## Table of contents

Foreword ......................................................................................................................... 2  
1. Definition of Colleges, tasks and organisation ................................................................. 3  
   1.1 Definition of Colleges .......................................................................................... 3  
   1.2 Tasks .................................................................................................................. 4  
   1.3 Organisation ........................................................................................................ 5  
2. Exchange of information among Supervisors ................................................................... 7  
3. Communication with the group .......................................................................................... 10  
   3.1 Scope of communication with the group ................................................................. 10  
   3.2 Communication with the banking group or the bank’s parent company ... 11  
   3.3 Communication with locally licensed banking subsidiaries ................................ 11  
4. Sharing and delegation of tasks ........................................................................................ 12  
   4.1 Introduction .......................................................................................................... 12  
   4.2 Legal setting ......................................................................................................... 12  
   4.3 Processes .............................................................................................................. 13  
5. On-site examinations ......................................................................................................... 14  
   5.1 Coordination .......................................................................................................... 14  
   5.2 Joint on-site examinations ..................................................................................... 15  
   5.3 Follow-up .............................................................................................................. 15  
6. Model Validation .............................................................................................................. 15  
   6.1 Colleges’ cooperation in the validation of internal models ........................................ 15  
      6.1.1 Timetable ....................................................................................................... 16  
      6.1.2 Division of tasks ........................................................................................... 16  
      6.1.3 Supervisory criteria and tools applied .............................................................. 17  
      6.1.4 Application package requirement ................................................................. 18  
      6.1.5 Administrative proceedings ......................................................................... 19  
      6.1.6 Exchange of information between supervisors and communication to the Group .................................................................................................................. 19  
      6.1.7 Decision ........................................................................................................ 20  
7. Supervisory review, risk assessment, planning of supervisory activities ......................... 21  
   7.1 The SREP .............................................................................................................. 21  
      7.1.1 Coordination within the College of the information flow ................................. 22  
      7.1.2 Coordination of the implementation of ICAAP requirements ....................... 23  
   7.2 Joint risk assessment: coordination and organisation ................................................. 23  
   7.3 Joint planning of supervisory activities: general features ......................................... 25  
   7.4 Communication of the SREP .................................................................................. 27
Foreword

1. This document reflects the current good practices that supervisors of EU large cross-border banking groups have established or are developing in shaping their cooperation within Colleges of supervisors. These practices are summarized in each section and described through examples wherever possible.

2. The practices described in the text are consistent with the current Capital Requirements Directive (CRD). They also take into consideration, as their starting point, the progress already achieved by CEBS in its standard-setting activity – or in collaboration with the other L3 Committees – in the field of Colleges and Home-Host cooperation for cross-border supervision, including CEBS’s Range of Practices on Supervisory Colleges and Home-Host cooperation1, CEBS’s Template for a Multilateral Cooperation and Coordination Agreement on the Supervision of Cross-Border Groups2, CEBS’s paper on the delegation of supervisory tasks, and the Common Overarching Principles for Colleges issued jointly by the L3 Committees3.

3. The revisions to the CRD which were proposed by the European Commission in October 2008 and which are currently being considered by the European Parliament and the Council of Ministers state that “the Committee of European Banking Supervisors shall elaborate guidelines for the operational functioning of colleges...” This document merely seeks to illustrate the good practices that supervisors of large EU cross-border banking groups have established or are developing in shaping their cooperation within Colleges. It is not intended to pre-empt the contents of forthcoming CEBS guidelines on the operational functioning of the Colleges, which by nature will be more ambitious since their goal will be to develop best practices that should be adopted by Colleges of supervisors, on top of the minimum requirements of the CRD. Current practices are likely to evolve in order to adjust to the CRD review, and the forthcoming CEBS guidelines will pave the way to these changes.

4. The remainder of this document is organized as follows. Section 1 provides a definition of Colleges, recalls the Common Principles, and describes their tasks and the most widespread forms of organization. The following sections touch upon the good practices developed or under development by Colleges, consistent with and in application of the overarching Principles. Section 2 deals with the general process of information exchange, Section 3 with the

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sharing and delegation of tasks, Section 4 with communication with the banking group, Section 5 with on-site examinations, section 6 with the interaction that has taken place within some colleges for the validation of internal models used to calculate minimum capital requirements for credit, market, and operational risk, and Section 7 with the supervisory review process, including the risk assessment and planning of supervisory activities that have already been undertaken by some European colleges. Examples of practices under development in some Colleges are provided where possible (in boxes); they constitute a useful point of reference for other colleges that are at an early stage of activity, without implying any generalization. However, these real-life examples should not be read by institutions as limiting the identification of approaches which may be better suited to their specific needs.

1. Definition of Colleges, and their tasks and organisation

1.1 Definition of Colleges

5. Colleges of supervisors are permanent, although flexible, structures for cooperation and coordination among the authorities responsible for and involved in the supervision of the different components of cross-border banking groups. Colleges provide a framework for the consolidating supervisor and the other competent authorities to carry out the tasks established in the Capital Requirements Directive (CRD).4

6. The Colleges of supervisors are guided by the following overarching Principles:

I. The organization of the College is proportionate to the nature, scale and complexity of the group and to the assessment of the group’s soundness, and reflects the activities, risks and the legal structure of the group.

II. When forming the College, the involved supervisors shall communicate to each other their assessment of their respective supervised entity’s significance and risks for the group and systemic relevance for local financial markets, and take into account each other’s assessments.

III. The Colleges of supervisors shall have agreements in place, laying out the basis for the cooperation between the involved authorities and the practical organisation of the supervisory activities of the group on a ongoing concern basis and in a crisis situation, including engagement with Cross-Border Stability Groups.

IV. The consolidating supervisor shall initiate the cooperation process, chair the meetings of the College of Supervisors and be responsible for designing a work programme for the supervision of the group, which shall be approved by the College of supervisors.

4 Unless otherwise noted, references to specific articles of the Capital Requirements Directive refer to Directive 2006/48/EC.
V. The Colleges of supervisors provide an efficient platform for the gathering and dissemination of relevant and essential information in going concern and emergency situations, developing a common understanding of the risk profile of the group, achieving coordination of supervisory review and risk assessment at group level as well as establishing supervisory plans for the mitigation of risks at group level.

VI. Within the College of supervisors, the supervisors review and evaluate risks to which the group and its entities are or might be exposed to ensure a prospective supervision and foster early-warning of major risks to the extent possible.

VII. The Colleges of supervisors shall have on their regular agenda the planning and coordination of supervisory on-site inspections, including joint supervisory examinations and the findings of such visits will be shared by the consolidating supervisor with the other supervisors in the College of supervisors according to their respective needs and subject to confidentiality provisions.

VIII. The Colleges of supervisors promote harmonisation of approaches and coordinate input to major supervisory decisions taken by individual authorities as far as possible and practicable, and draw their conclusions where appropriate.

1.2 Tasks

7. According to Article 131(a) of the proposed changes to the CRD, the College of supervisors is established by the consolidating supervisor to facilitate the following legal obligations: a) coordinating the gathering and dissemination of relevant or essential information in going concern and emergency situations (Article 129(1)(a)); b) planning and coordinating supervisory activities in going concern and emergency situations (Article 129(1)(b)); c) reaching a joint decision on the validation of internal models used in the calculation of minimum own funds requirements for credit, market and operational risks; d) reaching a joint decision on the application of Articles 123, 124, and 136(2) of the CRD on the adequacy of capital at the consolidated, sub-consolidated and individual level (Article 129(3)); and e) providing timely alerts to central banks and finance ministries in emergency situations and communicating the information essential for the pursuance of their tasks.

8. In practice, Colleges of supervisors provide a framework in which consolidating supervisors and other competent authorities can carry out the following tasks:

- exchanging information, views and assessments – including exchanges with non-EEA supervisors, provided they have confidentiality requirements that are equivalent to those established in EU legislation – to support more effective and timely consolidated and solo supervision;
- agreeing on voluntary work sharing and delegation of tasks, and voluntary delegation of responsibilities where appropriate;
• developing a common understanding of the risk profile of the group at both the group and solo levels, and developing examination programmes based on the risk assessment of the group;

• increasing the efficiency of supervision by coordinating supervisory reviews and risk assessments, establishing supervisory plans, arranging the division of tasks, conducting joint on-site examinations, and consistently applying prudential requirements across all of the entities within a banking group, thus avoiding duplication of work and reducing regulatory burden;

• coordinating decisions taken by individual authorities and striving to reach consensus.

9. Colleges of supervisors have an important role in crisis planning during normal times, identifying potential crises at individual firms, and assessing the impact of crisis events on the banking group, particularly in the early stages of a crisis.

10. In particular, the role of the Colleges play a facilitating role in assisting consolidating and Host supervisors in exchanging information, coordinating activities, and applying supervisory tools, within the limits of the powers accorded to them by the CRD and national legislation. The value added by the College is derived from the platform that it provides for the cross-border exchange and coordination of information and activities, including alerts and assessments.

11. Crisis management and resolution can involve a wider set of authorities than the members of the College, including other supervisory authorities, central banks, finance ministries and deposit guarantee schemes, and their networks (Domestic Standing Groups and, if they have been established, Cross-Border Stability Groups). Proper coordination and cooperation between Colleges of supervisors and Cross-Border Stability Groups is essential.

1.3 Organisation

12. Colleges can function at different levels, depending on the specific situation. “General Colleges”, consisting of all the supervisors involved in a group, meet to share information on group-wide issues and engage in general discussions of overall supervisory policy and planning or projects that are of interest to a large number of authorities. “Core Colleges”, consisting of a more limited number of supervisors, participate in more restricted meetings to ensure close cooperation in supervisory activities. The composition of a core College may change depending on the topics being discussed.

13. Supervisors of significant branches may also participate in the College. When forming the College, and whenever appropriate thereafter, the Home and Host authorities communicate to each other their assessments as to the significance of the branch. In case of disagreement, the Host authority decides whether a branch is significant.
14. Where appropriate, Colleges cooperate with other authorities, such as central banks and finance ministries. Non-EEA supervisory authorities may participate in the College at the invitation of the consolidating supervisor, where appropriate, subject to their having confidentiality requirements that are equivalent, in the opinion of all the competent authorities, to those established by the CRD.

15. The consolidating supervisor initiates the cooperation process, chairs meetings of the College, and decides which competent authorities will participate in a meeting or an activity of the College. The consolidating supervisor is responsible for designing the work programme for the supervision of the group, which is then approved by the College. The work programme is updated at least annually. The consolidating supervisor notifies all College members of upcoming College meetings, the main issues to be discussed, and the activities to be considered. The consolidating supervisor also keeps all members of the College fully informed, in a timely manner, of the actions taken in those meetings and measures carried out.

16. The consolidating supervisor determines the frequency of College meetings on a case by case basis. The frequency is proportionate to the nature, scale and complexity of the banking group and the importance of the issues to be discussed.

17. The College is the first place in which to strive for agreement between the authorities regarding the application of EU legislation and CEBS Guidelines to the supervision of the group in a cross-border context. Whenever necessary, the members of the College review the arrangements, strategies, processes and mechanisms implemented by the banking group to comply with prudential laws and regulations, and evaluate the major risks to which the banking group is or might be exposed on a solo or a consolidated basis. If the members of a College cannot reach an agreement, the matter may be referred for mediation to the Committee of European Banking Supervisors. The establishment and functioning of Colleges of supervisors does not diminish the rights and responsibilities of the competent authorities under the CRD.

18. The written agreement adopted by a College (see principle III, above) provides the basis for cooperation between the authorities involved in the supervision of the group; provides for the efficient use of supervisory resources, and establishes how requests made by supervisors of the group are coordinated. The agreement reflects the nature, size and complexity of the group. It covers (among other things) the role and responsibilities of each authority, information exchange between supervisors, communication with the group, delegation, cooperation in the conduct of Pillar 1 model validation, supervisory review, crisis management, and (possibly) coordination of enforcement action.
2. Exchange of information between Supervisors

19. As indicated in Articles 129 and 132 of the CRD, in Article 12 of the Financial Conglomerates Directive, and in the related CEBS Guidelines, comprehensive and timely exchange of information is a core element for the effective supervision of cross-border financial groups in both normal and crisis situations. Constructing a communication strategy under the auspices of the consolidating supervisor is a core element in planning, coordinating, and maintaining the process of ongoing banking supervision. Supervisors make selective use of the full range of communication tools.

20. Information exchange is a two-way process, and reflects the needs of all the authorities involved. To ensure adequate supervision at both the consolidated and solo levels, supervisors establish effective mechanisms which provide for timely responses to requests for information, and also for communication of essential information that has not been requested, such as alerts of wrongdoing, illicit activities, and supervisory concerns. The consolidating supervisor oversees the development of a flexible communications strategy for the group and serves as a central clearinghouse for the collection and dissemination of information.

21. It is considered good practice for the exchange of information to cover:

- the financial circumstances of the group;
- information on major intra-group transactions (dividends, capital injections, etc.);
- information on various risk areas;
- the results of risk assessments conducted by each supervisor;
- reports and letters drawn up by each authority on matters of major importance;
- summaries of the findings of on-site investigations;
- developments in markets that constitute the group’s business areas;
- important approvals granted by each authority, or in progress;
- significant organisational changes in the group;
- changes in management or ownership, or the establishment of a presence in another country.

22. The exchange of highly sensitive information takes place in a secure manner, using encrypted e-mails, restricted-access websites, etc.

23. In keeping with the professional secrecy requirements imposed by EU and national laws and regulations and other legal obligations, the information shared by authorities is only used for lawful supervisory purposes. The transmission of information between supervisors complies with national laws.
24. The members of the College of supervisors endeavour, to the extent permitted by law, to maintain the confidentiality of all information, and do not disclose information to third parties without first obtaining the prior consent of the authority that provided the information.

25. Authorities in core non-EEA countries may be party to confidential information, provided they have legislative provisions on the confidentiality of information which are equivalent to those in the relevant EU legislation.

Example of College organisation and exchange of information:

The following represents the experience to date of a College of supervisors that has been operating formally since the first quarter of 2005. The College was initially set up to assist in implementation of the Basel II framework; following implementation it will address the various risks and issues that arise in the supervision of the banking group.

The College includes both a General College and a Core College. The General College may be attended by as many as 50 supervisors. The Core College generally consists of the Home supervisor and six Host supervisors, which together account for approximately 80% of the banking group’s assets. However, the composition of the Core College can vary depending on the relevance of the topic to different supervisors. For example, the participants in discussions on retail banking may be different from when the subject under discussion is wholesale banking.

The Home supervisor convenes bi-lateral or multi-lateral communications as needed. Draft objectives of College meetings are circulated and agreed in advance. This provides an opportunity for Host supervisors to provide input to the agenda and bring to the table key areas of concern. It also facilitates the sharing of experiences and lessons learned by supervisors who have encountered similar risks and supervisory issues. While each agenda is different, there are some recurring topics:

- information exchange,
- ongoing communication strategy,
- allocation of tasks,
- ongoing strategy, and
- identification of supervisory issues and risks.

Information exchange has tended to be the most successful aspect of the College. Lines of communication are two-way, from Home to Host as well as from Host to Home. Recurring topics of communication in each direction include:

Consolidating supervisor to Host supervisors

- Findings of supervisory visits
- College project plan
- General update every six months
- Pillar 2
- Pillar 3

Host supervisors to consolidating supervisor

- Progress and feedback on country-specific issues
- Significant findings of regulatory visits and meetings
- Outputs and progress on specific delegated tasks

Representatives of the banking group are invited to attend parts of College meetings. This allows the group to deliver messages to all supervisors at the same time, and enables supervisors to provide coordinated feedback to the group.

College arrangements are reviewed periodically to ensure that they remain suitable. Participants in the College are surveyed regularly and encouraged to offer suggestions on how the College could operate more effectively. The consolidating supervisor stays informed about the experiences and innovations of other Colleges, looking for improvements that he can adapt to make his own College function more effectively. In doing so it recognizes the innovation that may occur in other Colleges and supports the evolution of College arrangements towards efficiency and effectiveness.

Benefits

Prior to the creation of the College, the banking group had experienced the following problems in dealing with over 50 different supervisors:

- different Basel II implementation schedules,
- restrictions on approaches,
- multiple application procedures,
- restrictions on cross-border data transfers, and
- inconsistent national discretions and interpretations.

The College of supervisors has addressed these problems through:

- close coordination between Home and Host supervisors,
- consistent approaches to model validation, led by the Home supervisor
- less duplication of supervisory effort wherever possible;
- robust data integrity, and
- open lines of communication.

From the supervisors’ perspective, the College:

- supports and facilitates consolidated and solo supervision of the group,
- provides secure lines of communication and information exchange,
- provides a forum for joint consideration of major issues and risks facing the banking group,
- allows sharing of experiences, which ultimately improves the effectiveness of the College as a supervisory network, and
- promotes innovation in supervisory methods, through feedback from members of the College and input on the experiences of other Colleges.
Example of a Web-based platform ("Restricted Area").

A restricted-area web-site, already set up or in the process of being set up in some colleges, is managed by the Home supervisor and available to all Host supervisors, each of which has access only to the information that is addressed to it. As a communication tool, this has the following advantages:

- transmits messages and information rapidly,
- is able to handle large amounts of data,
- is easy to use, and
- is secure.

The Website has proven to be a valuable tool for exchanging information on model validation and for reaching joint decisions on IRB/AMA applications within the six month time limit set in Article 129(2) of the CRD.

It also enables the Home supervisor to forward documents submitted by the banking group to the involved Host supervisors for consultation and coordination. The website ensures that the Host supervisors receive the documents quickly and simultaneously.

To ensure data security, the website uses state-of-the-art encryption algorithms.

3. Communication with the group

3.1 Scope of communication

26. An active dialogue between the supervisory authorities and the banking group is essential. Colleges of supervisors meet regularly with the banking group for comprehensive discussions of its activities and assessment of the risks it faces. The objectives of communication with the group are to:

- enhance the effectiveness of supervision,
- facilitate the functioning of the College,
- avoid duplication of effort.

27. Arrangements on communication and confidentiality are agreed upon by the members of the College and specified in the written agreements. Common supervisory practices and procedures, such as informing banks of planned examinations (where permitted by local rules), reporting on the outcome of applications, and other decisions and examinations are applied throughout the College as well. The College retains or archives records of its communication with the banking group and its entities in a manner that ensures continuing access to this information.
3.2 Communication with the banking group or the bank’s parent company

28. The consolidating supervisor is entitled by law to contact the banking group to enquire about all issues concerning the group, Home and Host country subsidiaries and branches. The consolidating supervisor coordinates communication with the group – including the main findings of the supervisory review at the group level and any agreed views – and shares all relevant information with the Host supervisors.

Examples of existing communication practices:

Issues relating to local supervision that are identified by the banking group’s head office are communicated to the Host supervisors concerned by the consolidating supervisor.

To the extent possible, the consolidating supervisor arranges for information that is needed at the consolidated and solo levels to be collected at the same time, and tries to minimise differences in their content.

3.3 Communication with locally licensed banking subsidiaries

29. Host supervisors are generally the best placed to communicate with their locally licensed banking subsidiaries.

30. Before asking a local subsidiary for information concerning the parent company, the Host supervisor determines whether that information has already been obtained or can be made available by the consolidating supervisor. When the Host supervisor communicates directly with the bank’s head office (for example, regarding licensing processes or changes in holdings by the parent company), the Host supervisor informs the consolidating supervisor on a timely basis on the nature and outcome of the communication.

Examples of existing communication practices:

- the results of local on-site examinations conducted by the Host supervisor,
- The results of the Host supervisor’s risk assessment of the local banking subsidiaries, and the results of the Supervisory Review and Evaluation Process, and,
- Authorisation to the local subsidiary to use internal models at the local level for the calculation of minimum capital, if this required by local rules.
4. Sharing and delegation of tasks

4.1 Introduction

31. The members of a College discuss in advance the national legal and regulatory frameworks and the confidentiality constraints that influence the delegation or sharing of tasks.

32. Delegation (or entrustment) of tasks refers to tasks that are carried out by a supervisory authority (the delegate) other than the authority who is officially responsible for the task (the delegator). The delegate reports its findings back to the delegator. The responsibility for supervisory decisions remains with the delegator. The sharing and delegation of tasks is a matter of voluntary agreement between supervisory authorities5.

33. The delegation reflects the manner in which the banking group is organised (centralised versus decentralised risk management processes, existence of competence centres) and takes into account the significance of the entity (branch or subsidiary) for the supervisors involved.

34. Delegation should result in a definite benefit. The benefit may be improved use of supervisory resources and expertise, less duplication of supervisory effort, or reduced burden for the banking group. Networking, learning opportunities and improved information sharing may also be reasons to consider delegation of tasks.

35. A specific task is assigned according to the principle of which authority is best placed to carry it out, or that has the necessary technical skills. Examples of supervisory areas which could be amenable to delegation include SREP and model validation, joint on-site examinations, and liquidity supervision of branches.

4.2 Legal setting

36. Before entering into a delegation arrangement, supervisory authorities are aware of the relevant provisions of each other’s national law and of EU legislation. The delegation is based on a written agreement. The laws and regulations of the delegate govern the process of carrying out the task, while the laws and regulations of the delegator govern its assessment of the results.

37. While the confidentiality of information exchanged between EU supervisors is already ensured by the provisions of Articles 44 to 52 of the CRD, some supervisory authorities may wish to specify in written form the conditions under which confidential information concerning the institutions under their supervision, which is shared in delegation or other task-sharing arrangements, may be used by other supervisor authorities. Such confidentiality conditions could be agreed upon among the members of the College to ensure consistency.

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4.3 Processes

38. At the time of the annual planning of supervisory activities, the authorities consider which activities may be eligible for task-sharing or delegation. This advance planning helps to resolve practical issues such as the choice of language for reporting and the timetable for completion.

39. However, delegation of tasks may be arranged at any time, at the request of either the delegator or the delegate.

40. The delegator and delegate have a mutual understanding of each other’s supervisory procedures and processes, which allows them to agree on the legal framework for the specific task and to arrive at an agreed outcome. In principle, delegations are outcome-oriented rather than process-oriented.

41. In the event that the delegating authority wishes its own methodologies and procedures to be applied or certain local legal requirements to be satisfied, then this needs to be arranged and agreed upon beforehand.

42. Any information relevant to the proper execution of the task is communicated. This includes areas of interest and supervisory concerns that may have an important bearing on the other supervisor’s work, or significant differences in legal frameworks.

43. The delegator and delegate agree on who is going to be in charge of communicating with the entity of the banking group. The entity is informed that the delegation has been arranged and that documentation and findings will be shared with other supervisory authorities.

44. The delegator is adequately involved in the process, and information is exchanged whenever necessary. The delegator’s involvement may consist of participating in the task to some degree, or in parts of the task. For example, if an on-site examination is delegated, the delegator may participate in the initial meeting with the controlled credit institution, in intermediate high-level meetings, or in the closing meeting, at which the draft outcome might be presented for initial feedback from the institution.

45. The delegate communicates the outcome to the delegator. The form of this communication may vary depending on the task or the procedures agreed (e-mails, conference calls, video or face-to-face meetings, College meetings, written reports...).

46. The delegator considers whether the findings communicated by the delegate have any bearing on the banking group as a whole, or on subsidiaries or branches under its supervision.

47. The delegator considers whether it is necessary to document the delegation process. In the case of litigation, the documentation will help the delegator to demonstrate that it has acted within its authority and that the ultimate responsibility for the task has not been shifted to the delegate.
48. Supervisors consider whether other supervisors and authorities outside the delegation arrangement need to be informed of the delegation arrangements and the results of the delegation.

**Examples of delegation practices:**

The framework for cooperation on the validation process under the CRD is based on the business model used by the banking group. Host authorities are entrusted with reviewing the design and application of locally developed models and for governance and the use test at the local level, while the Home supervisor is responsible for model development and validation, corporate governance, and internal controls at the level of the Group, and also for ensuring the consistency of model calibration in other units of the group. The Home authority is entrusted with reviewing the design of centralised models, while the Host authorities are entrusted with ensuring that they are applied properly at the local level.

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5. On-site examinations

5.1 Coordination

49. Cooperation among supervisors is particularly useful in on-site inspections.

50. The members of the College coordinate their programmes for examining the banking group and its principal entities, in order to have a clear group-wide picture of the group’s condition and operations and to avoid duplication of supervisory effort. The coordination of examination programs is the responsibility of Home supervisor.

51. In order to facilitate the Home supervisor’s role of coordination, the Host supervisors inform the Home supervisor, either bilaterally or through the College, about on-site examinations planned at the national level. The Home supervisor informs Host supervisors about on-site examinations which it plans to conduct that may have a bearing on the supervision of the subsidiaries. These information exchanges are without prejudice to the inspection programs being the sole responsibility of the corresponding competent authority.

52. At least once a year, the College of supervisors discusses plans for on-site examinations of the banking group at the consolidated and local levels.

53. The discussion can, among other things, at:

- ensuring that all of the principal activities and risks of the banking group are examined, with appropriate regularity, at both the consolidated and the local level;
- arranging, where possible, for these examinations to be conducted jointly;
- arranging the sharing and delegation of tasks between supervisors; and
agreeing on the examination schedule.

5.2 Joint on-site examinations

54. Joint examinations may be used for the parent company of a banking group or any of its entities.

55. Joint on-site examinations are conducted according to the following principles:

- The Home supervisor may participate in an examination carried out by any of the Host authorities, provided this is permitted by national law.

- Host supervisors – in agreement with the Home supervisor – may participate in examinations of the parent company concerning matters that have a bearing on the supervision of the local subsidiary or branch, provided this is permitted by national laws.

- Any request for joint on-site examinations is considered on a case-by-case basis by the supervisors concerned.

- Findings of mutual interest are discussed by the supervisors concerned. The College is informed of relevant developments at its next meeting at the latest, and sooner if necessary. This information may include the purpose of the joint on-site examination, its main findings and supervisory decisions, and any corrective measures taken.

- The banking group is notified by the consolidating supervisor of impending joint examinations, if permitted by national law. The conclusions of the joint on-site examination are communicated formally to the management of the banking group by the Home supervisor. The consolidating supervisor may decide that the outcome of a joint examination concerning a local subsidiary shall be communicated by the Host supervisor to the group, and separately to the management of the concerned local entities.

5.3 Follow-up

56. Compliance with the recommendations made to the banking group as a result of a joint on-site inspection are monitored at the group level by the consolidating supervisor, who informs the College of the results of the follow-up; and at the local level by each concerned supervisor. The consolidating supervisor also coordinates any periodic meetings and follow-up examinations that may be needed, at both the group and local levels; and monitors implementation of the action plan that results from the on-site examination.

6. Model Validation

6.1 Cooperation in the validation of internal models

57. Article 129(2) of the CRD directs supervisors to work together to decide whether or not to grant permission to a banking group to use advanced
models for regulatory purposes. This implies reaching a common understanding of the practical framework for the model validation process.

58. The supervisors involved in joint model validation agree on the following:

6.1.1 Timetable

59. Home and Host supervisors draw up and agree on a timetable for the supervisory activities involved in the validation process, aiming for an efficient allocation of resources. The timetable covers the pre-approval, approval, and – if necessary (for example, in cases of authorisation with conditions) – post-approval phases.

60. The timetable identifies the steps that the supervisors deemed necessary and specifies the amount of time needed to complete each step.

Example of supervisory activities:

Supervisory activities include:
- informal contacts between supervisory authorities, which are useful in preparing for formal activities;
- meetings of the College of supervisors;
- bilateral meetings between the Home supervisor and each Host supervisor; and
- on-site validation.

61. The form of the approval process depends on the roll-out plan. Consequently, the coordination of tasks is decided as soon as new models need to be validated.

6.1.2 Division of tasks

62. During the pre-validation phase, the allocation of tasks between supervisors is decided on a case-by-case basis, depending on the type and characteristics of the model, the organisation of the banking group, its internal validation procedures, and the approach adopted by the supervisors.

Example of delegation of tasks:

The Home supervisor generally reviews the following aspects:
- classification systems that are constructed and managed centrally;
- model calibration, when it is managed at a centralised level;
- non-local data, with the help of Host supervisors where appropriate;
- the adaptation of IT systems to Basel II in the overall environment;
- corporate control and governance of local models from the group-wide perspective.

The Host supervisor generally reviews:
- classification systems that are constructed and managed locally;
- model calibration, when it is managed at a local level;
- local data;
- the adaptation of IT systems to Basel II in the local environment;
- integration of the model into the day-to-day operation of the entity (the use test);
- integration of local control aspects.

The Home supervisor leads the validation work for models that are developed centrally and applied across the banking group, and keeps Host supervisors informed. The Host supervisors review the local application of the centralised models.

Unless decided otherwise, the Host supervisors lead the validation work for models that are developed and applied locally, and keep the Home supervisor informed. Depending on the circumstances (such as the materiality of the group’s operations covered by local methods), and if permitted by national legislation, the Home supervisor may take part in validation work led by the Host supervisors – either at the Home supervisor’s request, or at the request of the Host supervisors.

6.1.3 Supervisory criteria and tools

63. The authorities share a common understanding of the criteria and tools used to assess models.

Example of supervisory criteria:
In general, supervisory validation covers five major topics:
- methodology and documentation,
- data quality,
- quantitative procedures,
- qualitative procedures, and
- technological environment.

The supervisory criteria are used to determine whether the models comply with the minimum requirements of the CRD as transposed into national law, other applicable European legislation, and national laws and regulations.

64. All supervisory tools and procedures authorised in national jurisdictions may be used for validation purposes, including on-site examinations.

Example of supervisory tools commonly used in model validation:
- on-site examinations,
- off-site analysis,
- frequent meetings with the different departments involved,
- data quality checks,
- review of relevant committees’ minutes,
- assessment of the use of model results in day-to-day management,
- review of reports to senior management,
- risk management tools (RORAC, RAROC, RARORAC...),
- assessment of the adequacy of resources devoted to the Basel II project,
- automatic testing in databases,
- accountancy reconciliation,
- assessment of information chart flows,
- replication of parameters,
- critical analysis of methodologies,
- assessment of the consistency between methodologies and information, and
- internal validation review.

6.1.4 Application package requirement

65. The minimum application package is widely consulted on within the College in all its details, including practical issues surrounding the assessment of its completeness.

Example of information used in the supervisory validation process:
- basic supervisory information required by Home supervisor,
- basic supervisory information required by Host supervisors,
- an internal validation report to support supervisory validation.

66. When necessary, the questions and requirements of the Host supervisors who are involved in the joint decision are included in the Home supervisor’s application package is.

67. The documents are available in the language agreed by the supervisors.

Example of formats:
Some Home supervisors require specific documentation for each relevant entity within the consolidated group – regardless of country of incorporation – drawn up in a standardised format. This is intended to ensure a high degree of homogeneity and consistency which facilitates supervisory validation.

However, Host supervisors may require different or additional information. In order to avoid an unnecessary burden on the applicant, supervisors work together within the College to avoid duplication of information required in applications. Formal applications may include a specific section asking for additional information on subsidiaries.
6.1.5 Administrative proceedings

68. The College, under the leadership of the consolidating supervisor, coordinates the individual authorities’ work plans for conducting validation tasks on each of the subsidiaries models.

69. In the normal course of events, working-level contacts are maintained between Home and Host supervisors through telephone calls, secure e-mail, and/or informal meetings. More formal meetings are organised when considered necessary, and conducted based on a mutually agreed agenda.

70. The College agrees on the administrative proceedings used in the authorisation process: the formal representation of the final decision, its communication to the group, and the arrangements for obtaining the agreement of all the authorities involved.

71. The responsibilities of supervisors in the validation process mirror their responsibilities over legal entities within the group.

6.1.6 Exchange of information between supervisors and communication with the Group

72. While communication with the group on model validation is initiated by the Home supervisor, the other supervisors are also involved from the very beginning of the application process.

73. In accordance with Article 129 of the CRD, the Home supervisor gathers and centralises all formal information exchanged in the application process.

74. When the group submits its formal application to the Home supervisor, a copy of the application and associated information is sent to all Host supervisors, including Host supervisors who were not initially closely involved in the cooperation process.

75. All of the members of the College agree on a list of core information.

**Example of a list of core information:**

**General content:**
- implementation plan and roll-out,
- map of the approaches applied in each segment,
- corporate governance, involvement in the project.

**Minimum content for each model:**
- description of the portfolio,
- main characteristics of the rating/scoring system for IRB models,
- methodology for estimating risk parameters,
- main outputs of the model,
- internal validation,
- data quality,
- technological environment,
- use test, and
- internal controls.

76. The Home supervisor reports back to the Group on the findings of the supervisory assessment, whenever it is deemed necessary.

6.1.7 Decision

77. Members of the College review each application and “roll-out” plan on a case-by-case basis.

78. In accordance with Article 129(2) of Directive 2006/48/EC, the authorities do everything within their power to reach a joint decision on the application within six months.

79. In order to reach a joint decision, supervisors share relevant information on principal weaknesses found and the measures, corrective actions and appropriate conditions.

80. The fully reasoned joint decision is set out in a document which is provided to the applicant by the Home supervisor. At the same time, the decision on subsidiaries is formally communicated to the Host supervisors.

81. If the models are approved, the Home supervisor grants the authorisation to the parent company, taking into consideration the observations of the other supervisors and any conditions which they may have attached to the decision.

82. The parent of the group transmits the joint decision on the use of the internal methodology to its subsidiaries. The Host supervisor also transmits the joint decision to the subsidiaries if this is required by Host country regulations.

83. In the absence of a joint decision between the competent authorities, the final supervisory decision is taken by the Home supervisor, taking into consideration the views and reservations that the other competent authorities have expressed during the six month period. The decision is provided to the applicant and the other competent authorities by the Home supervisor.

Example of issues addressed in a College

- Home and Host supervisors’ schedules for validation work are coordinated in meetings and on-site visits.
- Supervisors work together to avoid duplication of information provided by entities in the application process.
- Supervisors coordinate the criteria for implementing Pillar 1, taking national legislation into account:
  - National discretions (e.g. definition of default in the retail portfolio: 90-180 days).
- Seeking common solutions to items decided on a national basis: (e.g. 0% CCF applied to the calculation of EAD for unused internal limits in uncommitted facilities with Financial Institutions)
- Legal issues.

- There is a good understanding within the College concerning the validation work of each supervisor. Validation procedures and procedures for communicating deficiencies to entities are coordinated as fully as possible, and therefore overcome possible differences between validation procedures.
- Regarding information exchange:
  - Supervisors share documentation in order to avoid duplicative information requirements.
  - Supervisors seek to reduce the time between the Home supervisor’s receipt of documentation from the applicant institution and its transmission to Host supervisors.

7. Supervisory review, risk assessment, planning of supervisory activities

84. The Supervisory Review and Evaluation Process (SREP), along with Internal Capital Adequacy Assessment Process (ICAAP), are the two integrated stages that make up the Supervisory Review Process (SRP).

7.1 The SREP

85. The competent authorities conduct a SREP in which they evaluate whether the institution’s arrangements, strategies, processes and mechanisms, and capital level ensure sound management and coverage of its risks.

86. The scope of application of the SREP follows that of the ICAAP; the consolidating supervisor conducts the SREP at the group level and the Host supervisors are responsible for the SREP of the local ICAAP. The consolidating supervisor is responsible for coordinating and synchronising, the SREP across the Group to the extent possible and practicable.

87. In the case of a cross-border group, the members of College undertake to cooperate in the conduct of the SREP at both the consolidated and solo/sub consolidated levels. The SREP, including a risk assessment (generally updated annually), serves as the basis for planning supervisory action at the consolidated level.

88. The responsibilities of the consolidating supervisor include coordinating the following activities:
   - development of efficient and effective cooperative arrangements;
   - timing of ICAAP information;
• risk identification and assessment and enhancement of the consistency of supervisory assessments;
• planning of supervisory activities;
• performance and sharing of tasks;
• follow-up activities towards the Group and its legal entities;
• monitoring progress in achieving the agreed objectives.

89. A proportionate approach to the ICAAP and SREP is adopted, reflecting the scale and nature of the firm's activities. Firms with complex operations are expected to implement more complex processes to meet their ICAAP obligation and their SREP is more extensive.

90. Supervisors endeavour to implement the ICAAP methodology at the group level, provided that local supervisors consider that the Group methodology adequately addresses the risks in the firm's operations at the local level.

7.1.1 Coordination within the College of the information flow

91. The competent authorities cooperate within the College on the ICAAP review. In particular, they endeavour to ensure that information requests to central and local levels of the Group are as synchronised and integrated as possible and that relevant information is made available to all of the authorities involved.

92. Information is exchanged actively between competent authorities, and the information exchanged reflects the needs of the authorities involved. The exchange of information also aims at avoiding, as far as possible, duplication of tasks and of requests to the different entities of the Group.

93. Based on this general understanding, the practical flow of information is shaped in order to meet supervisors’ needs; in general, no one-size-fits-all solution is possible. This information flow is handled pragmatically, is focused on respective needs, and adheres to the basic principles of efficient resource allocation and risk-based supervision.

Example of information flows:

A common practice is that the consolidating supervisor shares SREP (“Pillar 2”) related information directly with significant/systemic Host supervisors and with relevant Host Supervisors in the course of the regular College meetings or upon request. In turn, the Host supervisor shares SREP related information regarding the subsidiary with the Home supervisor.

94. The practicalities of the information flow and the Host supervisor’s reliance on the work done by the consolidating supervisor are discussed and agreed upon within the College.

95. To the extent that the local ICAAP relies upon central processes, the consolidating supervisor provides the Host supervisors with his judgment on
the soundness and robustness of the central processes. This reliance, to the extent possible, by the Host supervisor on the work done by the consolidating supervisor avoids duplication of work by the supervisors and supervisory burden for the banking group.

7.1.2 Coordination of the implementation of ICAAP requirements

96. The ICAAP is entirely the responsibility of the banks. Given the overall objective – to have individual banks assess their own capital adequacy – the banks are fully responsible for defining the most adequate processes and methodologies. Nevertheless, when developing their ICAAP, banks have to consider both CEBS’s and national supervisors’ guidelines.

The authorities acknowledge that the ICAAP belongs to the institution; therefore the activities carried out are not aimed at prescribing any given ICAAP methodology. The ICAAP is a key input to, but not the sole determinant of, the supervisory assessment of the level of capital required to adequately cover all material risks. The College strives to reach agreement on common or similar reference dates of solo and consolidated/sub-consolidated ICAAP reports, in order to ensure the comparability and consistency of ICAAP information and reduce supervisory burden.

7.2 Joint risk assessment: coordination and organisation

97. According to CEBS GL03, the Risk Assessment System (RAS) of a credit institution encompasses the following aspects:

1. evaluation of both risks and controls;

2. breakdown of the group’s activities, down to the material business units or processes where risks are actually taken and where to a large extent controls are actually applied;

3. consideration of all relevant risks and internal governance factors;

4. results of risk assessments based on an analysis of both quantitative and qualitative information;

5. procedures to maintain the quality and consistency of risk assessments;

6. comparison of the RAS results with the outcome of the ICAAP and analysis of their consistency.

98. The main instruments of analysis and evaluation are off-site reviews and on-site inspections.

99. For cross-border groups, one of the objectives of the Colleges of supervisors is to enable the authorities to develop a common understanding of the banking group’s risk profile, as the starting point for risk-based supervision at both the group and solo levels.
100. Most supervisors have developed risk assessment methodologies for banks. However, practices on joint risk assessment for cross-border groups are still under development.

**Example of a joint risk assessment process:**

A College may develop the joint risk assessment according to the following general principles: a) the joint risk assessment aims at developing the definition of a common tool for the exchange of information on the general standing of the group among the College members; b) the information included in the joint risk assessment is of a general nature and does not refer only to Pillar 2 risks; c) the joint risk assessment practices may differ from those of other Colleges, according to the proportionality principle and the legal structure of the group; d) supervisors use a common risk assessment in order to organise the use of supervisory resources and perform and manage the supervisory risk assessment. It allows planning, prioritizing and allocating supervisory resources. This tool supports the assessment of the whole banking group.

The authorities endeavour to ensure a common risk assessment framework and a common structure to draw up the risk assessment report. The risk assessment is coordinated by the consolidating supervisor. The risk assessment report can be performed by the Home supervisor at a consolidated level and by each Host authority at a sub-consolidated/solo level, depending on the structure and organisation of the group in each jurisdiction. In this process, each Host authority draws up a risk assessment report on the entities of the banking group under its responsibility and transmits a copy to the consolidated and sub-consolidated supervisor (if any). The report also encompasses the main supervisory off-site and on-site activities already performed.

To ensure a consistent assessment at the group level, the authorities develop a set of standardised methodological tools and forms for representing data, outlining a logical process for interpreting information and providing a guide for formulating an assessment of each individual aspect examined and an overall assessment of the group’s position.

The common risk assessment is based on the following methodological principles:

- Proportionality, which means that analysis is generally performed at the consolidated level, supplemented by individual level analysis only for material banks within the group;
- Flexibility, which means that the evaluation takes into account all available information, including data not automatically processed;
- Peer comparison, where possible and appropriate, which means that the evaluation is based on performance ratios and risk indicators of tailored peer groups;
- Traceability, which means that the assessment system is documented in specific manuals and guidelines.

The risk assessment framework envisages a structured analysis process. As an example, the following aspects often considered:

- Current capitalisation of the institution and expected development
- Risk profile and need for capital
101. In some Colleges, it is common practice to conduct the risk assessment through a scoring system. In this case, supervisors may agree on common templates in which the information deemed necessary is reported by Home and Host authorities in order to assess the various risk profiles.

Example of joint risk assessment based on a scoring system:
The evaluation of risks to which the entity is exposed and of the cross-sectional aspects allows the consolidating supervisor to assign a score to each aspect assessed. The score assigned to each risk reflects both the exposure to risk and the adequacy of management and controls. In some cases, the assessment may be exclusively quantitative or qualitative.

Colleges of supervisors may agree on common supervisory report templates in which all the information used to assess the aspects under evaluation are presented in a homogenous way. Appendix 1 provides an example of a supervisory report template.

102. In order to obtain a common view of risk exposure and internal controls for the entire group, some Colleges appoint teams of risk experts from each authority for different risk areas, such as credit, market, operational, and liquidity risk and macro-economic analysis. Experts may also be appointed for internal management and governance issues related to capital adequacy, legal matters, anti-money laundering, and accounting. These risk experts could form a network through ad hoc meetings and conduct risk assessment and joint on-site examinations, as well as discussing relevant issues.

103. In order to obtain consistent RAS across Colleges, which would make it possible to perform peer group analysis of large EU banking groups, networks of risk assessment experts could identify common metrics and essential components. This would help achieve horizontal convergence of methodologies for risk assessments over time.

7.3 Joint planning of supervisory activities: general features

104. Effective joint planning of supervisory activities is an important part of the activity of the College of Supervisors. The establishment of a supervisory plan on a joint basis serves two main goals:

- making supervisory activities more effective, through the better understanding of the situation of the banking group provided by sharing relevant information and assessments available within the College;

- reducing supervisory burden for cross-border groups.

105. There are some preconditions to effective joint planning. Specifically, the risk assessment methodologies and the off-site and on-site procedures
adopted in each country where the banking group has a significant establishment have to be discussed within the College in order to reach a common understanding on how these feed into the joint assessment. While the planning concerns the entire College, it may involve the Core College and the General College to different degrees.

106. The document on joint planning may address the following aspects:

a. Timing. Planning is conducted periodically (normally on an annual basis) and in a timely manner, allowing the individual authorities to take the results into consideration in their local planning exercises. For this reason, Host and Home authorities need to submit draft proposals and plans to the College in time to allow appropriate scheduling of the activities in the following period. (This has obvious consequences for the time-frame of the local and consolidated risk assessment processes, from which most of the proposals stem). A review is conducted periodically within the College of the activities actually conducted and possible changes with respect to the plan.

b. The coordinating role of the consolidating supervisor. The consolidating supervisor proposes a plan of activities that addresses the needs of both the consolidated assessment and the assessments of individual entities. The activities to consider for the following period include joint initiatives, delegation of tasks, and activities (e.g., collection of information) performed on a consolidated basis and then shared with the other authorities, making sure that an adequate exchange of information takes place in both directions (from Home to Host and from Host to Home).

c. Role of the Host supervisors. The Host supervisors, normally after having performed assessments on a solo basis, present to the College the on-site and off-site activities (including activities related to model validation) planned for the following period for the relevant subsidiaries of the group, specifying to the extent possible the period in which they are likely to occur. The information needed may also concern aspects of the parent company which affect the legal entities on a solo basis.

d. Contents of the proposals discussed within the College. The proposals discussed within the College are defined in terms of the underlying reasons for them: for example, in light of the results of the risk assessment; to satisfy local interests, for example for national cross-sector analysis; the specific topic has a national relevance; the specific topic has an international relevance, etc. In this way, the College is able to identify which activities can be considered in the design of the joint plan.

e. Scope of joint planning. The plan covers three aspects:

1. off-site activities (e.g., important meetings, letters requesting information or specifying measures aimed at correcting serious weaknesses on topics such as organisational aspects, risk profiles, profitability, capital adequacy, and, more generally, topics relevant for the group as a whole).
2. on-site examinations (see Section 5)
3. model validation process (see Section 6)

7.4 Communication of the SREP

107. The dialogue on the ICAAP at the consolidated level and the presentation of the conclusions of the SREP for the group are handled by the consolidating supervisor.

108. The Host authorities address separate letters to the subsidiaries or make contact in some other way at the local level with their relevant local assessments and remarks.

Example of possible methods of communication of the SREP:
The Host supervisors try to address their letters to the subsidiaries at the local level after the submission of the assessments of the SREP at the consolidated level. In this way, coordinated feedback on the SREP is provided to the banking group.
APPENDIX 1: Example of a Supervisory Report

supporting

XXXX group

analysis system

(as of 31.12.200X)

Date

Name of person in charge, contact information (institution, address, telephone number, email address)
CONTENTS

BANK’S HIGHLIGHTS.........................................................................................................................3
MANAGEMENT SUMMARY..................................................................................................................4
1.1. INFORMATION ON SUPERVISORY AUTHORITY’S ACTIONS IN THE PAST AND NEAR FUTURE...........................................................................................................4
CORPORATE PROFILE AND KEY INVESTMENTS.................................................................4
CAPITAL ADEQUACY.....................................................................................................................5
PROFITABILITY.............................................................................................................................6
6. BALANCE SHEET DEVELOPMENTS.....................................................................................6
7. RISKS FACTORS.........................................................................................................................7
6.1. CREDIT AND CONCENTRATION RISK.............................................................................8
6.2. FINANCIAL RISKS...................................................................................................................9
6.2.1 MARKET RISK...................................................................................................................9
6.2.2 INTEREST RATE RISK.......................................................................................................10
6.2.3 LIQUIDITY RISK..............................................................................................................11
6.3 OPERATIONAL RISK..............................................................................................................11
6.4 STRATEGIC RISK AND SPECIAL TOPICS.................................................................12
7. ICAAP.......................................................................................................................................13

ANNEX 1 FINANCIAL STATEMENTS IN EUR AS OF 31.12.200X...............................15
ANNEX 2 FILL-IN HELP FOR THE RISK MATRIX IN THE MANAGEMENT SUMMARY..16

ANNEX 3 ASSISTANCE FOR THE CALCULATION OF FINANCIAL RATIOS IN THE “KEY FINANCIAL FIGURES” TABLE............................................17
## BANK HIGHLIGHTS

Supervisory figures Table

<table>
<thead>
<tr>
<th>Country Bank name</th>
<th>Weighting</th>
<th>Rating</th>
<th>Weighted Rating</th>
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<td><strong>Capability of Coverage</strong></td>
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<td>Capital adequacy</td>
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<td><strong>Risks</strong></td>
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<td><strong>Total</strong></td>
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**Rating ICAAP**

**Overall Rating**

Weighted Rating = Weighting X Rating

### KEY FINANCIAL FIGURES

<table>
<thead>
<tr>
<th>in EUR Millions</th>
<th>Year 200X</th>
<th>Year 200X-1</th>
<th>Change Year 200X-2</th>
<th>Change</th>
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<tr>
<td>Balance sheet main items</td>
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<tr>
<td>Total assets</td>
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<td>Loans and advances to customers</td>
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<td>Customer accounts</td>
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<td><strong>Profit and loss</strong></td>
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<tr>
<td>Operating Income</td>
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<tr>
<td>Operating costs</td>
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<tr>
<td>Operating profit (loss)</td>
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<tr>
<td>Pre-tax profit</td>
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<td>Net profit after minorities</td>
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<td><strong>Profitability ratios</strong></td>
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<td>ROE (after taxes) (%)</td>
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<tr>
<td>ROA (after taxes) (%)</td>
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1- MANAGEMENT SUMMARY

The management summary presents:

a) a brief snapshot of the bank (no more than two paragraphs);

b) a concise analysis of need for supervisory action (if any);

c) a brief presentation of the supervisory history;

in order to understand the comprehensive assessment of the group by the supervisor.

1.1 INFORMATION ON SUPERVISORY AUTHORITY’S ACTIONS IN THE PAST AND NEAR FUTURE

a) supervisory actions taken and planned, information on on-site audits (motivation, scope, frequency) and main conclusions.

b) IRB models: main terms and measures.

c) Internal models, market risk: main terms and measures.

d) Operational risk, AMA models: main terms and measures.

2-CORPORATE PROFILE AND KEY INVESTMENTS

The questions under this paragraph are aimed at assessing the adequacy of the bank’s organisation to support its strategies and operations:

a) Ownership structure: who are the main shareholders, apart from the parent company?

b) What is the bank’s business model?

c) In what key markets does the bank operate?

d) What performance goals has the bank established for the next few years?

e) How is the bank’s management structured? (Attach an organisational chart)
f) Have any material changes taken place in the bank recently?

g) What are the bank’s external ratings (if any, by whom)?

h) Are there any specific risks in the local market that you would like to draw attention to?

i) Do the participations have a material influence on the profitability of the banking group? (Total amount of participations and % of total assets)

j) Does the bank own equity in financial institutions or industrial enterprises?

k) How actively is the bank involved in the management of the participations?

l) Has the bank acquired or founded participations?

3 - CAPITAL ADEQUACY

The questions under this paragraph are aimed at assessing the capacity of the bank’s capital (both regulatory and economic) to absorb unexpected losses.

Capital and Capital Requirements

<table>
<thead>
<tr>
<th>in EUR Mio</th>
<th>Year 200x</th>
<th>Year 200x-1</th>
<th>Year 200x-2</th>
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<tbody>
<tr>
<td>Core Tier 1</td>
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<td>Tier 1</td>
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<td>Tier 3</td>
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<tr>
<td><strong>Total capital</strong></td>
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<tr>
<td>Capital requirements for credit risk</td>
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<td>Capital requirements for market risks</td>
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<tr>
<td>Capital requirements for operational risks</td>
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<tr>
<td>Other requirements</td>
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<tr>
<td><strong>Total capital requirements for risks</strong></td>
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<tr>
<td><strong>Capital ratios</strong></td>
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<tr>
<td>Core Tier 1 Ratio</td>
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<td>Tier-1 Ratio</td>
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<tr>
<td>Solvency Ratio</td>
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</table>

* see definition in Annex 3

Equity capital target

| % of minimum capital requirements (under Pillar 1) |          |
| Tier 1 capital as a % of target |          |
| Tier 2 capital as a % of target |          |

Is the bank sufficiently capitalised given its risk profile and expansion speed?

a) What sub items does capital break down into (quality of capital)?

b) Does the bank dispose of sufficient equity to finance possible additional expansion?
The table below replicates the assessment of the capital adequacy profile of the group summarised in the first table reporting supervisory figures. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Rating</th>
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</table>

*** (0% - 100%)
**** (1-X, as in Appendix)

4 - PROFITABILITY

The questions under this paragraph are aimed at assessing the profit generating capacity of the bank in terms of granting coverage of the main needs and income stability (i.e.: how the profit is formed)

a) What are the bank’s main sources of income?

b) How are the main elements of the income statements developing?

c) How is the bank’s operating performance (before and after considering credit risk costs) developing?

d) How significant is the cost of credit risk (provide the ratio between provisions and write downs to average gross loans and advances to customers);

e) Is the cost of credit risk high as a percentage of claims on nonbanks or of risk assets?

f) What percentage of operating income and of interest income has the bank used for credit risk provisions?

g) Do extraordinary profits contribute (substantially) to overall performance?

h) What is the risk-return profile of the bank?

i) Provide a breakdown of profit by regions and segments

j) Are there any concentrations and related strong dependencies?

The table below replicates the assessment of the profitability profile of the group summarised in the first table reporting supervisory figures. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Rating</th>
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<td>****</td>
</tr>
</tbody>
</table>

*** (0% - 100%)
**** (1-X, as in Appendix)
5 - BALANCE SHEET DEVELOPMENTS

The questions under this paragraph are aimed at assessing the quality of the structure of the balance sheet and the level of asset/liability mismatch.

a) How is the bank’s balance sheet structured?

b) Which balance sheet items predominate?

c) Which balance sheet items have posted large changes in recent years?

d) What are the bank’s main funding sources?

e) Can the bank refinance itself largely through nonbank deposits, or does it resort heavily to the interbank market (high interbank liabilities) or to capital market funding (securities issues)?

f) What is the percentage of intangible fixed assets (e.g., goodwill...) to total assets?

The table below replicates the assessment of the balance sheet developments of the group summarised in the first table reporting supervisory figures. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>***</td>
<td>****</td>
</tr>
</tbody>
</table>

*** (0% - 100%)

**** (1-X, as in Appendix)

6 - RISK FACTORS

6.1 CREDIT AND CONCENTRATION RISK

The questions under this paragraph should be aimed at assessing the quality and concentration of the asset portfolio.

Standardised Approach

| Risk Weights | Exposure Value | Capital requirements |
Of which secured by commercial real estate
75%
100%
Of which secured by commercial real estate
150%
200%
Other risk weights

<table>
<thead>
<tr>
<th>Obligor grade</th>
<th>Probability of Default</th>
<th>Average LGD</th>
<th>Exposure Value</th>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please describe the validation results for the IRB rating models. Are there any significant weaknesses?

**Breakdown of counterparty loan and credit quality**

**Year 200X**

<table>
<thead>
<tr>
<th>Category</th>
<th>in %</th>
<th>of which non-performing loans</th>
<th>Total Risk provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Past due</td>
<td>Other</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector entities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 31.12.200x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage Ratio</td>
<td></td>
<td></td>
<td>*</td>
</tr>
</tbody>
</table>

**Year 200X-1**

<table>
<thead>
<tr>
<th>Category</th>
<th>in %</th>
<th>of which Non-performing loans</th>
<th>Total Risk provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Past due</td>
<td>Other</td>
</tr>
<tr>
<td>Banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector entities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporates</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Retail 
Other loans
Total 31.12.200x
Coverage Ratio *

* Coverage = Total Risk provisions / Total Non-performing loans

** Securitisation

<table>
<thead>
<tr>
<th>Nominal Exposure value</th>
<th>Originator / Investor</th>
<th>Exposure type</th>
<th>Securitisation type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>*</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*</td>
<td>**</td>
<td></td>
</tr>
</tbody>
</table>

* Please choose between: Senior, Mezzanine, Junior
** Please choose between: Synthetic or Traditional

** Concentration

Please fill in the top 10 customer loans and advances and securities with the amounts outstanding (gross)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

a) How has credit exposure developed (growth, stagnation)?

b) How is credit risk distributed among sectors and regions?

c) Provide a breakdown of provisions by portfolio and rating class

d) How does the ratio of total risk provisions to total non-performing loans compare with the average for the financial system?

e) What is the share of exposures secured by residential and commercial real estate?

f) What is the bank’s exposure to special purpose vehicles (SPVs) or (consolidated or unconsolidated) conduits?

g) What is the bank’s exposure to asset-backed securities?

h) Has the bank recently sold assets to special purpose or other off-balance vehicles?

The table below replicates the assessment of the credit risk profile of the group summarised in the first table reporting supervisory figures. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.
<table>
<thead>
<tr>
<th>Approach used by Bank</th>
<th>Capital requirement for risk</th>
<th>Weighting</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>**</td>
<td>***</td>
<td>****</td>
</tr>
</tbody>
</table>
* (Standardised or IRB) | *** (0% - 100%)             |
** Amount in EUR        | **** (1-X, as in Appendix)  |

6.2 Financial Risks

6.2.1 Market Risk

The questions under this paragraph should be aimed at assessing the risks and the results obtained in the bank’s trading business on its own account.

Capital Requirement

<table>
<thead>
<tr>
<th>Obligor grade</th>
<th>Standardised Approach</th>
<th>Value at Risk</th>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>General debt securities risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General equity securities risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific debt securities risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific equity securities risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIU risk in the trading book</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock index futures risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other risks with options</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodity risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Risk Standardised Approach</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Counterparty Risk

| Internal Model                             |                       |               |                     |
| Total Market Risk                          |                       |               |                     |

Please describe the validation results for the internal models.

Are there any significant weaknesses?

a) What are the main market risk factors for the bank?

b) How is the bank’s market risk distributed among the individual risk categories?

c) What market movements is the bank exposed to?

d) Does the bank actively manage the structure of its balance sheet?
e) Does the bank manage interest rate risk from an earnings perspective or from an economic value perspective?

f) Which currencies determine the bank’s interest rate risk?

g) In which currency are the material open foreign exchange positions of the group?

h) How large is the influence of derivatives on market risk?

i) What are the implications of stress tests on the market risk for the trading book?

j) What are the bank’s largest stock market exposures?

The table below replicates the assessment of the market risk profile of the group summarised in the first table reporting supervisory figures. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Approach used by Bank</th>
<th>Capital requirement for risk</th>
<th>Weighting</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>**</td>
<td>***</td>
<td>****</td>
</tr>
</tbody>
</table>

* (Standardised or Internal Model)  *** (0% - 100%)

** Amount in EUR  **** (1-X, as in Appendix)

6.2.2. Interest rate risk

This paragraph is aimed at measuring the exposure to the interest rate risk with respect to the assets and liabilities in the banking book. Mitigation policies and controls are described

Interest Rate Risk in the Banking Book:

<table>
<thead>
<tr>
<th>Result of Standard Shock</th>
<th>Relation to Capital (%)</th>
</tr>
</thead>
</table>

6.2.3 Liquidity Risk

The questions under this paragraph are aimed at assessing the equilibrium of the expected cash flows over a predefined time horizon.

a) What are the bank’s main sources of funding (parent company, customer deposits, security issues, interbank liabilities)?

b) Provide the maturity profile of assets and liabilities.

c) What is the amount of refinancing via short-term interbank liabilities, short-term commercial papers or other capital market related instruments?
d) What is the amount/percentage of easily realisable funds (cash, marketable securities) on the asset side to cover any liquidity shortages? If possible, the residual maturity statistics should be analysed.

e) In which maturity bands does the bank have the largest net borrowing positions?

f) How does the bank measure and monitor its liquidity risk?

g) Does the bank have a long-term liquidity plan?

h) Does the bank regularly evaluate short-term liquidity needs?

i) Please provide the following internationally recognised ratios:

<table>
<thead>
<tr>
<th></th>
<th>Year 200X</th>
<th>Year 200X-1</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>loan-to-deposit ratio (*)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>interbank ratio (**)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* ratio of claims on customers to deposits from customers;

** ratio of interbank claims to interbank liabilities.

The table below replicates the assessment of the liquidity risk profile summarised in the supervisory figures table above. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

*** (0% - 100%)

**** (1-X, as in Appendix)

6.3 Operational Risk

This paragraph aims at the assessment of operational risks (including reputational and compliance risk). An analysis of the operational risk exposure, mitigation policies and controls is provided.

Banks using TSA should complete the following table

Operational Risk: Gross Income per Business Segment

<table>
<thead>
<tr>
<th>Banking Activities</th>
<th>Gross Income Last Year</th>
<th>Gross Income Year -2</th>
<th>Gross Income Year -3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading and Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Brokerage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banking</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Operational loss for Event Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of events</th>
<th>Total loss amount</th>
<th>Maximum single loss</th>
<th>Medium loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>200X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200X-1</td>
<td>Number of events</td>
<td>Total loss amount</td>
<td>Maximum single loss</td>
<td>Medium loss</td>
</tr>
</tbody>
</table>

The table below replicates the assessment of the liquidity risk profile summarised in the supervisory figures table above. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Approach used by Bank</th>
<th>Capital requirement for risk</th>
<th>Weighting</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>*</td>
<td>**</td>
<td>***</td>
<td>****</td>
</tr>
</tbody>
</table>

* (Basic Indicator, Standardised or AMA)

** Amount in EUR

### 6.4 Strategic Risk and Special Topics

This paragraph aims at assessing other risks, in particular strategic risk and the adequacy of the bank’s organisation structure with respect to its strategies and operations.

#### Risks

1) Strategic risk (which depends on the analysis of the business model),

2) Management risk (how highly do the examiners rate the quality of management, how does management behave during discussions with examiners, what impression has management given in the past?)

#### Organisation
1) Do one or a few persons dominate in the board of management, or is the board a team of partners on an equal footing? How open is management?

2) How qualified are the bank’s risk managers?

3) Is the supervisory board well informed?

4) How competent is the supervisory board?

5) What are the functions and responsibilities of the Board of Directors relating to the risk management?

6) What kind of internal risk controls have been implemented?

7) What management tools are used to monitor risks?

The table below replicates the assessment of the other risks profile summarised in the supervisory figures table above. An explanatory statement of the weighting and rating chosen by the analyst is included in the analysis.

<table>
<thead>
<tr>
<th>Weighting</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>***</td>
<td>****</td>
</tr>
</tbody>
</table>

*** (0% - 100%)

**** (1-X, as in Appendix)

7- ICAAP

This paragraph aims assessing ICAAP.

Risk Identification

<table>
<thead>
<tr>
<th>Risks</th>
<th>Exposure Type (*):</th>
<th>Exposure Amount</th>
<th>Primary Mitigant (**):</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Credit Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Concentration Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Risks of the Trading Book</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Operational Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Securitisation Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Liquidity Risk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Interest Rate Risk as far as not covered under 3.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Residual Risk from Credit Risk Mitigation Techniques</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Macroeconomic Risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Other Risks</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Choose among: a) Regulatory Capital, b) Internal Capital

Choose among: a) Capital, b) Control System, c) Other Mitigation Techniques.

**Annex 1**

Include the Financial statements in EUR as of 31.12.200X

**Annex 2**

Fill-in help for the risk matrix in the management summary.

The weighting and the rating have to be decided by the local analyst. The weightings below can be used by the local analyst if they cannot be verified. The total should always be 100. The rating is the result of the information that was considered in the sections above and has to be explained.

<table>
<thead>
<tr>
<th>Example</th>
<th>Country</th>
<th>Weighting</th>
<th>Rating (EXAMPLE!)</th>
<th>Weighted Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bank name</td>
<td>Weighting</td>
<td>Rating (EXAMPLE!)</td>
<td></td>
</tr>
<tr>
<td><strong>Capability of Coverage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital adequacy</td>
<td></td>
<td>20</td>
<td>2</td>
<td>0,4</td>
</tr>
<tr>
<td>Profitability</td>
<td></td>
<td>20</td>
<td>3</td>
<td>0,6</td>
</tr>
<tr>
<td>Balance sheet developments</td>
<td></td>
<td>10</td>
<td>4</td>
<td>0,4</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit and Concentration Risk</td>
<td></td>
<td>20</td>
<td>4</td>
<td>0,8</td>
</tr>
<tr>
<td>Financial risk</td>
<td></td>
<td>10</td>
<td>3</td>
<td>0,3</td>
</tr>
<tr>
<td>Thereof Market risk</td>
<td></td>
<td>3</td>
<td>0,3</td>
<td></td>
</tr>
<tr>
<td>Thereof Interest rate risk</td>
<td></td>
<td>3</td>
<td>0,2</td>
<td></td>
</tr>
<tr>
<td>Thereof Liquidity Risk</td>
<td></td>
<td>5</td>
<td>4</td>
<td>0,2</td>
</tr>
<tr>
<td>Operational Risk</td>
<td></td>
<td>5</td>
<td>1</td>
<td>0,3</td>
</tr>
<tr>
<td>Other Risks</td>
<td></td>
<td>10</td>
<td>3</td>
<td>0,1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>100</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

**Rating ICAAP**

**Overall Rating**

Weighted Rating = Weighting \times Rating

---

14
Scoring (Example)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Increasing risk</th>
<th>Deterioration of the control environment</th>
</tr>
</thead>
</table>

1 …. Best rating, insignificant risk

X …. Worst rating, risk of default

**Annex 3**

Assistance for the calculation of financial ratios in the “Key Financial Figures” Table

<table>
<thead>
<tr>
<th>Financial Ratios</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE (after taxes) (%)</td>
<td>Profit after tax and after minorities / ((total equity Year 200X + Total equity Year 200X-1)/2 x 100)</td>
</tr>
<tr>
<td>ROA (after taxes) (%)</td>
<td>Profit after tax and after minorities / ((total assets Year 200X + Total assets Year 200X-1)/2 x 100)</td>
</tr>
<tr>
<td>C/I Ratio (%)</td>
<td>(Operating expenses* / operating income**) x 100</td>
</tr>
<tr>
<td>Tier 1 Ratio (Tier 1 / assessment base) (%)</td>
<td>Tier 1*** x 100 / Total capital requirements**** * 12,5</td>
</tr>
<tr>
<td>Solvency Ratio ((Tier 1+Tier 2+Tier 3) / assessment base) (%)</td>
<td>(Tier 1 + Tier 2 + Tier 3) / Total capital requirements**** * 12,5</td>
</tr>
<tr>
<td>RWA (Banking book) / Total assets (%)</td>
<td>RWA (Banking book) / Total assets x 100</td>
</tr>
<tr>
<td>Provisions and write downs/ average loans and advances to customers (gross) (%)</td>
<td>Risk provisions for loans and advances / customer loans and advances x 100</td>
</tr>
<tr>
<td>Net interest margin (average assets) (%)</td>
<td>Net interest income / ((Total assets Year 200X + Total assets Year 200X-1)/2) x 100</td>
</tr>
</tbody>
</table>

* Operating expenses = personnel costs, operating expenditure, depreciation
** Operating income = net interest yield, net commissions earnings, income from investments, income from trading activities
*** Tier 1 = Tier 1 less deductible items
**** Based on capital requirements for credit risk, market risk and operational risk