) long positions and short positions must be summed without regard to their signs.

2. Banks with negligible business in foreign currencies and with no foreign exchange positions taken for their own account are exempted from capital requirements for these positions provided that their foreign currency business, meet the following requirement -
 - (a) their foreign exchange business, the greater of the sum of their gross long positions and the sum of their gross short positions, does not exceed 100 percent of total capital; and their overall net open position does not exceed 2 percent of Total capital.

3. Banks with positions taken deliberately to hedge against an adverse exchange rate movement on its capital ratio shall exclude the following positions, provided -
 - (a) the position is of a structural nature, that is, by nature non-trading positions;
 - (b) the excluded position protects only the bank's capital adequacy ratio; and

- (c) the exclusion of the position is applied consistently, with the treatment of the hedge remaining the same for the life of the assets.

SCHEDULE 14

Calculation of specific Interest Rate Risk Capital Charge (regulation 39)

1. Capital charge for specific risk is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.
2. Specific risk capital charge shall be computed by first multiplying the absolute market values of the net positions in the trading book by their respective risk factors.
3. In measuring the risk -
 - (a) offsetting shall be restricted to matched positions in the identical issue including positions in derivatives;
 - (b) no offsetting shall be permitted between different issues as differences in coupon rates, liquidity and call features may cause divergence in prices in the short term; and
 - (c) net positions in subparagraph (b), shall be arrived at by applying permitted offsets of long and short positions and the risk factors, as set out in the table below -

Table on Specific risk categories and factors

Category	External Credit Assessment grading	Residual term to final maturity	Specific risk factors (percent)
GoL	All	All	0.00
Other Governments	AAA to AA-	All	0.00

	A+ to BBB-	6 months ≤	0.25
		> 6 months but not exceeding 24 months	1.00
		> 24 months	1.60
	BB+ to B-	All	8.00
	Below B-	All	12.00
	Unrated	All	8.00
Qualifying	All	6 months or less	0.25
		> 6 months but not exceeding 24 months	1.00
		Greater than 24 months	1.60
Other	All	All	Similar to credit risk charges

The categories in the above table are described as follows -

- (a) The category "GoL" includes all forms of debt instruments including but not limited to bonds, treasury bills and other short-term instruments that have been issued by, fully guaranteed by, or fully collateralized by securities issued by -
 - (i) the Government of Lesotho; or
 - (ii) agents of the Government of Lesotho, whose debts are, by virtue of their enabling legislation, direct obligations of the parent government.
- (b) The "other government" category includes all forms of debt instruments that are issued by, fully guaranteed by, or fully collateralized by securities issued by central governments that -
 - (i) have been rated, and whose rating is reflective of the issuing country's credit worthiness; or
 - (ii) are denominated in the local currency of the issuing gov-

ernment, and funded by liabilities booked in that currency.

- (c) The Commissioner reserves the right to apply a specific risk factor to securities issued by certain foreign governments, especially to securities denominated in a currency other than that of the issuing government.
- (d) The category of "qualifying" includes -
 - (i) securities issued by local governments, public sector entities and multilateral development banks, and other unrated securities that are deemed to be of comparable investment quality by the reporting bank, subject to supervisory approval;
 - (ii) debt securities rated investment grade or higher by recognized rating agencies;
 - (iii) debt securities issued by institutions that are deemed equivalent to investment grade quality and subject to supervisory and regulatory arrangements comparable to Basel II accord; and
 - (iv) debt securities issued by corporate entities with securities listed on a recognized stock exchange that is internally classified as pass.
- (e) The third category "other" will include "non-qualifying" corporate debt that is, debt issued by corporate entities that are internally classified as special mention and any other interest rate related securities not covered in other securities prescribed in these regulations.

SCHEDULE 15

Calculation of General Market Interest Rate Risk Capital Charge (regulation 40)

1. (a) Capital requirement for general market risk is designed to capture the risk of loss arising from changes in market interest rates.
- (b) Positions are allocated across a maturity ladder and the capital charge is then computed as a sum of the following four components -
 - (i) the net short or long position across the trading book;
 - (ii) the basis and gap risk factor: A small proportion of the matched positions in each time-band the "vertical disallowance";
 - (iii) the yield curve risk factor: A larger proportion of the matched positions across different time-bands the "horizontal disallowance"; and
 - (iv) a net factor for positions in options, where appropriate.
- (c) Banks shall measure general market risk exposures using the maturity method prescribed as follows -
 - (i) long or short positions in debt securities and other sources of interest rate exposures including derivative instruments are slotted into a maturity ladder comprising thirteen time-bands or fifteen in the case of low coupon instruments;
 - (ii) fixed rate instruments shall be allocated according to the residual term to maturity and floating-rate instruments to the residual term to the next repricing date;

- (iii) opposite positions of the same amount in the same issues but not different issues by the same issuer, whether actual or notional, may be omitted from the interest rate maturity framework, as well as closely matched swaps, forwards, futures and FRAs which meet the conditions set in these regulations.
 - (d) Capital charge shall be computed on the basis of the following considerations -
 - (i) bank's underlying trading issues may exist in long or short and both that is, related to interest rate derivative or hedge;
 - (ii) where trading issues relate to only long position, then total capital charge is to be computed using capital charge weight in schedule 6; and
 - (iii) Where any transaction relates to both long and short position total capital charges shall be computed.
- 2. The following is a list of specific steps for calculation of general market interest rate risk capital charge using the maturity method -
 - (a) separate maturity ladders shall be used for each currency, and capital charges shall be computed for each currency separately and then summed, with no offsetting between positions of opposite sign;
 - (b) once all long and short positions are placed into the appropriate time-bands, the long positions in each time-band are summed and the short positions in each time-band are summed;
 - (c) the summed positions are multiplied by the appropriate risk weight factor reflecting the price sensitivity of the positions to changes in interest rates, in order to determine the risk weighted long and short market risk positions for each time-band;

- (d) offset the weighted longs and shorts in each time-band, to obtain a single short or long position for each band;
- (e) where each band include different instruments and different maturities, a 10 percent capital charge to reflect basis risk and gap risk shall be levied on the smaller of the offsetting positions, be it long or short or if the positions are equal, 10 percent of either position;
- (f) a basis risk charge shall not be computed if there is only a gross long or gross short position in the time-band; and
- (g) the basis risk charges for each time-band are absolute values, that is, neither long nor short. The charges for all time-bands in the maturity ladder are summed and included as an element of the general market risk capital requirement.
3. The table below prescribes zones, time-bands and weight factors for maturity method -

Table on Maturity method: zones, time-bands and weight factors

Residual Maturity			
	Coupon 3 percent or more	Coupon < 3 percent and zero coupon bonds (%)	Risk weight
Zones 1	1 month or less	1 month or less	0.00
	1-3 months	1-3 months	0.20
	3-6 months	3-6 months	0.40
	6-12 months	6-12 months	0.70
2	1-2 years	1.0-1.9 years	1.25
	2-3 years	1.9-2.8 years	1.75
	3-4 years	2.8-3.6 years	2.25

3	4-5 years	3.6-4.3 years	2.75
	5-7 years	4.3-5.7 years	3.25
	7-10 years	5.7-7.3 years	3.75
	10-15 years	7.3-9.3 years	4.50
	15-20 years	9.3 -10.6 years	5.25
	Over 20 years	10.6-12 years	6.00
		12-20 years	8.00
over 20 years		12.50	

Time bands after decimal represents months that is, 1.9 to be read as 1 year 9 months.

4. The yield curve risk charge obtained by horizontal disallowance, is charged due to imperfect correlation of interest rates along the yield curve.
5. Three rounds of offsetting under horizontal disallowance are as follows -
 - (a) In round 1, the horizontal disallowance within each zone is computed;
 - (b) In round 2, horizontal disallowance between adjacent zones is computed, that is, between: zone 1 and zone 2, and zone 2 and zone 3; and
 - (c) In round 3, horizontal disallowance between zones 1 and 3 is computed.
6. The following steps outline process to be followed in round 1, 2 and 3 outlined in paragraph (5) -
 - (a) In round 1, the matched weighted position in each zone is multiplied by the percentage risk factor corresponding to the relevant zone. The matched and unmatched weighted positions for each zone are computed as follows: where a zone has both unmatched weighted long and short positions for various time bands within

a zone, the extent to which one offsets the other is called the matched weighted position for that zone. The remainder that is, the excess of the weighted long positions over the weighted short positions, or vice versa, within a zone, is called the unmatched weighted position for that zone.

- (b) In round 2, the matched weighted positions between zones are multiplied by the percentage risk factor corresponding to the relevant adjacent zones. The risk factors for adjacent offsetting zones are provided. To arrive at the matched weighted positions between zones, the unmatched weighted positions of a zone may be offset against positions in other zones as follows: the unmatched weighted long (short) position in zone 1 may offset the unmatched weighted short (long) position in zone 2. The extent to which unmatched weighted positions in zones 1 and 2 are offset is described as the matched weighted position between zones 1 and 2. Then, any residual unmatched weighted long (short) positions in zone 2 may then be matched by offsetting unmatched weighted short (long) positions between zone 2 and zone 3.
 - (c) In round 3, the unmatched positions in zones 1 and 3 are offset. The capital charge for the horizontal disallowance between zones 1 and 3 is 100 per cent of the matched positions.
 - (d) Having completed the horizontal and vertical offsetting, by carrying over and offsetting against opposite positions in other zones, subject to matched portions attracting a set of disallowance factors, the remaining residual position is the overall net open position.
7. Table on horizontal disallowances below provides guidance on three of offsetting outlined in paragraph 5.
8. The total capital charge for general market risk is the sum of the amounts computed for vertical disallowances, the amounts of horizontal disallowances and the amount for the overall net open position, multiplied with 12.5 (minimum capital requirements) resulting in the Risk Weighted

Asset Equivalent as outlined in table on calculation of general market risk below.

Table on Horizontal disallowances (%)

Zones	Time-bands	Within the zone	Between adjacent zones	Between 1 and 3
1	0-1 month	40		
	1-3 months			
	3-6 months			
	6-2 months			
2	1-2 years	30	40	100
	2-3 years			
	3-4 years			
	4-5 years			
3	5-7 years	30		
	7-10 years			
	10-15 years			
	15-20 years over 20 years			

Table on Calculation of general market risk

(a) Net weighted position	100 percent of net short or long weighted position	100
(b) Vertical disallowances	Sum of 10 percent of Matched weighted positions in each time bands	10
c) Horizontal disallowances	Matched weighted position within Time Zone 1	40
	Matched weighted position within Time Zone 2	30

Matched weighted position within Time Zone 3	30
Matched weighted position between Time zone 1 &2	40
Matched weighted position between Time zone 2 &3	40
Matched weighted position between Time zone 1 &3	100

Total Capital Charge (a+b+c)

SCHEDULE 16

Calculation of Capital Charges for positions in foreign currencies and gold using the shorthand method (regulation 45)

1. The shorthand method treats all currencies equally and the nominal amount or net present value of the net position in each foreign currency and in gold shall be converted into the reporting currency that is, Loti at spot rates.
2. The overall net open position is measured by aggregating -
 - (a) the sum of the net short positions or the sum of the net long positions, whichever is the greater; and
 - (b) the net position short or long in gold, regardless of its sign.
3. The capital charge shall be 8 percent of the higher of either the net long currency positions or the net short currency positions that is, 300, and of the net position in gold $(35) = 335 \times 8 \text{ percent} = 26.8$ as illustrated in the table below -

Table on shorthand measure of foreign exchange risk

YEN	EUR	GB£	CA\$	US\$	GOLD
+ 50	+ 100	+ 150	- 20	- 180	- 35
	+ 300		-200		35

SCHEDULE 17

Simplified Approach for Capital Requirement for Commodity Risk (regulation 46 (6) (a))

1. The methodology for computing capital charge for commodities risk shall -
 - (a) express each commodity position spot plus forward in terms of the standard unit of measurement including commodity derivatives and off-balance sheet positions, affected by changes in commodity prices;
 - (b) convert each position in subparagraph (a), at current spot rates into the reporting currency (Maloti);
 - (c) compute the net long or short position in each commodity;
 - (d) compute a capital charge of 15 percent on the overall net open position;
 - (e) compute a capital charge of 3 percent of the sum of the bank's gross positions, that is, the sum of the absolute values of the long and short positions in each commodity. The capital charge of 3 percent shall protect the Bank against basis risk, interest rate risk and forward gap risk;
 - (f) compute the gross position in each commodity; and
 - (g) the total capital charge shall be the sum of the capital charges computed under paragraph (d) and (f).

SCHEDULE 18**Maturity Ladder Approach for Capital Requirements for Commodity Risk (regulation 46 (6) (b))**

1. All Banks shall construct separate maturity ladders for each commodity in line with the following 7 steps -
 - (a) express each commodity position spot plus forward in terms of the standard unit of measurement and convert into the reporting currency (Maloti) at the current spot price;
 - (b) each position shall be allocated into the respective time-bands in the maturity ladder according to the remaining maturity;
 - (c) compute a capital charge for the matched long and short positions in each time-band by multiplying the sum of the matched short and long positions in each time-band by 1.5 percent to capture spread risk;
 - (d) carry forward the unmatched position to the next relevant time-band and apply a capital charge of 0.6 percent to this residual net position multiplied by the number of time-bands it has been carried forward;
 - (e) repeat steps in paragraphs (a) and (d) for each time-band;
 - (f) apply a capital charge of 15 percent to the overall net open position; and
 - (g) derive the total capital charge by summing the charges for spread risk, for positions carried forward and for the overall net open position.
2. The time-band to be used for the maturity ladder shall be as prescribed in the table below -

The time-band to be used for the maturity ladder

Maturity Ladder-Time bands	Spread Risk (%)
0-1 month	
>1-3 months	
>3-6 months	
>6-12 months	1.5
> 1-2 years	
> 2-3 years	
Over 3 years	

SCHEDULE 19

Computation of capital charges for options (regulation 52 (2))

1. Calculation of capital charge for options using simplified method shall be as in the table below -

Position Treatment	Position Treatment
Long cash and Long put or Short cash and Long call	The capital charge will be the market value of the underlying security multiplied by the sum of specific and general market risk charges for the underlying less the amount the option is in the money (if any) bounded at zero.
Long call or Long put	The capital charge will be the lesser of: <ol style="list-style-type: none"> (i) the market value of the underlying security multiplied by the sum of: specific and general market risk charges for the underlying; and (ii) the market value of the option.

SCHEDULE 20

Capital Adequacy Reporting Template (regulation 12(1) and (2) and 54)

BANK PROFILE																																		
Scope of Application		Solo																																
COMPANY INFORMATION																																		
	INSTITUTION ID																																	
	FINANCIAL YEAR																																	
	START DATE																																	
	END DATE																																	
CONTACT PERSON INFORMATION																																		
First Name			Last Name																															
CONTACT PERSON INFORMATION																																		
Street and Number of P.O. Box																																		
City																																		
Country																																		
Postal Code																																		
Phone Number					Extension																													
Email																																		
Notes on Completion																																		
<p>1. The Capital Adequacy Return is to be completed quarterly on a solo and consolidated basis, as at the end of March, June, September and December.</p> <p>2. Enter amounts to the nearest thousands (000's) in <input style="width: 150px;" type="text" value="Lesotho Maloti"/></p> <p>3. For definition of items refer to the "Reporting Manual for Capital Requirements Template".</p> <p>4. Submit via the Banking Application System (BAS) not later than 30 days after the end each quarter of the applicable reporting period.</p>																																		
Authorised Signatories																																		
<p>I/We, the applicant(s) and/or submitting agent, confirm that the particulars set out in this submission form are true to the best of our knowledge and belief. The original signed documents relating to the electronic submission shall be maintained at the office of the submitting agent and/or registered offices of the insurer and will be provided to the</p>																																		
<p>Signatories (Select "Yes" to confirm that you have understood and complied with the above statements.)</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th></th> <th>First Name</th> <th>Last Name</th> <th>Title</th> <th>Bank</th> <th>Date</th> <th>Confirm</th> </tr> </thead> <tbody> <tr> <td>Prepared By</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Checked By</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Authorised By</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>								First Name	Last Name	Title	Bank	Date	Confirm	Prepared By							Checked By							Authorised By						
	First Name	Last Name	Title	Bank	Date	Confirm																												
Prepared By																																		
Checked By																																		
Authorised By																																		
<p>In the event of a query, the Central Bank of Lesotho may contact (please print): _____</p> <p style="text-align: center;">Tel: _____</p>																																		

GPT - BALANCE SHEET CREDIT EXPOSURES								
Ref.	Item	Principal Amount in Millions (1)	CPM (2)	Total after CSM (3)	Credit Conversion Factor (4)	Credit Exposure Amount (5)	Risk Weight (6)	RWA (7)
220	Direct credit substitutes	0	0	0		0		0
220.1	Risk Weight 0%			0	1.00	0	0.00	0
220.2	Risk Weight 20%			0	1.00	0	0.20	0
220.3	Risk Weight 50%			0	1.00	0	0.50	0
220.4	Risk Weight 80%			0	1.00	0	0.80	0
220.5	Risk Weight 100%			0	1.00	0	1.00	0
220.6	Risk Weight 150%			0	1.00	0	1.50	0
220.7	Unrated			0	1.00	0	1.00	0
220.8	Items of capital nature (Deduct from Tier 1 & 2)			0	1.00	0	1.00	0
240	Swap and Repurchase Agreements and Assets sold with recourse	0	0	0		0		0
240.1	Risk Weight 0%			0	1.00	0	0.00	0
240.2	Risk Weight 20%			0	1.00	0	0.20	0
240.3	Risk Weight 50%			0	1.00	0	0.50	0
240.4	Risk Weight 80%			0	1.00	0	0.80	0
240.5	Risk Weight 100%			0	1.00	0	1.00	0
240.6	Risk Weight 150%			0	1.00	0	1.50	0
240.7	Items of capital nature (Deduct from Tier 1 & 2)			0	1.00	0	1.00	0
240.8	Unrated			0	1.00	0	1.00	0
250	Lending of securities or posting of securities as collateral	0	0	0		0		0
250.1	Risk Weight 0%			0	1.00	0	0.00	0
250.2	Risk Weight 20%			0	1.00	0	0.20	0
250.3	Risk Weight 50%			0	1.00	0	0.50	0
250.4	Risk Weight 80%			0	1.00	0	0.80	0
250.5	Risk Weight 100%			0	1.00	0	1.00	0
250.6	Risk Weight 150%			0	1.00	0	1.50	0
250.7	Items of capital nature (Deduct from Tier 1 & 2)			0	1.00	0	1.00	0
250.8	Unrated			0	1.00	0	1.00	0
260	Forward asset purchases	0	0	0		0		0
260.1	Risk Weight 0%			0	1.00	0	0.00	0
260.2	Risk Weight 20%			0	1.00	0	0.20	0
260.3	Risk Weight 50%			0	1.00	0	0.50	0
260.4	Risk Weight 80%			0	1.00	0	0.80	0
260.5	Risk Weight 100%			0	1.00	0	1.00	0
260.6	Risk Weight 150%			0	1.00	0	1.50	0
260.7	Items of capital nature (Deduct from Tier 1 & 2)			0	1.00	0	1.00	0
260.8	Unrated			0	1.00	0	1.00	0
270	Transaction-related contingencies	0	0	0		0		0
270.1	Risk Weight 0%			0	0.50	0	0.00	0
270.2	Risk Weight 20%			0	0.50	0	0.20	0
270.3	Risk Weight 50%			0	0.50	0	0.50	0
270.4	Risk Weight 80%			0	0.50	0	0.80	0
270.5	Risk Weight 100%			0	0.50	0	1.00	0
270.6	Risk Weight 150%			0	0.50	0	1.50	0
270.7	Items of capital nature (Deduct from Tier 1 & 2)			0	0.50	0	1.00	0
270.8	Unrated			0	0.50	0	1.00	0
280	Commitments with an original maturity of one year or less	0	0	0		0		0
280.1	Risk Weight 0%			0	0.50	0	0.00	0
280.2	Risk Weight 20%			0	0.50	0	0.20	0
280.3	Risk Weight 50%			0	0.50	0	0.50	0
280.4	Risk Weight 80%			0	0.50	0	0.80	0
280.5	Risk Weight 100%			0	0.50	0	1.00	0
280.6	Risk Weight 150%			0	0.50	0	1.50	0
280.7	Unrated			0	0.50	0	1.00	0
290	Risk issuance and underwriting facilities	0	0	0		0		0
290.1	Risk Weight 0%			0	0.50	0	0.00	0
290.2	Risk Weight 20%			0	0.50	0	0.20	0
290.3	Risk Weight 50%			0	0.50	0	0.50	0
290.4	Risk Weight 80%			0	0.50	0	0.80	0
290.5	Risk Weight 100%			0	0.50	0	1.00	0
290.6	Risk Weight 150%			0	0.50	0	1.50	0
290.7	Unrated			0	0.50	0	1.00	0
300	Trade-related contingencies	0	0	0		0		0
300.1	Risk Weight 0%			0	0.50	0	0.00	0
300.2	Risk Weight 20%			0	0.50	0	0.20	0
300.3	Risk Weight 50%			0	0.50	0	0.50	0
300.4	Risk Weight 80%			0	0.50	0	0.80	0
300.5	Risk Weight 100%			0	0.50	0	1.00	0
300.6	Risk Weight 150%			0	0.50	0	1.50	0
300.7	Unrated			0	0.50	0	1.00	0
300.8	Items of capital nature (Deduct from Tier 1 & 2)			0	0.50	0	1.00	0
310	Commitments with an original maturity of one year or less	0	0	0		0		0
310.1	Risk Weight 0%			0	0.50	0	0.00	0
310.2	Risk Weight 20%			0	0.50	0	0.20	0
310.3	Risk Weight 50%			0	0.50	0	0.50	0
310.4	Risk Weight 80%			0	0.50	0	0.80	0
310.5	Risk Weight 100%			0	0.50	0	1.00	0
310.6	Risk Weight 150%			0	0.50	0	1.50	0
310.7	Unrated			0	0.50	0	1.00	0
320	Commitments that can be conditionally cancelled at any time without notice			0	0.00	0	1.00	0
330	All Other Non-Market-Related Off-balance Sheet Transactions			0	0.00	0		0
340	NON-MARKET RELATED OFF-BALANCE SHEET RISK WEIGHTED CREDIT EXPOSURES							0

MERCHANDISE ITEMS							
Ref.	Item	Million (%)	USD [1]	Other [2]	Total (1) + (2) + [3]	Risk Weight	RWA
410	Exposures to Top 50 Borrowers						
410.1	Risk Weight 0%				0	0.00	0
410.2	Risk Weight 20%				0	0.20	0
410.3	Risk Weight 50%				0	0.80	0
410.4	Risk Weight 80%				0	0.80	0
410.5	Risk Weight 150%				0	1.50	0
410.6	Risk Weight 150%				0	1.50	0
410.7	Unrated				0	1.00	0
370	Loans to Directors, Officers, Shareholders, and Related Persons						
370.1	Risk Weight 0%				0	0.00	0
370.2	Risk Weight 20%				0	0.20	0
370.3	Risk Weight 50%				0	0.50	0
370.4	Risk Weight 80%				0	0.80	0
370.5	Risk Weight 150%				0	1.50	0
370.6	Risk Weight 150%				0	1.50	0
370.7	Unrated				0	1.00	0
300	Credit Concentration and Large Exposures						
300.1	Risk Weight 0%				0	0.00	0
300.2	Risk Weight 20%				0	0.20	0
300.3	Risk Weight 50%				0	0.50	0
300.4	Risk Weight 80%				0	0.80	0
300.5	Risk Weight 150%				0	1.50	0
300.6	Risk Weight 150%				0	1.50	0
300.7	Unrated				0	1.00	0
200	Non-Conforming Assets						
200.1	Risk Weight 0%				0	0.00	0
200.2	Risk Weight 20%				0	0.20	0
200.3	Risk Weight 50%				0	0.50	0
200.4	Risk Weight 80%				0	0.80	0
200.5	Risk Weight 150%				0	1.50	0
200.6	Risk Weight 150%				0	1.50	0
200.7	Unrated				0	1.00	0
400	Top 10 Holding of Shares, Investments or Placements						
400.1	Risk Weight 0%				0	0.00	0
400.2	Risk Weight 20%				0	0.20	0
400.3	Risk Weight 50%				0	0.50	0
400.4	Risk Weight 80%				0	0.80	0
400.5	Risk Weight 150%				0	1.50	0
400.6	Risk Weight 150%				0	1.50	0
400.7	Unrated				0	1.00	0
410	TOTAL OFF-BALANCE SHEET CREDIT RISK WEIGHTED EXPOSURES						
420	TOTAL CREDIT RISK WEIGHTED EXPOSURES						

FORM 4 - CMT INTEREST RATE GENERAL MARKET RISK

Zone	Maturity Band		Individual Net Positions		Weighting Factor	Weighted Net Positions		By Zone (Vertical Displacement)		By Zone (Horizontal Displacement)		Between Zones (Horizontal Displacement)				
	B Coupon > 3%	C Coupon < 3% and zero coupon bonds	D Long	E Short		F	G (Def) Long	H (Ref) Short	I Matched	J Unmatched	K Matched	L Unmatched	M Matched	N Unmatched	O Matched	P Unmatched
Zone 1	1 month to 180 days	1 month to 180 days			100%	0.00	0.00	0	0	0	0					
	1 to 3 months	1 to 3 months			100%	0.00	0.00	0	0	0	0					
	3 to 6 months	3 to 6 months			100%	0.00	0.00	0	0	0	0					
Zone 2	6 to 12 months	6 to 12 months			100%	0.00	0.00	0	0	0	0					
	1 to 1.5 years	1 to 1.5 years			100%	0.00	0.00	0	0	0	0					
	1.5 to 2 years	1.5 to 2 years			100%	0.00	0.00	0	0	0	0					
Zone 3	2 to 3 years	2 to 3 years			100%	0.00	0.00	0	0	0	0					
	3 to 4 years	3 to 4 years			100%	0.00	0.00	0	0	0	0					
	4 to 5 years	4 to 5 years			100%	0.00	0.00	0	0	0	0					
Zone 4	5 to 7 years	5 to 7 years			100%	0.00	0.00	0	0	0	0					
	7 to 10 years	7 to 10 years			100%	0.00	0.00	0	0	0	0					
	10 to 15 years	10 to 15 years			100%	0.00	0.00	0	0	0	0					
Over 20 years	15 to 20 years	15 to 20 years			100%	0.00	0.00	0	0	0	0					
	20 to 25 years	20 to 25 years			100%	0.00	0.00	0	0	0	0					
	Over 25 years	Over 25 years			100%	0.00	0.00	0	0	0	0					
Total of Columns																
General Interest Rate Risk Capital Requirement																
Total General Interest Rate Risk Requirement = 10% (Box 1 + 40% (J+K) + 10% (L+M) + 10% (N+O) + 10% (P+Q) =																

Note: For payments by maturity of which is the liquidity (from maturity) bands, the instrument should be classified into the wider maturity band.
For example, instruments with a maturity of exactly one year are placed into the 6 to 12 months band.

INSTITUTION ID: 0
 FINANCIAL YEAR: 0
 START DATE: 01/01/00
 END DATE: 01/01/00

MARKET RISK

ELVA - INTEREST RATE RISK, SPECIFIC RISK

Specific Interest Rate Risk

Risk Category (1)	Position		Gross Market Value (1.2)	Specific Risk Weight (1.4)	Capital Charge (1.5)
	Short (1.1)	Long (1.2)			
Government of Canada				0	0.00
Other Governments, issued AA+ to AA-				0	0.00
Other Governments, issued AA- to BBB-, residual term to maturity of 0 to 1 year				0	0.00
Other Governments, issued AA- to BBB-, residual term to maturity of 1 to 24 months				0	0.01
Other Governments, issued AA- to BBB-, residual term exceeding 24 months				0	0.02
Other Governments, rated BB+ to B-				0	0.05
Other Governments, rated below B-				0	0.12
Government, (SIFM)				0	0.05
Qualifying residual term to maturity 0 months or less				0	0.00
Qualifying residual term to maturity 0 to 24 months				0	0.01
Qualifying residual term to maturity exceeding 24 months				0	0.02
Other rated BB+ to BB-				0	0.05
Other rated below BB-				0	0.12
Other, UNRATED				0	0.05
Total Specific Interest Rate Capital Charge (1.3)					0

TABLE 4.1000 - QUALITATIVE RISK ASSESSMENT MATRIX

Zone	Maturity Band		Individual Not Positions		Weighting Factor	Weighted Not Problems		By Based (Medical) Subordinated		By Zone (Horizontal) Subordinated		Sector Zone (Horizontal) Difference	
	B Coupon >= 3%	C Coupon < 3% and zero coupon bonds	D Long	E Short		F	G (DF) Long	H (DF) Short	I Matched	J Unmatched	K Matched	L Unmatched	M Matched
Zone 1	1 month or less					0.00	0.00	0.00	0.00	0	0		
	1 to 3 months					0.00	0.00	0.00	0.00				
	3 to 6 months					0.00	0.00	0.00	0.00				
	6 to 12 months					0.00	0.00	0.00	0.00				
	1 to 2 years					0.00	0.00	0.00	0.00				
	2 to 3 years					0.00	0.00	0.00	0.00				
	3 to 4 years					0.00	0.00	0.00	0.00				
	4 to 5 years					0.00	0.00	0.00	0.00				
	5 to 7 years					0.00	0.00	0.00	0.00				
	7 to 10 years					0.00	0.00	0.00	0.00				
Zone 2	10 to 15 years					0.00	0.00	0.00	0.00				
	15 to 20 years					0.00	0.00	0.00	0.00				
	Over 20 years					0.00	0.00	0.00	0.00				
	Total of Columns					0.00	0.00	0.00	0.00				
General Interest Rate Risk Capital Requirement													
Total General Interest Rate Risk Requirement = 10% * Box 1 + 40% * + 30% (0.4) * + 100% * Box 6 + 100% * 6													

Note: For instruments the maturity of which is the boundary of two maturity bands, the instrument should be placed into the earlier maturity band. For example, an instrument with a maturity of exactly one year are placed into the 0 to 12 months band.

ITEM C - FOREIGN EXCHANGE RISK										
FOREIGN EXCHANGE RISK										
Currency (1)	Net Spot Position (1.1)	Net Forward Position (1.2)	Guarantees (1.3)	Net Future Income/Expenses (1.4)	Any other P/L in Foreign Currency (1.5)	Net Delta Base of Foreign Currency Options (1.6)	Net Open Position (1.7)	Net Long Position (1.8)	Net Short Position (1.9)	Exchange Rate at the Reporting Rate
1. U.S. DOLLAR - USD							0	0	0	
2. BRITISH STERLING - GBP							0	0	0	
3. EURO - EUR							0	0	0	
4. SWISS FRANC - CHF							0	0	0	
5. JAPANESE YEN - YEN							0	0	0	
6. CANADIAN DOLLAR - CAD							0	0	0	
7. AUSTRALIAN DOLLAR - AUD							0	0	0	
8. DANISH KRONER - DKK							0	0	0	
9. SWEDISH KRONER - SEK							0	0	0	
10. NORWEGIAN KRONER - NOK							0	0	0	
11. BOTSWANA PULA - BWP							0	0	0	
12. CHINESE YUAN - CNY							0	0	0	
13. INDIAN RUPEE - INR							0	0	0	
14. NEW ZEALAND DOLLAR - NZD							0	0	0	
15. OTHER							0	0	0	
Total	0	0	0	0	0	0	0	0	0	0
Sub: Absolute Value of Open Position (1.10)										
Greater of absolute value of Net Long and Net Short Position (1.11)										
Total										
Total Capital Change for FX Risk (1.12)										

MARKET-RELATED OFF-BALANCE SHEET CREDIT EXPOSURES (COUNTERPARTY CREDIT RISK)						
1100	National Principal Amount (1)	Credit Conversion Factor (2)	Potential Future Credit Exposures (3)	Current Exposure (4)	Credit Equivalent Amount (5)	Risk Weight of Counterparty (6)
Interest Rate Related Contracts						
Residual maturity 1 year or less	0	0.000	0	0	0	0
Residual maturity > 1 year to 5 years		0.000	0.000			
Residual maturity > 5 years		0.065	0			
Contracts with residual maturity > 1 year that are subject to a CCF floor		0.015	0			
Contracts with multiple exchange of principal		0.065	0			
Counterparty credit risk		0.000	0			
		0.000	0			
Foreign Exchange And Gold Contracts						
Residual maturity 1 year or less	0	0	0	0	0	0
Residual maturity > 1 year to 5 years		0.010	0			
Residual maturity > 5 years		0.050	0			
Contracts with multiple exchange of principal		0.075	0			
Counterparty credit risk		0.000	0			
		0.000	0			
Equities Contracts						
Residual maturity 1 year or less	0	0	0	0	0	0
Residual maturity > 1 year to 5 years		0.060	0			
Residual maturity > 5 years		0.080	0			
Contracts with multiple exchange of principal		0.100	0			
Counterparty credit risk		0.000	0			
		0.000	0			
Precious Metal Contracts (Other Than Gold)						
Residual maturity 1 year or less	0	0	0	0	0	0
Residual maturity > 1 year to 5 years		0.070	0			
Residual maturity > 5 years		0.070	0			
Contracts with multiple exchange of principal		0.080	0			
Counterparty credit risk		0.000	0			
		0.000	0			
Other Commodity Contracts (Other Than Precious Metals)						
Residual maturity 1 year or less	0	0	0	0	0	0
Residual maturity > 1 year to 5 years		0.100	0			
Residual maturity > 5 years		0.120	0			
Contracts with multiple exchange of principal		0.150	0			
Counterparty credit risk		0.000	0			
		0.000	0			
Other Market-Related Contracts						
Residual maturity 1 year or less	0	0	0	0	0	0
Residual maturity > 1 year to 5 years		0.100	0			
Residual maturity > 5 years		0.120	0			
Contracts with multiple exchange of principal		0.150	0			
Counterparty credit risk		0.000	0			
		0.000	0			
TOTAL MARKET-RELATED OFF-BALANCE SHEET RISK-WEIGHTED CREDIT EXPOSURES						
TOTAL MARKET RISK-WEIGHTED ASSETS						

INSTITUTION ID 0
 FINANCIAL YEAR 0
 START DATE 01-01-19
 END DATE 01-06-19

CORE CAPITAL - COMMON EQUITY TIER 1 (CET1)					
Ref.	Item	Maloti (1)	USD (2)	Other (3)	Total (1) + (2) + (3)
1200	Ordinary (non-preferred) common stock (issued and paid up)				0
	Reserves	0	0	0	0
	Share premium account				0
	Statutory Reserve Account				0
	Other Reserves				0
	Retained Earnings verified by external audit excluding dividends				0
	Minority interests				0
	Profit/Loss for the year to date				0
	Other comprehensive income				0
	Regulatory Adjustment applied in the calculation of CET 1				0
	Total CET 1	0	0	0	0
	Less: adjustments to capital	0	0	0	0
	Goodwill				0
	Other intangible assets				0
	Deferred tax assets				0
	Adjusted Total CET 1	0	0	0	0
ADDITIONAL TIER 1 CAPITAL					
	Instruments that meet criteria for inclusion in Additional Tier 1 capital				0
	Share premium (stock surplus) resulting from issuance of instruments included in Additional Tier 1 Capital				0
	Minority interests that meet the criteria for inclusion in Additional Tier 1 Capital				0
	Regulatory Adjustment applied in the calculation of Additional Tier 1 Capital				0
	Fully paid-up non-cumulative perpetual preference shares				0
	Subordinated term debt with no maturity date				0
	Total Additional Tier 1 Capital	0	0	0	0
SUPPLEMENTARY CAPITAL - TIER 2					
	Fixed asset revaluation reserves				0
	Share Premium resulting from issue of instruments included in Tier 2 capital				0
	Undisclosed or hidden reserves accepted by the Commissioner				0
	General provisions/reserves for losses on assets (up to 1.25% of credit risk weighted-risk assets)				0
	Hybrid (debt/equity) capital instruments				0
	Subordinated term debt with a minimum original term to maturity of over five (5) years				0
	Regulatory Adjustment applied in the calculation of Tier 2 capital				0
	Total Tier 2 Capital	0	0	0	0
TOTAL CAPITAL DEDUCTIONS					
	Total Capital Deductions	0	0	0	0
	Investment in Unconsolidated Subsidiaries engaged in banking & financial activities				0
	Deficiencies in provisions for losses				0
	Others (as may be determined by the Central Bank of Lesotho)				0
	Total Regulatory Capital	0	0	0	0

BALANCE SHEET					
ASSETS					
Ref.	Item	Maloti (1)	USC (2)	Other (3)	Total (1) + (2) + (3)
	ASSETS				
	Cash and cash items:	0	0	0	0
	Notes and coins	0	0	0	0
	Other Notes and Coins				0
	Cheques and other cash items	0	0	0	0
	Cheques				0
	Other cash items				0
	Gold bullion and precious metals(1)				0
	Total Balances due from banks:	0	0	0	0
	Banks in Lesotho				0
	Banks in South Africa	0	0	0	0
	x) Of which is denominated in rand				0
	y) Of which is denominated in other foreign currency				0
	Other Foreign Banks	0	0	0	0
	x) Of which is denominated in rand				0
	y) Of which is denominated in other foreign currency				0
	Accrued Interest on Balances due from Banks	0	0	0	0
	Banks in Lesotho				0
	Banks in South Africa				0
	Other Foreign Banks				0
	Deposits with the Central Bank	0	0	0	0
	Reserve Account				0
	Others				0
	Accrued Interest on Deposits with the Central Bank				0
	Loans and Advances:	0	0	0	0
	Loans				0
	x) Of which is past-due				0
	y) Of which is non-performing				0
	z) Of which is accrued interest				0
	Advances				0
	x) Of which is past-due				0
	y) Of which is non-performing				0
	z) Of which is accrued interest				0
	Less: Accumulated provision for losses	0	0	0	0
	x) Of which is General provision				0
	y) Of which is Specific provision				0
	Net Loans and Advances	0	0	0	0
	Total Investments:	0	0	0	0
	Marketable Securities				0
	Investment Securities				0
	Investments in Subsidiaries, Affiliates or Other companies				0
	Accrued Interest/Income on Investments				0
	Due from Head Office, Parent Company or Subsidiaries				0
	Fixed Assets	0	0	0	0
	Bank Premises (including staff houses)				0
	Furniture, Fixtures, Equipment				0
	Vehicles				0
	Less: Accumulated Depreciation				0
	Net Fixed Assets	0	0	0	0
	Other Assets:	0	0	0	0
	a)				0
	b)				0
	c)				0
	d)				0
	e)				0
	Total Assets	0	0	0	0

LIABILITIES				
LIABILITIES				
Total Deposits		0	0	0
Demand Deposits				0
Call Deposits				0
Savings Deposits				0
Fixed Time and Special Deposits				0
Accrued Interest on Deposits				0
Total Balances Due to banks		0	0	0
Balances Due to banks		0	0	0
Banks in Lesotho				0
Banks in South Africa				0
Other Foreign Banks				0
Accrued Interest in Balances Due to Banks		0	0	0
Banks in Lesotho				0
Banks in South Africa				0
Other Foreign Banks				0
Total Borrowings		0	0	0
Government of Lesotho				0
Central Bank of Lesotho				0
Other local borrowings				0
Foreign borrowings				0
Accrued Interest on Borrowings				0
Due to Head Office, Parent Company, Subsidiaries				0
Total Other Liabilities		0	0	0
a) Accounts Payable				0
b) Accrued Expenses, Sundry provisions				0
c) Income tax, PAYE, Indirect taxes				0
d) Bank Cheque Accounts				0
e) Unclaimed Balances				0
TOTAL LIABILITIES		0	0	0
CAPITAL AND RESERVES		0	0	0
Paid-up/assigned capital		0	0	0
Statutory Reserve Account		0	0	0
Share premium		0	0	0
Other Reserves		0	0	0
Retained Earnings excluding dividends		0	0	0
Profit/Loss for the year to date		0	0	0
Minority interests		0	0	0
Other comprehensive income		0	0	0
Regulatory Adjustment applied in the calculation of CET 1		0	0	0
Less: adjustments to capital		0	0	0
Total Additional Tier 1 Capital		0	0	0
Total Tier 2 Capital		0	0	0
Less: Total Capital Deductions		0	0	0
TOTAL LIABILITIES AND CAPITAL		0	0	0
CONTINGENT ACCOUNT		0	0	0
Letters of credit and Guarantees		0	0	0
Guarantees, performance bonds				0
Letters of credit				0
Other Contingent Account		0	0	0
a) Unused overdrafts				0
b) Legal Exposure				0
c)				0
d)				0
e)				0

INCOME STATEMENT					
Ref.	Item	Mali(1)	USD (2)	Other (3)	Total (1) + (2) + (3)
	INCOME	0	0	0	0
	Interest income on:	0	0	0	0
	Loan and advances				0
	Deposits with CSL				0
	Placement of funds				0
	Domestic Payments				0
	Foreign Payments				0
	Treasury bills and other securities				0
	Other Income	0	0	0	0
	Commission Income				0
	Foreign exchange gains/losses				0
	Realised foreign exchange gains/losses				0
	Unrealised foreign exchange gains/losses				0
	Trading gains/losses				0
	Income on equity investments				0
	Grants				0
	EXPENSES	0	0	0	0
	Interest expenses	0	0	0	0
	(i) Domestic Liabilities				0
	(ii) Foreign Liabilities				0
	Other expenses	0	0	0	0
	Staff salaries and benefits				0
	Management/ Directors Fees				0
	Auditors' and consultants' fees				0
	Provision for bad debts				0
	Bad debts write-offs				0
	Depreciation				0
	Other operating expenses				0
	Net operating income (loss)	0	0	0	0
	Extraordinary Gains/(Loss)				0
	Net income/(Loss) before tax	0	0	0	0
	Income tax				0
	Net income/(Loss) after tax	0	0	0	0
	Transfer to Statutory Reserve				0
	Dividends declared				0
	Other transfers				0
	Retained earnings for the period	0	0	0	0
	Retained earnings at the beginning of the period				0
	Retained earnings at the end of the period				0

