CENTRALE BANK VAN ARUBA

Chart of Accounts Manual

EXAMPLES DOCUMENT

(September 2018)

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1 ACRONYMS

BIA	Basic Indicator Approach
CAR	Capital Adequacy Ratio
CBA	Centrale Bank van Aruba
CCF	Credit Conversion Factor
CoA	Chart of Accounts
IFRS	International Financial Reporting Standards
LTV	Loan-to-Value
RDS	Report Delivery System
RWA	Risk-Weighted Assets
SSs	Supporting Schedules

2 INTRODUCTION

The examples contained in this document serve to illustrate the calculations for and the reporting of some of the CoA reports.

The CoA Examples document, together with the CoA manual – Main document and the CoA manual – Attachments document comprises the CoA Manual.

3 CoA REPORTS

The CoA reports comprise:

- Balance Sheet;
- Profit and Loss Statement;
- Contingent Liabilities;
- Sub-reports I and II;
- Supporting Schedules (SSs).

The CoA reports are accessible to all reporting institutions through their Report Delivery System (RDS). The CoA reports are also available on the CBA's website.

4 WORKED EXAMPLES

The following worked examples are included in the CoA Manual – Examples document:

Example 4.1 Mortgages in Sub-report II and Residential Mortgage Loans in SS 1C
Example 4.2 Capital Adequacy Ratio in SS 1A
Example 4.3 Risk-Weighted Assets for operational risk – Basic Indicator Approach in SS 1F-1
Example 4.4 General Market Risk for Interest rate related instruments in SS 1H-2

5 EXAMPLE 4.1 Mortgages in Sub-report II and Residential Mortgage Loans in SS 1C

This worked example serves to illustrate the process a reporting institution must go through to report mortgages and calculate the risk weighted assets (RWA) for residential mortgages.

The example is based on the instructions of Sub-report II and Supporting Schedule (SS) 1C.
All amounts are in Afl. 1,000.

Assume that all mortgage loans of a reporting institution are to residents. The other data of the loans are as follows on the reporting date September 30, 20XX.

Mortgages for (purchase of) real estate to:

- Governments for a total amount of Afl. 8,000 of which an amount of Afl.4,000 was used to purchase residential property providing housing for certain government officials, and which qualifies as residential mortgages. Half of the qualified amount of residential mortgage has a Loan-To-Value (LTV) ratio of 60% and the other half has an LTV ratio of 45%;
- Other Financial Corporations for a total amount of Afl.4,000 of which an amount of Afl. 3,500 was used to purchase residential property to provide housing for certain executive Board members, and which qualifies as residential mortgage and has an LTV ratio of 65%; and
- Households for a total amount of Afl. 60,000 of which 33.33% does not qualify as residential mortgages. Of the qualified residential mortgages, an amount of Afl. 35,000 has an LTV ratio of 70% and the remaining amount has an LTV ratio of 50%.

Mortgage construction loans to:

- Other non-financial corporations for a total amount of Afl.40,000; and
- Households for a total amount of Afl.19,800 for the construction and or alteration of residences, with an LTV ratio of 20% and which qualifies as residential mortgages.

Other mortgages outstanding to:

- Other depository corporations for a total amount of Afl. 14,800; and
- Households for a total amount of Afl. 35,000 of which Afl. 20,500 qualifies as residential mortgage with an LTV ratio of 50%.

Reporting mortgages on Sub-report II:

The mortgages described above should be reported in Sub-Report II as follows:

- In Sub-report II – Part A: all the mortgages for purchase of real estate for an amount of Afl. 72,000;
- In Sub-report II – Part B: the construction loan totaling an amount of Afl. 59,800;
- In Sub-report II – Part C: the other mortgages totaling an amount of Afl. 49,800; and
- In Sub-report II – Part D: the mortgages reported in Sub-reports II- Parts A, B and C that qualify as residential mortgages for a total amount of Afl. 87,800. Afl.47,300 of the total amount has an LTV ratio of up to and including 50%. Afl.40,500 of the total amount has an LTV ratio between 50% up to and including 70%.

The reporting of the above information is illustrated in the examples 3.1 Sub-report II and SS 1C.

Furthermore, the enclosed table 3.1 depicts the distribution of the abovementioned data on extended mortgages in mortgages that do not meet and those that meet the qualification criteria of residential mortgages. The latter mortgages are further distributed in one of the two distinguished segments of LTV ratios to provide the data for the RWA calculation in SS 1C.

Calculating the RWA for residential mortgage loans in SS 1C:

The above-mentioned amounts of Afl. 47,300 and Afl. 40,500 will be captured and risk-weighted by 35% and 50%, respectively, in SS 1C, which will result in Afl. 16,555 and Afl. 20,250 RWA in SS 1C.

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SUB-REPORT II

CENTRALE BANK VAN ARUBA

Statistics Department

MORTGAGES

CONFIDENTIAL

Amounts in Afl. 1,000

Reporting frequency: monthly

PART IIA: MORTGAGES FOR (PURCHASE OF) REAL ESTATE

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

ACCOUNT ITEM	MORTGAGES FOR (PURCHASE OF) REAL ESTATE	RESIDENT		NON RESIDENT		TOTAL
		AFL	FC	AFL	FC	
		(1)	(2)	(3)	(4)	
1403 001	**Mortgages for (purchase of) real estate to**					
1403 011	Governments	8,000				8,000
1403 031	Other Depository Corporations					-
1403 041	Other Financial Corporations	4,000				4,000
1403 051	Public Nonfinancial Corporations					-
1403 061	Other Nonfinancial Corporations					-
1403 071	Households	60,000				60,000
1403 091	Other					-
1403 001	Total mortgages for (purcahase of) real estate	72,000	-	-	-	72,000

PART IIB: MORTGAGES CONSTRUCTION LOANS

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

ACCOUNT ITEM	MORTGAGES CONSTRUCTION LOANS	RESIDENT		NON RESIDENT		TOTAL
		AFL	FC	AFL	FC	
		(1)	(2)	(3)	(4)	
1403 002	**Mortgages construction loans to**					
1403 012	Governments					-
1403 032	Other Depository Corporations					-
1403 042	Other Financial Corporations					-
1403 052	Public Nonfinancial Corporations					-
1403 062	Other Nonfinancial Corporations	40,000				40,000
1403 072	Households	19,800				19,800
1403 092	Other					-
1403 002	Total mortgages construction loans	59,800	-	-	-	59,800

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Statistics Department
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SUB-REPORT II (cont'd)
MORTGAGES
Amounts in Afl. 1,000
Reporting frequency: monthly

PART IIC: MORTGAGES OTHERS

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

ACCOUNT ITEM	MORTGAGES OTHERS	RESIDENT		NON RESIDENT		TOTAL
		AFL	FC	AFL	FC	
		(1)	(2)	(3)	(4)	
1403 003	**Mortgages other loans to**					
1403 013	Governments					-
1403 033	Other Depository Corporations	14,800				14,800
1403 043	Other Financial Corporations					-
1403 053	Public Nonfinancial Corporations					-
1403 063	Other Nonfinancial Corporations					-
1403 073	Households	35,000				35,000
1403 093	Other					-
1403 003	Total mortgage other loans	49,800	-	-	-	49,800

PART IID: MORTGAGES MEETING THE QUALIFICATION CRITERIA

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

ACCOUNT ITEM	MORTGAGES MEETING THE QUALIFICATION CRITERIA	RESIDENT		NON RESIDENT		TOTAL
		AFL	FC	AFL	FC	
		(1)	(2)	(3)	(4)	
1403 004	**Mortgages meeting qualification criteria**					
1403 014	Governments	4,000				4,000
1403 034	Other Depository Corporations					-
1403 044	Other Financial Corporations	3,500				3,500
1403 054	Public Nonfinancial Corporations					-
1403 064	Other Nonfinancial Corporations					-
1403 074	Households	80,300				80,300
1403 094	Other					-
1403 004	Total mortgages meeting qualification criteria:	87,800	-	-	-	87,800
	Of which: with Loan-to-value ratios between 50% up to and including 70%					40,500
	Of which: with Loan-to-value ratios up to and including 50%					47,300

Table 4.1 **Analysis of EXAMPLE 3.1** **MORTGAGES**

Distribution of mortgages: according to Not meeting and Meeting qualification criteria and LTV ratios

		MORTGAGES				
		Total:	Of which (not) meeting qualification criteria		Meeting qualification criteria, of which with LTV ratio:	
1403 001	**Mortgages for (purchase of) real estate to:**		Not meeting	Meeting	50 - =<70%	=< 50%
1403 011	Governments	8,000	4,000	4,000	2,000	2,000
1403 041	Other Financial Corporations	4,000	500	3,500	3,500	-
1403 071	Households	60,000	20,000	40,000	35,000	5,000
1403 001	Total:	72,000	24,500	47,500	40,500	7,000
1403 002	**Mortgages construction loans to:**					
1403 062	Other Financial Corporations	40,000	40,000			
1403 072	Households	19,800		19,800	-	19,800
1403 002	Total:	59,800	40,000	19,800	-	19,800
1403 003	**Mortgages other loans to:**					
1403 033	Other Depository Corporations	14,800	14,800			
1403 073	Households	35,000	14,500	20,500		20,500
1403 003	Total:	49,800	29,300	20,500	-	20,500
	Total mortgages: total of 1403 001, 1403 002, 1403 003	181,600				
	Total mortgages Not meeting the qualification criteria:		93,800			
	Total mortgages Meeting the qualification criteria:			87,800		
	Total mortgages Meeting the qualification criteria: Of which: with Loan-to-value ratios between 50% up to and including 70%				40,500	
	Total mortgages Meeting the qualification criteria: Of which: with Loan-to-value ratios up to and including 50%					47,300

6 EXAMPLE 4.2 Capital Adequacy Ratio in SS 1A

This worked example illustrates the process a reporting institution goes through to calculate and report the capital adequacy ratio (CAR) in some related supporting schedules (SSs). The steps are explained in Figures 1 to 5.

The example is based on the instructions of supporting schedule (SS) 1A and the other related SSs. All amounts are in Afl. 1,000.

Assume that a reporting institution's data are as follows on the reporting date September 30, 20XX

General data:

Figure 4.2.1

Balance sheet (Afl. 1,000)	**September 30, 20XX**		
Assets		**Liabilities & Equity**	
Fixed assets	25	*Equity:*	
Shareholding in other bank	4	- Ordinary capital	7
Goodwill	3	- Redeemable preference shares	3
Commercial loans	64	- Retained earnings	8
Mortgages household	52	- Revaluation reserve	4
Lending to banks	30	*Total equity*	22
Government bonds (5 years)	20	General provision for bad debts	2
Cash on hand	11	Subordinated debentures	3
		Deposits	182
Total Assets	**209**	***Total Liabilities***	**209**

<u>Additional information:</u>

- Government bonds refer to the Government of Aruba;
- The redeemable preference shares concern limited life redeemable preference shares. There remaining maturity is less than and including 4 but more than 3 years. The shares meet the other qualifications set out in the CoA Manual;

- The remaining maturity of the subordinated debentures is more than 4 years. The debentures also meet the other qualifications;
- Regarding the lending to banks, Afl. 15 has a remaining maturity of 3 months and more and Afl. 15 has a remaining maturity less than 3 months;
- The Afl. 52 mortgages household regards residential mortgage loans of which Afl. 42 has an LTV ratio > 50% and less than 70%, and the remaining Afl. 12 has an LTV ratio up to 50%; and
- Of the revaluation reserve Afl. 1 regards the revaluation of property, plant and equipment.
- The aggregated risk-weighted assets of the previous reporting period is Afl. 215.
- The total capital base of the previous reporting period is Afl. 19.

The reporting of the above information is illustrated in the example SS 1C.

Figure 4.2.2

Off-Balance sheet exposures (Afl.1,000) **September 30, 20XX**	
	Nominal Principal Amount
Direct credit substitute (guarantee of financial obligations)	10
Asset sale with recourse	18
Loan commitment with certain drawdown	23
Transaction related contingent item (performance bond)	8
Underwriting facility	28
Short term self liquidating trade related contingency	30
6 month forward foreign exchange contract (replacement cost = 4)	100
4 year interest rate swap (replacement cost =4)	200
Total	**417**
Note: the foreign exchange contract and interest rate swap are with non-rated banks. All other transactions are with non-bank customers, which have never been rated.	

Calculations:

First step – Calculation of Capital

Figure 4.2.3

Calculation of Capital (Afl. 1,000)	
Tier 1 Capital:	**Amount**
Ordinary capital	7
Retained earnings	8
Less Goodwill (100% deduction)	-3
Less Shareholding in other bank (50% deduction)	-2
Net Tier 1 Capital	**10**
Tier 2 Capital:	
Revaluation reserve	4
General bad debt provision	2
Redeemable preference shares (80% of 3)	2*
Subordinated debentures (100% of 3)	3
Less prudential filter: revaluation of fixed assets	-1
Adjusted Tier 2 Capital	10
Less Shareholding in other bank (50% deduction)	-2
Net Tier 2 Capital	8
Total Capital Base	**18**

***) rounding from 2.4 to 2.**

The reporting of the above information is illustrated in the examples 4.2 SS 1A and 4.2 SS 1B.

Second step – Calculation of Credit Exposures

On-balance Sheet Exposures

The categories into which all credit exposures are assigned for capital adequacy ratio purposes, and the risk weight percentages by which the balance sheet amounts are weighted, are as follows:

Credit Exposure Type	Risk Weight Percentage
Cash	0%
Claims on government	0%
Claims on banks < 3 months	20%
Claims on banks > 3 months	50%
Claims on RM[1] with LTV ratio > 50% < 70%	35%
Claims on RM with LTV ratio up to and including 50%	50%
Commercial loans	100%
Fixed assets	100%

Off-balance Sheet Exposures

Step a: Calculation of the credit equivalents amounts

Listed below are the categories of credit exposures, and their associated "credit conversion factor" ("CCF"). The nominal principle amounts in each category are multiplied by the CCF to obtain a "credit equivalent amount":

Credit Exposure type	Credit Conversion Factor (%)
Direct credit substitute	100
Asset sale with recourse	100
Loan commitment with certain drawdown	100
Transaction related contingent item (performance bond)	50
Underwriting facility	50
Short term self liquidating trade related contingency	20

The final category of off-balance sheet credit exposures, market related contracts (derivatives: i.e. interest rate and foreign exchange rate contracts), is treated differently from the other categories. Credit equivalent amounts are calculated by adding the following:

[1] Residential Mortgages

a. Current exposure – this is the market value of a contract i.e. the amount the reporting institution could get by selling its rights under the contract to another party (counted as zero for contracts with a negative value); and

b. Potential exposure i.e. an allowance for further changes in the market value, which is calculated as a percentage of the nominal principal amount as follows:

Interest rate contracts > 1 year	0,5%
Exchange rate contracts < 1 year	1%

<u>Step b: Calculation of Risk Weighted Assets (RWA)</u>

The credit equivalent amounts of all off-balance sheet exposures are risk weighted by the same risk weights that apply to on-balance sheet exposures (i.e. the risk weight appropriate to the counterparty or, if relevant, the guarantor or collateral).

Figure 4.2.4.A

Calculation of credit risk weighted assets (RWA) **On-balance sheet**			
Exposure type	**Amount**	**Risk weight %**	**Risk weighted assets**
Cash	11	0%	0
5 Year Gvt.Stock	20	0%	0
Claims on bank <3months	15	20%	3
Claims on bank ≥3months	15	50%	8*
Claims on RML LTV ratio > 50 till 70%	12	50%	6
Claims on RML LTV ratio up to and including 50%	40	35%	14
Commercial loans	64	100%	64
Fixed Assets	25	100%	25
Total RWA on balance sheet			**119.5**

***8) rounding from 7.5 to 8.**

The reporting of the above information is illustrated in example 4.2 SS 1C.

Figure 4.2.4. B

Calculation of credit risk weighted assets (RWA) Off-balance sheet (Contingent Liabilities)					
Exposure type	**Notional Amount**	**CCF**	**Credit equivalent amount**	**Risk weight**	**Risk weighted assets**
Direct credit substitute	10	100%	10	100%	10
Asset sale with recourse	18	100%	18	100%	18
Commitment with certain drawdown	23	100%	23	100%	23
Transaction related Contingencies (performance bond)	8	50%	4	100%	4
Underwriting facility	28	50%	14	100%	14
Short term self liquidating trade related contingency	30	20%	6	100%	6
Total RWA off balance sheet					**75**

The reporting of the above information is illustrated in the examples 4.2 SS 1D and 4.2 SS 1C.

Figure 4C

Calculation of credit risk weighted assets (RWA) Derivatives						
A	**B**	**C**	**D**	**E**	**F**	**G**
Exposure type	**Notional amount**	**CCF**	**Potential future exposure (add on) (B x C)**	**Current exp (repl. Cost)**	**Risk weight %**	**Risk weighted assets (D+E)*F**
Forward FX contract	100	1%	1	4	20%	1
Interest rate swap	200	0.5%	1	4	50%	3*
Total RWA derivatives						3.5
Total credit risk weighted assets						**198.0**

***3) rounding from 2.5 to 3.**

The reporting of the above information is illustrated in the examples 4.2 SS 1E and 4.2 SS 1C.

Third step – Calculation of Capital Adequacy Ratio (CAR)

The capital adequacy ratio is calculated by dividing the total capital base by the risk weighted assets.

Figure 4.2.5

Calculation of the CAR	
Total capital base to total risk weighted assets=	(18/198)* 100% = 9.1%

The reporting of the above information is illustrated in example 4.2 SS 1A.

For the exclusive use of the			Supporting Schedule 1A
CENTRALE BANK VAN ARUBA	EXAMPLE 4.2		
Statistics Department			CAPITAL ADEQUACY RATIO (CAR)
CONFIDENTIAL			Amounts in Afl. 1,000
			Reporting frequency: monthly
Name of Reporting Institution:			
Reporting Date:			
Level of Reporting:			
ROW	**DESCRIPTION**	**A**	**B**
10	**TOTAL CAPITAL BASE (SS 1B)**		18
20	**TOTAL RISK WEIGHTED ASSETS FOR CREDIT RISK (SS 1C)**	198	
30	**TOTAL RISK WEIGHTED ASSETS FOR OPERATIONAL RISK (SS 1F-1, 1F-2 or 1F-3)**	-	
40	**TOTAL RISK WEIGHTED ASSETS FOR MARKET RISK (SS 1G)**	-	
50	**AGGREGATE RISK WEIGHTED ASSETS** (= sum of rows 20A, 30A and 40A)		198
60	**CAPITAL ADEQUACY RATIO (CAR) PERCENTAGE** (= rows 10B / 50B x 100%)		9.1%
70	**AGGREGATE RISK WEIGHTED ASSETS PREVIOUS REPORTING PERIOD**	215	

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EXAMPLE 4.2

Supporting Schedule 1B
CAPITAL
Amounts in Afl. 1,000
Reporting frequency: monthly

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

ROW	ACCOUNT ITEM, SUB-REPORT	CAPITAL	AMOUNT	%	CAPITAL BASE
			1	2	3 (= Col. 1 x 2)
		Tier 1 Capital			
10	3101	Share Capital	7	100%	7
20	3102	Share Premium	-	100%	-
30	3104	Other reserves	-	100%	-
40	3105	Retained Earnings	8	100%	8
50	32	Non-controlling Interest	-	100%	-
60		**Tier 1 Capital (= sum of rows 10 through 50)**			15
		Deductions from Tier 1 Capital			
		I. 100% deductions			
70	1901 010	Goodwill	3	100%	3
80	1901 022	Intangible Assets with definite useful lives	-	100%	-
90	1905 000	Disallowed deferred tax assets	-	100%	-
100	6201 210	Disallowed unrealized gains on Financial Assets measured at fair value	-	100%	-
110	6202 210	Disallowed unrealized gains on Financial Liabilities measured at fair value	-	100%	-
120		Shortfall in Tier 2 capital	-	100%	-
		II. 50/50 deductions of (significant) Investments			
130		Equity Investments in Banking, Securities and other Financial Entities (excl Insurance Companies)	4	50%	2
140		Other Regulatory Investments in Banking, Securities and other Financial Entities (excl Insurance Companies)		50%	-
150		Reciprocal Crossholdings designed to artificially inflate the capital position of the reporting institution		100%	-
160		Participation in Insurance Subsidiaries and significant minority investments in Insurance Entities (insurance undertakings, reinsurance undertakings, insurance holding companies)		50%	-
170		Other Regulatory Capital Investments in Insurance Subsidiaries and significant minority investments in Insurance Entities (insurance undertakings, reinsurance undertakings, insurance holding companies)		50%	-
180		Investments in Commercial Entities exceeding the materiality level ≥20%		50%	-
190		**Total Deductions from Tier 1 Capital (= sum of rows 70 through 180)**			5
200		**Net Tier 1 Capital (> 75% Total capital Base) (= rows 60 less 190)**			10
		Tier 2 Capital			
210	3103 100	Revaluation reserves	4	100%	4
220	3103 200	Regulatory reserves	2	100%	2
	2801 100 and 2802	**Subordinated Debentures and limited life redeemable preference shares Qualifying as Tier 2 Capital**			
230		> 4 years	3	100%	3
240		4 ≤ 3 years	3	80%	2
250		3 ≤ 2 years		60%	-
260		2 ≤ 1 years		40%	-
270		≤ 1year		20%	-
280		Total Subordinated Debentures and Limited life redeemable preference shares (max. 50% of net tier 1) (= sum of rows 230 through 270)			5
290		**Tier 2 Capital (= sum of rows 210, 220 and 280)**			11
		Adjustment on tier 2 capital (deduction of prudential filters)			
300	3103 150	Revaluation Reserves Property Plant and Equipment	1	100%	1
310	3103 160	Revaluation of intangible assets with indifinite useful life	-	100%	-
320	3103 170	Revaluation of investment property	-	100%	-
330	3103 180	Disallowed unrealized reserves for Available for Sale Investments	-	100%	-
340	3103 130	Changes in fair value of equity investments measured at fair value that is not held for sale	-	100%	-
350	3103 140	Changes in fair value of financial liabilities measured at fair value attributable to changes in credit risk	-	100%	-
360	3103 120	Accumulated net/unrealized: gains / (losses) on cash flow hedges	-	100%	-
370		**Total adjustment on Tier 2 capital (= sum of rows 300 through 360)**			1
380		**Adjusted Tier 2 Capital (= row 290 less 370)**			10
		Deductions from Tier 2 Capital:			
390		**50/50 deductions of (significant) Investments**	4	50%	2
400		**Net Tier 2 Capital (max. 100% of Net Tier 1 Capital) (= rows 380 less 390)**			8
410	SS 5B	**Excess 2% limit on credit extensions to principal shareholders, supervisory directors, executive officers and related/affiliated companies**			-
420		**TOTAL CAPITAL BASE (= sum of rows 200 and 400, less 410)**			18
		TOTAL CAPITAL BASE (previous period) *)			19

For the exclusive use of the					Supporting Schedule 1C
CENTRALE BANK VAN ARUBA					
Statistics Department		EXAMPLE 4. 2			RISK-WEIGHTED ASSETS
CONFIDENTIAL					STANDARDIZED CREDIT RISK
					Amounts in Afl. 1,000
Name of Reporting Institution:					Reporting frequency: monthly
Reporting Date:					
Level of Reporting:					
ROW	ACCOUNT ITEM, SUB-REPORT	RISK ASSETS	EXPOSURES 1	RISK WEIGHT 2	RISK WEIGHT 3 (= Col. 1 x 2)
	1100 000	**Cash and Deposit Balances**			
10		- Cash and Due from Central Banks and ODCs	11	0%	-
20		- Gold bullion	-	0%	-
30		- Cash items in process of collection and other cash items	-	20%	-
40		**Total Cash and Due from Banks**	11		-
50	1200 000	**Interbank Funds - Sold**	-	20%	-
60	1300 000, 1400 000, 1500 000	**Claims on Aruban Government or Central Bank; non-commercial PSEs of Aruba) denominated and funded in domestic currency**	20	0%	-
	1300 000, 1400 000, 1500 000	**Claims on foreign Governments and Central Banks**			
70		with risk grade 1		0%	-
80		with risk grade 2		20%	-
90		with risk grade 3		50%	-
100		with risk grade 4		100%	-
110		with risk grade 5		150%	-
120		with risk grade 6		100%	-
	1300 000, 1400 000, 1500 000	**Claims on foreign Governments with only ECA risk scores**			
130		With ECA risk scores 0-1		0%	-
140		With ECA risk score 2		20%	-
150		With ECA risk score 3		50%	-
160		With ECA risk scores 4-6		100%	-
170		With ECA risk score 7		150%	-
	1300 000, 1400 000, 1500 000	**Claims on foreign Governments or Central Banks denominated and funded in their foreign domestic currency; Certain foreign PSEs**			
180		Own discretion		0%	-
190		Own discretion		20%	-
200		Own discretion		50%	-
210		Own discretion		100%	-
220		Own discretion		150%	-
230		Own discretion		100%	-
240	1300 000, 1400 000, 1500 000	**Claims on BIS, IMF, ECB and EC; highly rated MDBs**		0%	-

	1300 000, 1400 000, 1500 000	**Claims on MDBs; - non-commercial PSEs of Aruba in foreign currency; - Banks, being with an original maturity of > 3 months; - Other Financial Institutions including Securities firms (excluding Insurance Companies) subject to supervisory and regulatory arrangements**			
250		with risk grade 1		20%	-
260		with risk grade 2		50%	-
270		with risk grade 3		50%	-
280		with risk grade 4		100%	-
290		with risk grade 5		150%	-
300		with risk grade 6	15	50%	8
	1300 000, 1400 000, 1500 000	**Claims on Banks, being with an original maturity of ≤ 3 months**		.	
310		with risk grade 1		20%	-
320		with risk grade 2		20%	-
330		with risk grade 3		20%	-
340		with risk grade 4		50%	-
350		with risk grade 5		150%	-
360		with risk grade 6	15	20%	3
	1300 000, 1400 000, 1500 000	**Claims on Other Financial Institutions including Securities firms (but excluding Insurance Companies) not subject to supervisory and regulatory arrangements; - Corporates including Insurance Companies and commercial PSEs owned by the Government**			
370		with risk grade 1		20%	-
380		with risk grade 2		50%	-
390		with risk grades 3, 4		100%	-
400		with risk grade 5		150%	-
410		with risk grade 6	64	100%	64
420	1300 000, 1400 000, 1500 000	**Claims on unrated Corporates (ONCs). Higher risk weight due to a high default experience in Aruba**		150%	-
430	1400 000	**Claims in the Retail Portfolio**		100%	-
		Residential Mortgage Loans			
440	Sub-report II part IID	- with LTV ratio between 50% up to and including 70%	12	50%	6
450	Sub-report II part IID	- with LTV ratio up to and including 50%	40	35%	14
460	1403 000	**Claims secured by commercial real estate and other mortgage except residential and past due mortgage loans**		100%	-
	1400 000	**Past Due Loans**			
470		- Retail Loans past due for more than 90 days (≥ 3 months) with specific provisions according to supervisory directive on "Loan Loss Provisioning"		125%	-
480		- Residential Mortgages classified as Substandard, Doubtful and Loss		150%	-
490		- All Other past due Loans classified as Substandard with specific provisions according to supervisory directive on "Loan Loss Provisioning"		125%	-
500		- All Other past due Loans classified as Doubtful or Loss with specific provisions according to supervisory directive on "Loan Loss Provisioning"		150%	-
510		**Total Claims (= sum of rows 60 through 500)**			95
520	1600 000, 1700 000	**- Non-current assets held for sale and discontinued operations; - Property, Plant and Equipment**	25	100%	25
530	1900 000	**Other Assets (excluding Goodwill, other Intangible Assets with definite useful lives and gold bullion held on an unallocated basis)**		100%	-
540	1900 000	**Other Assets: Gold bullion on an unallocated basis**		20%	-
	1300 000, 1400 000, 1500 000	**All other: - Investments [(Financial Assets: - measured at fair value; - designated at fair value through profit or loss; -measured at amortized cost and) -Investments in entities accounted for using the equity method]; - Loans; - Customers' Liability on Bankers' Acceptances and; -all other claims on foreign PSEs**			
550		with risk grade 1		0%	-
560		with risk grade 2		20%	-
570		with risk grade 3		50%	-
580		with risk grade 4		100%	-
590		with risk grade 5		150%	-
600		with risk grade 6		100%	-
610		**Total Class 1 (excluding investments in Unconsolidated Subsidiaries and Affiliates, Goodwill and Intangible Assets with definite useful lives) (sum of rows 40, 50 and 510 through 600)**			120
630	SS 1D	**Total Risk Weighted Assets Contingent Liabilities**			75
640	SS 1E	**Total Risk Weighted Assets Derivatives**			4
650		**TOTAL CREDIT RISK-WEIGHTED ASSETS (= sum of rows 610 through 640)**			198.5

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Supporting Schedule 1D

RISK-WEIGHTED ASSETS
STANDARDIZED CREDIT RISK - CONTINGENT LIABILITIES
Amounts in Afl. 1,000

Reporting frequency: monthly

Name of Reporting Institution:	
Reporting Date:	
Level of Reporting:	

			1	2	3	4	5
ROW	**ACCOUNT ITEM**	**CLASS 8 : CONTINGENT LIABILITIES**	**NOTIONAL AMOUNT**	**CREDIT CONVER SION FACTOR**	**CREDIT EQUIVA LENT AMOUN T "CEA" (= Col. 1 x 2)**	**RISK WEIGHT AVERAG E %**	**TOTAL RWA (= Col. 3 x 4)**
	8100 000	**Guarantees Issued**					
	8101 000	Direct credit substitutes					
10		with risk grade 1		100%	-	20%	-
20		with risk grade 2		100%	-	50%	-
30		with risk grade 3		100%	-	100%	-
40		with risk grade 4		100%	-	100%	-
50		with risk grade 5		100%	-	150%	-
60		with risk grade 6	10	100%	10	100%	10
70		**Total Direct credit substiues**	10		10		10
	8102 000	Standby Letters of Credit					
80		with risk grade 1		100%	-	20%	-
90		with risk grade 2		100%	-	50%	-
100		with risk grade 3		100%	-	100%	-
110		with risk grade 4		100%	-	100%	-
120		with risk grade 5		100%	-	150%	-
130		with risk grade 6		100%	-	100%	-
140		**Total Standby Letters of Credit**	-		-		-
	8103 000	Short term, self liquidating trade letters					
150		with risk grade 1		20%	-	20%	-
160		with risk grade 2		20%	-	50%	-
170		with risk grade 3		20%	-	100%	-
180		with risk grade 4		20%	-	100%	-
190		with risk grade 5		20%	-	150%	-
200		with risk grade 6	30	20%	6	100%	6
210		**Total Short term, self liquidating trade letters**	30		6		6

	8104 000	Credit arising from the movement of goods					
220		with risk grade 1		20%	-	20%	-
230		with risk grade 2		20%	-	50%	-
240		with risk grade 3		20%	-	100%	-
250		with risk grade 4		20%	-	100%	-
260		with risk grade 5		20%	-	150%	-
270		with risk grade 6		20%	-	100%	-
280		**Total Credit arising from the movement of goods**	-		-		-
290	8100 000	**Total Guarantees issued (= sum of rows 70, 140, 210 and 280)**					16
	8200 000	**Risk Participations**					
	8201 000	Risk participations in bankers acceptances					
300		with risk grade 1		100%	-	20%	-
310		with risk grade 2		100%	-	50%	-
320		with risk grade 3		100%	-	100%	-
330		with risk grade 4		100%	-	100%	-
340		with risk grade 5		100%	-	150%	-
350		with risk grade 6		100%	-	100%	-
360		**Total Risk participations in bankers acceptances**	-		-		-
	8202 000	Risk participations in financial standby letters of credit					
370		with risk grade 1		100%	-	20%	-
380		with risk grade 2		100%	-	50%	-
390		with risk grade 3		100%	-	100%	-
400		with risk grade 4		100%	-	100%	-
410		with risk grade 5		100%	-	150%	-
420		with risk grade 6		100%	-	100%	-
430		**Total Risk participations in financial standby letters of credit**	-		-		-
440	8200 000	**Total risk participations (= sum of rows 360 and 430)**					-
	8300 000	**Repo-Style Transactions**					
	8301 000	Sale and repurchase agreements					
450		with risk grade 1		100%	-	20%	-
460		with risk grade 2		100%	-	50%	-
470		with risk grade 3		100%	-	100%	-
480		with risk grade 4		100%	-	100%	-
490		with risk grade 5		100%	-	150%	-
500		with risk grade 6		100%	-	100%	-
510		**Total Sale and repurchase agreements**	-		-		-
	8302 000	Assets sales with recourse					
520		with risk grade 1		100%	-	20%	-
530		with risk grade 2		100%	-	50%	-
540		with risk grade 3		100%	-	100%	-
550		with risk grade 4		100%	-	100%	-
560		with risk grade 5		100%	-	150%	-
570		with risk grade 6	18	100%	18	100%	18
580		**Total Assets sales with recourse**	18		18		18

	8303 000	Lending of banks' securities or posting of securities as collateral					
590		with risk grade 1		100%	-	20%	-
600		with risk grade 2		100%	-	50%	-
610		with risk grade 3		100%	-	100%	-
620		with risk grade 4		100%	-	100%	-
630		with risk grade 5		100%	-	150%	-
640		with risk grade 6		100%	-	100%	-
650		**Total Lending of banks' securities or posting of securities as collateral**	-		-		-
660	8300 000	**Total repo-style transactions (= sum of rows 510, 580 and 650)**					18
	8400 000	**Note Issuance Facilities and Revolving Underwriting Facilities**					
670		with risk grade 1		50%	-	20%	-
680		with risk grade 2		50%	-	50%	-
690		with risk grade 3		50%	-	100%	-
700		with risk grade 4		50%	-	100%	-
710		with risk grade 5		50%	-	150%	-
720		with risk grade 6	28	50%	14	100%	14
730		**Total Note Issuance Facilities and Revolving Underwriting Facilities**	28		14		14
	8500 000	**Commitments**					
	8501 000	Forward asset purchases					
740		with risk grade 1		100%	-	20%	-
750		with risk grade 2		100%	-	50%	-
760		with risk grade 3		100%	-	100%	-
770		with risk grade 4		100%	-	100%	-
780		with risk grade 5		100%	-	150%	-
790		with risk grade 6		100%	-	100%	-
800		**Total Forward asset purchases**	-		-		-
	8502 000	Forward forward deposits					
810		with risk grade 1		100%	-	20%	-
820		with risk grade 2		100%	-	50%	-
830		with risk grade 3		100%	-	100%	-
840		with risk grade 4		100%	-	100%	-
850		with risk grade 5		100%	-	150%	-
860		with risk grade 6		100%	-	100%	-
870		**Total Forward forward deposits**	-		-		-
			1	2	3	4	5

ROW	ACCOUNT ITEM	CLASS 8 : CONTINGENT LIABILITIES	NOTIONAL AMOUNT	CREDIT CONVERSION FACTOR	CREDIT EQUIVALENT AMOUNT "CEA" (= Col. 1 x 2)	RISK WEIGHT AVERAGE %	TOTAL RWA (= Col. 3 x 4)
	8503 000	Partly-paid shares and securities					
880		with risk grade 1		100%	-	20%	-
890		with risk grade 2		100%	-	50%	-
900		with risk grade 3		100%	-	100%	-
910		with risk grade 4		100%	-	100%	-
920		with risk grade 5		100%	-	150%	-
930		with risk grade 6		100%	-	100%	-
940		**Total Partly-paid shares and securities**	-		-		-
	8504 000	Commitments with original maturity > 1 year					
950		with risk grade 1		50%	-	20%	-
960		with risk grade 2		50%	-	50%	-
970		with risk grade 3		50%	-	100%	-
980		with risk grade 4		50%	-	100%	-
990		with risk grade 5		50%	-	150%	-
1000		with risk grade 6		50%	-	100%	-
1010		**Total Commitments with original maturity > 1 year**	-		-		-
	8505 000	Commitments with original maturity up to 1 year					
1020		with risk grade 1		20%	-	20%	-
1030		with risk grade 2		20%	-	50%	-
1040		with risk grade 3		20%	-	100%	-
1050		with risk grade 4		20%	-	100%	-
1060		with risk grade 5		20%	-	150%	-
1070		with risk grade 6		20%	-	100%	-
1080		**Total Commitments with original maturity up to 1 year**	-		-		-
1090	8506 000	Commitments unconditionally cancelable by the reporting institution without prior notice	-	0%	-	100%	-
2000	8507 000	Commitments with automatic cancellation due to deterioration in borrowers' creditworthiness	-	0%	-	100%	-
	8508 000	Commitments with certain drawdown					
2010		with risk grade 1		100%	-	20%	-
2020		with risk grade 2		100%	-	50%	-
2030		with risk grade 3		100%	-	100%	-
2040		with risk grade 4		100%	-	100%	-
2050		with risk grade 5		100%	-	150%	-
2060		with risk grade 6	23	100%	23	100%	23
2070		**Total Commitments with certain drawdown**	23		23		23
2080	8500 000	**Total commitments (= sum of rows 800, 870, 940, 1010, 1080, 1090, 2000 and 2070)**					23
2090	**8600 000**	**Pending Litigations**	-	100%	-	100%	-
	8700 000	Performance Related Contingencies					
3000		with risk grade 1		50%	-	20%	-
3010		with risk grade 2		50%	-	50%	-
3020		with risk grade 3	8	50%	4	100%	4
3030		with risk grade 4		50%	-	100%	-
3040		with risk grade 5		50%	-	150%	-
3050		with risk grade 6		50%	-	100%	-
3060		**Total Performance Related Contingencies**	8		4		4
3070	**8900 000**	**All Other Contingent Liabilities**	-	100%	-	100%	-
3080	**8000 000**	**TOTAL RISK WEIGHTED ASSETS CONTINGENT LIABILITIES (= sum of rows 290, 440, 660, 730, 2080, 2090, 3060, 3070)**					75

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Supporting Schedule 1E

RISK-WEIGHTED ASSETS
STANDARDIZED CREDIT RISK - DERIVATIVES CONTRACTS

Amounts in Afl. 1,000

Name of Reporting Institution:
Reporting Date:
Level of Reporting:

Reporting frequency: monthly

			1	2	3	4	5	6	7
ROW	ACCOUNT ITEM	DERIVATIVES CONTRACTS	NOTIONAL AMOUNT	CREDIT CONVERSION FACTOR	POTENTIAL FUTURE EXPOSURES (= Col. 1 x 2)	CURRENT EXPOSURE	CREDIT EQUIVALENT AMOUNT "CEA" (= Col. 3 + 4)	RISK WEIGHT %	TOTAL RWA (= Col. 5 x 6)
	1305 100	**Interest rate contracts**							
10		≤ 1 year remaining term		0.0%	-		-	0%	-
20				0.0%	-		-	20%	-
30				0.0%	-		-	50%	-
40				0.0%	-		-	100%	-
50				0.0%	-		-	150%	-
60				0.0%	-		-	100%	-
70		> 1 year ≤ 5 years remaining term		0.5%	-		-	0%	-
80			200	0.5%	1	4	5	20%	1
90				0.5%	-		-	50%	-
100				0.5%	-		-	100%	-
110				0.5%	-		-	150%	-
120				0.5%	-		-	100%	-
130		> 5 years remaining term		1.5%	-		-	0%	-
140				1.5%	-		-	20%	-
150				1.5%	-		-	50%	-
160				1.5%	-		-	100%	-
170				1.5%	-		-	150%	-
180				1.5%	-		-	100%	-
190		**Total Interest rate contracts (sum of rows 10 up to 180)**							1
	1305 200	**Foreign Exchange rate contracts and gold**							
200		≤ 1 year remaining term		1.0%	-		-	0%	-
210				1.0%	-		-	20%	-
220			100	1.0%	1	4	5	50%	3
230				1.0%	-		-	100%	-
240				1.0%	-		-	150%	-
250				1.0%	-		-	100%	-
260		> 1 year ≤ 5 years remaining term		5.0%	-		-	0%	-
270				5.0%	-		-	20%	-
280				5.0%	-		-	50%	-
290				5.0%	-		-	100%	-
300				5.0%	-		-	150%	-
310				5.0%	-		-	100%	-
320		> 5 years remaining term		7.5%	-		-	0%	-
330				7.5%	-		-	20%	-
340				7.5%	-		-	50%	-
350				7.5%	-		-	100%	-
360				7.5%	-		-	150%	-
370				7.5%	-		-	100%	-
380		**Total Foreign Exchange rate contracts and gold (sum of rows 200 up to 370)**							3
	1305 300	**Equity contracts**							
390		≤ 1 year remaining term		6.0%	-		-	0%	-
400				6.0%	-		-	20%	-
410				6.0%	-		-	50%	-
420				6.0%	-		-	100%	-
430				6.0%	-		-	150%	-
440				6.0%	-		-	100%	-
450		> 1 year ≤ 5 years remaining term		8.0%	-		-	0%	-
460				8.0%	-		-	20%	-
470				8.0%	-		-	50%	-
480				8.0%	-		-	100%	-
490				8.0%	-		-	150%	-
500				8.0%	-		-	100%	-
510		> 5 years remaining term		10.0%	-		-	0%	-
520				10.0%	-		-	20%	-
530				10.0%	-		-	50%	-
540				10.0%	-		-	100%	-
550				10.0%	-		-	150%	-
560				10.0%	-		-	100%	-
570		**Total Equity contracts (sum of rows 390 up to 560)**							-

ROW	ACCOUNT ITEM	DERIVATIVES CONTRACTS	1 NOTIONAL AMOUNT	2 CREDIT CONVERSION FACTOR	3 POTENTIAL FUTURE EXPOSURES (= Col. 1 x 2)	4 CURRENT EXPOSURE	5 CREDIT EQUIVALENT AMOUNT "CEA" (= Col. 3 + 4)	6 RISK WEIGHT %	7 TOTAL RWA (= Col. 5 x 6)
	1305 400	**Precious metals other than gold**							
580		≤ 1 year remaining term		7.0%	-		-	0%	-
590				7.0%	-		-	20%	-
600				7.0%	-		-	50%	-
610				7.0%	-		-	100%	-
620				7.0%	-		-	150%	-
630				7.0%	-		-	100%	-
640		> 1 year ≤ 5 years remaining term		7.0%	-		-	0%	-
650				7.0%	-		-	20%	-
660				7.0%	-		-	50%	-
670				7.0%	-		-	100%	-
680				7.0%	-		-	150%	-
690				7.0%	-		-	100%	-
700		> 5 years remaining term		8.0%	-		-	0%	-
710				8.0%	-		-	20%	-
720				8.0%	-		-	50%	-
730				8.0%	-		-	100%	-
740				8.0%	-		-	150%	-
750				8.0%	-		-	100%	-
760		**Total precious metals other than gold (sum of rows 580 up to 750)**							-
	1305 500	**Contracts on other Commodities**							
770		≤ 1 year remaining term		10.0%	-		-	0%	-
780				10.0%	-		-	20%	-
790				10.0%	-		-	50%	-
800				10.0%	-		-	100%	-
810				10.0%	-		-	150%	-
820				10.0%	-		-	100%	-
830		> 1 year ≤ 5 years remaining term		12.0%	-		-	0%	-
840				12.0%	-		-	20%	-
850				12.0%	-		-	50%	-
860				12.0%	-		-	100%	-
870				12.0%	-		-	150%	-
880				12.0%	-		-	100%	-
890		> 5 years remaining term		15.0%	-		-	0%	-
900				15.0%	-		-	20%	-
910				15.0%	-		-	50%	-
920				15.0%	-		-	100%	-
930				15.0%	-		-	150%	-
940				15.0%	-		-	100%	-
950		**Total contracts on other Commodities (sum of rows 770 up to 940)**							-
960	**8000 000**	**TOTAL RISK WEIGHTED ASSETS DERIVATIVES (= sum of rows 190, 380, 570, 760 and 950)**							4

EXAMPLE 4.3 Risk Weighted Assets for operational risk (the Basic Indicator Approach)

The following worked examples illustrate the process a reporting institution goes through to calculate the total risk weighted assets (RWA) for operational risk.

The examples are based on the instructions of supporting schedule (SS) 1F-1.
All amounts are in Afl. 1,000.

Assume that a reporting institution has the following data as to its annual gross incomes for the previous 3 years on the reporting date September 30, 20XX.

Example 4.3.1

Account/ Item	**Annual Gross Income (Afl.1,000)**		
	2010	**2011**	**2012**
4000	40,000	28,000	35,000
5000	20,000	21,000	25,000
6100	17,000	15,000	14,000
6201 100	5,000	6,000	8,000
6202 100	8,000	4,000	3,000
6204	6,000	5,000	4,000
6205	3,000	2,000	4,000
6207	4,000	1,000	2,000

Using the Basic Indicator Approach the reporting institution's total RWA for operational risk is Afl. 175,000 and the Capital charge for operational risk is Afl.1 4,000.

The reporting of the above information is illustrated in the example 4.3.1 SS 1F-1.

Example 4.3.2

Account/ Item	Annual Gross Income (Afl.1,000)		
	2010	**2011**	**2012**
4000	8,000	4,000	10,000
5000	7,000	5,000	9,000
6100	7,000	4,000	8,000
6201 100	6,000	-8,000	2,000
6202 100	5,000	-4,000	3,000
6204	9,000	-7,000	4,000
6205	7,000	4,000	4,000
6207	3,000	1,000	2,000

Using the Basic Indicator Approach the reporting institution's total RWA for operational risk is Afl. 88,125 and the Capital charge for operational risk is Afl. 7,050.

The reporting of the above information is illustrated in the example 4.3.2 SS 1F-1.

For the exclusive use of the CENTRALE BANK VAN ARUBA Statistics Department CONFIDENTIAL						Supporting Schedule 1F-1 RISK-WEIGHTED ASSETS BASIC INDICATOR APPROACH - OPERATIONAL RISK Amounts in Afl. 1,000
Name of Reporting Institution:						Reporting frequency: monthly
Reporting Date:						
Level of Reporting:						
ROW	ACCOUNT ITEM	DESCRIPTION	GROSS INCOME ("GI")			
			Year X-3	Year X-2	Year X-1	Total
			1	2	3	4
		Components of gross income				
10	4000 000	Net Interest Income	40,000	28,000	35,000	
20	5000 000	Net Fees and Commisions	20,000	21,000	25,000	
30	6100 000	Dividend Income on Investments	17,000	15,000	14,000	
40	6201 100	Realized gains / (Losses) on Financial Assets measured at fair value	5,000	6,000	8,000	
50	6202 100	Realized gains / (Losses) on Financial Liabilties measured at fair value	8,000	4,000	3,000	
60	6203 000	Realized gains / (Losses) on Financial Assets & Liabilities at amortized cost				
70	6204 000	Share of the profit /(loss) of investments in entities accounted for using the equity method	6,000	5,000	4,000	
80	6205 000	Gains/(losses) on Derivatives Financial Assets & Liabilities	3,000	2,000	4,000	
90	6206 000	Gains/(losses) on foreign currencies	4,000	1,000	2,000	
100		**GI**: Annual Gross Income previous 3 years (sum of columns 1 - 3, row 10-90)	103,000	82,000	95,000	
110		**α**: Alpha	15%	15%	15%	
120		**GI** x **α** : Weighted Income previous 3 years (rows 100 x 110)	15,450	12,300	14,250	
130		∑: Total Weighted Income all previous 3 years, only with positive weighted GI (sum of columns 1 - 3, row 120)				42,000
140		**N:** Number of previous 3 years with positive GI				3
150		K_{BIA} (capital charge BIA): (row 130 / row 140)				14000.00
160		Total Risk-weighted assets equivalent amount for Operational Risk: (row 150 x 6.25)				87,500

*) Untill further Notice by the CBA, reporting institutions should report their operational risk using only the Basic Indicator Approach.

For the exclusive use of the **Supporting Schedule 1F-1**

CENTRALE BANK VAN ARUBA

Statistics Department

CONFIDENTIAL

RISK-WEIGHTED ASSETS

BASIC INDICATOR APPROACH - OPERATIONAL RISK

Amounts in Afl. 1,000

Name of Reporting Institution:

Reporting Date:

Level of Reporting:

Reporting frequency: monthly

ROW	ACCOUNT ITEM	DESCRIPTION	GROSS INCOME ("GI")			
			Year X-3	Year X-2	Year X-1	Total
			1	2	3	4
		Components of gross income				
10	4000 000	Net Interest Income	8,000	4,000	10,000	
20	5000 000	Net Fees and Commisions	7,000	5,000	9,000	
30	6100 000	Dividend Income on Investments	7,000	4,000	8,000	
40	6201 100	Realized gains / (Losses) on Financial Assets measured at fair value	6,000	-8,000	2,000	
50	6202 100	Realized gains / (Losses) on Financial Liabilties measured at fair value	5,000	-4,000	3,000	
60	6203 000	Realized gains / (Losses) on Financial Assets & Liabilities at amortized cost				
70	6204 000	Share of the profit /(loss) of investments in entities accounted for using the equity method	9,000	-7,000	4,000	
80	6205 000	Gains/(losses) on Derivatives Financial Assets & Liabilities	7,000	4,000	4,000	
90	6206 000	Gains/(losses) on foreign currencies	3,000	-1,000	2,000	
100		**GI**: Annual Gross Income previous 3 years (sum of columns 1 - 3, row 10-90)	52,000	-	42,000	
110		**α**: Alpha	15%	15%	15%	
120		**GI** x **α** : Weighted Income previous 3 years (rows 100 x 110)	7,800	-	6,300	
130		∑: Total Weighted Income all previous 3 years, only with positive weighted GI (sum of columns 1 - 3, row 120)				14,100
140		**N:** Number of previous 3 years with positive GI				2
150		K_{BIA} (capital charge BIA): (row 130 / row 140)				7050.00
160		Total Risk-weighted assets equivalent amount for Operational Risk: (row 150 x 6.25)				44,063

*) Untill further Notice by the CBA, reporting institutions should report their operational risk using only the Basic Indicator Approach.

7 EXAMPLE 4.4 General market risk for interest rate-related instruments in SS 1H-2

This worked example serves to illustrate the process a reporting instruction goes through to calculate and report general market risk for interest rate risk.

The example is based on the instructions of supporting schedule (SS) 1H-2.
All amounts are in Afl. 1,000.

Assume that a reporting institution has the following positions in the trading book on the reporting date September 30, 20XX:

a. A qualifying bond, Afl. 13,330 market value, residual maturity eight years, coupon eight per cent;
b. A government bond, Afl. 75,000 market value, residual maturity two months, coupon seven per cent;
c. An interest rate swap, Afl. 150,000[2], on which the reporting institution receives floating rate interest and pays fixed, the next interest fixing occurs after nine months, residual life of the swap eight years; and
d. A long position in interest rate futures of Afl. 50,000, maturing in six months time, life of underlying government security 3.5 years.

In the example, the abovementioned positions are entered (slotted) into the time bands. Next, the long positions in each time band are summed and reported as "total long" position. Similarly the short positions in each time-band are summed and reported as "total short"

The next step is to weight the summed positions by the risk weights set out in both Table 2.12.II of

[2] The position is reported as the market value of the notional underlying. Depending on the current interest rate, the market value of each leg of the swap (i.e. the 8-year bond and the 9-month floating leg) can be either higher or lower than the notional amount. For the sake of simplicity the example assumes that the current interest rate is identical to the interest rates on which each leg of the swap is based.

Attachment J and SS 1H-2, resulting in risk weighted long and risk weighted short positions. The next steps in the calculation of the general market risk are as follows:

Offset of the risk weighted long and short positions in each time-band:

- There are partially offsetting positions (the matched weighted positions) equal to Afl. 500 in only zone 3 in the 7-10 year time band, which should be reported in row 60.
- The other zones have no offsetting and thus no matched weighted positions. The resulting unmatched weighted positions are reported in row 70 (sign of the position should be indicated).

Capital charge I (vertical disallowance):

A 10% Capital requirement (vertical disallowance factor) is applied on matched weighted positions. Only the 7-10 year time band in zone 3 has such a position. The 10% disallowance factor is calculated over the matched weighted position (10% x Afl. 500 = Afl. 50) in row 90 under zone 3, resulting in a capital charge I of Afl. 50 in row 90 column P.

Capital charge II-IV (horizontal disallowance):

- A 40%, 30% and 30% capital requirement (horizontal disallowance factor) is calculated on matched positions within zone 1, zone 2 and zone 3 respectively (capital charge II). Furthermore, a 40% capital requirement (horizontal disallowance factor) is calculated on matched positions between zone 1 and zone 2, and between zone 2 and zone 3 (capital charge III). Finally, a 100% capital charge is calculated on the matched position between zone 1 and zone 3 (capital charge IV).
- A residual matched position: when a zone has both unmatched weighted long and short positions in its time bands, the residual matched position is the lower of the aggregate of all short positions vs. the aggregate of all long positions or "zero" if both positions are either long or short positions.
- A residual unmatched position: the offsetting position being the excess of the weighted long positions over the weighted short positions, or vice versa, within a zone. This position is used to derive the subsequent matched positions for calculating capital charge II, III and IV.

Zone 1 contains both unmatched weighted long positions (Afl. 150 and Afl. 1,050) and an unmatched weighted short position (Afl. -200). The lower of the aggregate short position (Afl. -200) vs. the aggregate of all long position Afl. 1,200 is the short position of (Afl. -200), also called the residual matched position. The absolute value is reported under zone 1 in row 100. The residual matched position in each zone is multiplied by the capital charge percentage according to table 2.12 III in attachment J.

The net position of zone 1 is the residual unmatched position that results to be Afl. 1,000 and is reported under zone 1 in row 110.

Capital Charge II: horizontal disallowance within the zones.

Only zone 1 has a residual matched position within the zone on which a 40% horizontal disallowance factor is automatically applied (40% x Afl. 200 = Afl. 80). The capital charge II for the zones 2 and 3 is Afl. 0 (30% x Afl. 0 for both zones). The residual unmatched positions for zones 2 and 3 are Afl. 1,125 and (Afl. -5,125) respectively, and are reported in row 110. 0. The total capital charge II within the zones is Afl. 80 (Afl.80 +0+0).

Capital Charge III: horizontal disallowance between adjacent zones 1 and 2 and 2 and 3.

Offset the residual unmatched positions of zones 1 and 2 row 110, and determine the residual matched position if any. In this example both residual unmatched positions are long positions (Afl. 1,000 and Afl. 1,125). Therefore a residual matched position between Zones 1 and 2, of Afl. 0 (zero) is reported in row 140 under zone 2, resulting in a capital charge III of (40% x Afl. 0) = Afl. 0, to report in row 170 under zone 2. The residual unmatched position is (Afl. 1,000 + 1,125 = Afl. 2,125) and should be reported in row 150 under zone 2.

Offset the residual unmatched positions of zones 2 and 3 row 110, and determine the residual matched position if any. In this example there is a residual matched position of Afl. 1,125, which should be reported in row 140 under Zone 3. A capital requirement (horizontal disallowance factor of 40% is applied on this position, and a capital charge III of (40% x Afl. 1,125 = Afl. 450) is reported in row 170 under zone 3. The unmatched position is (Afl. -5,125 + Afl. 1,125 =- Afl. -4,000) and should be reported in row 150 under Zone 3. The total capital charge III between the zones is Afl. (0 + 1,125) = Afl.450.

Capital Charge IV: horizontal disallowance between Zones 1 and 3.

Offset the residual unmatched positions of zone 1 row 110 and zone 3 row 150. The offsetting positions Afl. 1,000 and Afl. -4.000, results in a residual matched position of Afl. 1,000 that should be reported in row 180 under zone 3. A capital requirement (horizontal disallowance factor) of 100%

is applied on the position (100% x Afl. 1,000), resulting in a capital charge IV of Afl. 1,000, which is reported in row 210 under zone 3.

Capital Charge V: The remaining residual unmatched position, or overall net open position, is (Afl. -3,000), and is reported in row 190 under zone 3. The capital charge V is Afl. 3,000, the absolute value of the open position, and is reported in row 220.

Total General Market Risk Capital Charge:

The total capital charge for general market risk in interest rate instruments is the sum of the calculated five layers of capital charges: Afl. (50+80+450+1,000+3,000) = Afl. 4,580, and is reported in row 230.

The reporting of the above information is illustrated in the example 2.4 SS 1H-2.

For the exclusive use of the — Supporting Schedule 1H-2
CENTRALE BANK VAN ARUBA
Statistics Department — MARKET RISK STANDARD METHOD
CONFIDENTIAL — EXAMPLE 4.4 — Interest rate risk - General Market Risk
Amounts in Afl. 1,000
Reporting frequency: monthly

Name of Reporting Institution:
Reporting Date:
Level of Reporting:
Currency:

ZONE / TIME BAND		ZONE 1				ZONE 2			ZONE 3								GENERAL MARKET RISK
	COUPON	0 - 1 mth	1 - 3 mths	3 - 6 mths	6 - 12 mths	1 - 1.9 yrs	1.9 - 2.8 yrs	2.8 - 3.6 yrs	3.6 - 4.3 yrs	4.3 - 5.7 yrs	5.7 - 7.3 yrs	7.3 - 9.3 yrs	9.3 - 10.6 yrs	10.6-12 yrs	12-20 yrs	over 20 yrs	
	COUPON	0 - 1 mth	1 - 3 mths	3 - 6 mths	6 - 12 mths	1 - 2 yrs	2 - 3 yrs	3 - 4 yrs	4 - 5 yrs	5 - 7 yrs	7 - 10 yrs	10 - 15 yrs	15 - 20 yrs	over 20 yrs			
Row/ column		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	Positions																
10	Total Long		75,000		150,000			50,000			13,330						
20	Total Short			50,000							150,000						
30	Risk Weight (	0.00%	0.20%	0.40%	0.70%	1.25%	1.75%	2.25%	2.75%	3.25%	3.75%	4.50%	5.25%	6.00%	8.00%	12.50%	
40	Weighted Lo	-	150	-	1,050	-	-	1,125	-	-	500	-	-	-	-	-	
50	Weighted Sho	-	-	200	-	-	-	-	-	-	5,625	-	-	-	-	-	
60	Matched Weighted Position	-	-	-	-	-	-	-	-	-	500	-	-	-	-	-	
70	Unmatched Weighted Position	-	150	(200)	1,050	-	-	1,125	-	-	(5,125)	-	-	-	-	-	
80	Capital Requi	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
90	**Capital Charg**	-	-	-	-	-	-	-	-	-	50	-	-	-	-	-	50
100	Resid. Matched				200			-								-	
110	Resid. Unmatched				1,000			1,125								(5,125)	
120	Capital Required II				40%			30%								30%	
130	**Capital Charge II**				80			-								-	80
140	Resid. Matched							-								1,125	
150	Resid. Unmatched							2,125								(4,000)	
160	Capital Required III							40%								40%	
170	**Capital Charge III**							-								450	450
180	Resid. Matched															1,000	
190	Resid. Unmatched															(3,000)	
200	Capital Required IV															100%	
210	**Capital Charge IV**															1,000	1,000
220	**Capital Charge V**																3,000
230	**Total Interest Rate Risk - General - Market Risk Capital Charge (*)**																4,580