# CENTRAL BANK OF NIGERIA

# GUIDELINES ON LEVERAGE RATIO (LeR)

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## 1. Abbreviations

| Acronym | Description |
|---|---|
| ABCP | Asset Backed Commercial Paper |
| CAR | Capital Adequacy Ratio |
| CCF | Credit Conversion Factors |
| CCP | Central Counterparty Clearing House |
| CCR | Counterparty Credit Risk |
| CET 1 | Common Equity Tier 1 |
| D-SIB | Domestic Systemically Important Banks |
| LeR | Leverage Ratio |
| NGR | The ratio of net replacement cost to gross replacement cost |
| OBS | Off Balance Sheet Exposures |
| PFE | Potential Future Exposure |
| RC | Replacement Cost |
| SFT | Securities Financing Transactions |
| SPE | Special Purpose Entities |

## 2. Introduction

1. This Guideline sets out the Central Bank of Nigeria (CBN) requirements for the Leverage Ratio (LeR) along with the public disclosure requirements applicable to all licensed commercial, merchant, and non-interest banks in Nigeria.

2. The accumulation of excessive on- and off- balance sheet leverage in the banking system was a fundamental cause of the global financial crisis. This necessitated the introduction of a simple, transparent, and non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

3. Banks must calculate the leverage ratio in accordance with the relevant requirements specified in this Guideline to supplement their risk-based capital requirements. The leverage ratio is intended to:

   a) Constrain the build-up of excessive on-balance-sheet and off-balance-sheet leverage in the banking system to avoid destabilizing effects of deleveraging processes which can damage the broader financial system and the economy; and

   b) Fortify the risk-based requirements with a simple, non-risk based "backstop" measure for capital adequacy requirements.

## 3. Scope of Application

4. This Guideline is applicable to all licensed commercial, merchant, and non-interest banks in Nigeria. The calculation of the LeR will be at both the entity and consolidated levels. Consolidated levels will include banking and Holding Company group levels.

5. The scope of regulatory consolidation for LeR purpose should be the same as that for the risk-based capital requirements.

## 4. Definition and Minimum Leverage Requirements

6. The leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator) with the ratio expressed as a percentage. Banks should therefore compute their leverage ratio in accordance with the formula specified below:

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Where:

a) The Capital Measure for the leverage ratio shall be the Tier 1 capital as set out in the CBN's **Revised Guidance Note for Regulatory Capital** and should, where applicable, take into consideration any transitional arrangements in place.

b) The Exposure Measure is the sum of (i) on-balance sheet exposures, (ii) derivative exposures, (iii) Securities Financing Transactions (SFT) exposures[1], and (iv) Off-balance sheet exposures (OBS).

7. Banks are required to maintain a minimum leverage ratio of 4% at all times.

8. Domestic Systemically-Important Banks (D-SIBs) should meet an enhanced leverage ratio requirement given their size, complexity, and the impact that their potential failure could pose to the Nigerian banking system and the real economy. In this regard, entities that have been classified as D-SIBs by the CBN should maintain an additional leverage ratio buffer of 1% above the minimum at all times and this should be in form of Tier 1 capital.

9. The CBN shall impose bonus payment constraints on D-SIBs which do not meet the leverage ratio buffer requirement.

## 5. Exposure Measure

10. Total exposure measure for the leverage ratio should be computed as the sum of the following exposures:

    a) On-balance sheet exposures;
    b) Derivative exposures;
    c) Securities Financing Transactions (SFT) exposures; and
    d) Off-balance sheet (OBS) exposures.

11. The specific treatment for these four main exposure types are defined in **Paragraphs 15 – 34** below

[1] SFT are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

12. The leverage ratio exposure measure should generally be based on gross accounting values. Therefore, unless specified otherwise, banks should not make use of physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the leverage ratio exposure measure, nor should they net assets and liabilities[2].

13. The CBN shall review banks' transactions to ensure that they are adequately captured in the leverage ratio exposure measure and to assess the risk of potential destabilising deleveraging process. Where concerns are identified, the CBN shall consider a range of supervisory actions, which may include:

    a) Requiring enhancements to the process for the management of leverage;
    b) Imposing operational requirements; and/or
    c) Requiring a bank to hold an additional Pillar 2 capital charge for the relevant exposure.

14. With regard to traditional securitizations, an originating bank may exclude securitized exposures from its leverage ratio exposure measure if the securitization meets the operational requirements for the recognition of risk transference as set out in **Appendix I.** Banks meeting these conditions must include any retained securitisation exposures in their leverage ratio exposure measure. In all other cases, the securitized exposures must be included in the leverage ratio exposure measure.

## 5.1 On-balance sheet Exposure

15. All on-balance sheet[3], non-derivative, assets should be included in the leverage ratio exposure measure at their accounting values net of specific provisions or accounting value adjustments. Netting of loans and deposits shall not be allowed and liability items should not be deducted from the measure of exposure.

16. Banks should include all balance sheet assets in their exposure measure, including on-balance sheet derivatives collaterals and collateral for securities financing transactions.

17. To ensure consistency, balance sheet assets deducted from Tier 1 capital may be deducted from the exposure measure. For example, where a banking or financial entity is not included in the regulatory scope of consolidation, the amount of any

[2] Possible effects arising from netting of loans and deposits should be reversed.
[3] This includes loans, shares, bonds, subordinated loans amongst others

investment in the capital of that entity that is totally or partially deducted from Tier 1 capital in accordance with the **Revised Guidance for Regulatory Capital** may also be deducted from the exposure measure.

18. General provisions or general loan loss reserves which have reduced Tier 1 capital may be deducted from the leverage ratio exposure measure.

19. Banks should include the various categories of all on-balance sheet exposures in its total LeR Exposure which should include exposures from the following:

a) Central Government and Central Banks;

b) Non-Central Government Public Sector Entities;

c) State Governments and Local Authorities;

d) Multilateral Development Banks (MDBs);

e) Supervised Institutions;

f) Corporates and Other Persons;

g) Regulatory Retail Portfolio;

h) Exposures secured by Mortgages on Residential Property;

i) Exposures secured by Mortgages on Commercial Real Estate Property;

j) Past Due Exposures;

k) High Risk Exposures;

l) Unsettled and Failed Transactions; and

m) Other Assets.

## 5.2 Derivative exposures

20. Banks should calculate their derivative exposures as the replacement cost (RC) for the current exposure plus an add-on for Potential Future Exposure (PFE). If the derivative exposure is covered by an eligible netting contract, an alternative treatment may be applied (see **Paragraph 22** below for details).

21. For a single derivative exposure not covered by an eligible bilateral netting contract, the amount to be included in the exposure measure shall be determined as follows:

**Exposure measure = alpha * (RC + PFE)**

Where:

a) *alpha* = 1.4;

b) *RC* = the replacement cost calculated where the contract has a positive value, and obtained by marking the contract to market as specified in **appendix II**; and

c) *PFE* = an amount for PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. Please see **Appendix II** for the add-on factors.

22. Where a bilateral netting contract has been reviewed and formally approved by the CBN as being eligible for netting for leverage ratio calculation purpose, the RC for the set of derivative exposures covered by the contract will be the net mark-to-market replacement cost (if positive) plus an add-on based on the notional underlying principal as specified in **Appendix II**.

23. Collateral received in connection with derivative contracts shall not be netted against derivative exposures whether or not netting is permitted under the bank's operative accounting or risk-based framework. Hence, when calculating the exposure amount, a bank should not reduce the exposure amount by any collateral received from the counterparty.

24. Banks should gross up their exposure measure by the amount of any derivatives collateral provided where the provision of that collateral has reduced the value of their balance sheet assets under the operative accounting framework.

### 5.3 Securities Financing Transaction Exposures

25. SFT are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. SFTs are an important source of leverage and therefore should be included in the exposure measure.

26. For a bank acting as principal, the sum of the following amounts should be included in the leverage ratio exposure measure:

   a) Gross SFT assets recognized for accounting purposes[4] adjusted as per **Paragraphs 27 and 28** below where necessary; and

   b) a measure of Counterparty Credit Risk (CCR) calculated as the current exposure without an add-on for PFE.

27. The value of any securities received under an SFT, where the bank has recognized the securities as an asset on its balance sheet, should be excluded from the SFT exposure measure.

28. Cash payables and cash receivables in SFTs with the same counterparty may be measured net if all the following criteria are met:

   a) Transactions have the same explicit final settlement date;

   b) The right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of the counterparty's default, insolvency, or bankruptcy; and

   c) The counterparties intend to settle net, settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the transactions are equivalent, in effect, to a single net amount on the settlement date.

29. The effects of bilateral netting agreements for covering SFTs should be recognized on a counterparty by counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt.

30. Netting across SFT positions held in the banking book and trading book shall only be recognized when the netted transactions fulfil the following conditions:

   a) All transactions are marked-to-market daily; and

   b) The collateral instruments used in the transactions are recognized as eligible financial collateral in the banking book.

[4] Gross SFT assets recognized for accounting purposes must not recognise any accounting netting of cash payables against cash receivables (e.g. as currently permitted under the IFRS).

31. Where a bank acting as agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of collateral the borrower has provided, then the bank will be required to calculate its exposure measure by applying only a measure of CCR calculated as the current exposure without an add-on for PFE[5].

## 5.4 Off-balance Sheet Exposures

32. OBS items include commitments (including liquidly facilities), whether or not unconditionally cancellable, direct credit substitutes, acceptances, standby letters of credit and trade letters of credit.

33. For the purpose of determining the exposure amount of OBS items for the leverage ratio, the CCFs as specified in the Capital Adequacy Ratio (CAR) template shall be applied to the notional amount. Please also see Annex B of the CBN Guidelines on the Calculation of Capital Requirement for Credit (Classification of Guarantees and Commitments) for the applicable CCFs.

34. Specific and general provisions set aside against OBS exposures that have decreased Tier 1 capital may be deducted from the credit exposure equivalent amount of those exposures, i.e., the exposure amount after the application of the relevant CCF. The resulting total off-balance sheet equivalent amount for OBS exposures however cannot be less than zero.

## 6. Reporting Requirement

35. Banks are required, at a minimum, to report both the capital measure and the exposure measure periodically as defined in paragraph (36). They should also be able to calculate and report the LeR on a more frequent basis for internal monitoring purposes to ensure ongoing compliance with internal LeR limits.

36. Banks should submit to the CBN an electronic copy of its LeR report, based on the prescribed LeR reporting templates provided in **Appendix III.** This should be done through the financial analysis (FinA) database, as follows:

| Level of Reporting | Frequency | Position | Reporting Deadline |
|---|---|---|---|
| **Entity** | Monthly | End-of-month | 5 days after month-end |

[5] Where a bank acting as an agent in an SFT does not provide an indemnity or guarantee to any of the involved parties, the bank is not exposed to the SFT and therefore need not recognise those SFTs in its exposure measure.

| Level of Reporting | Frequency | Position | Reporting Deadline |
|---|---|---|---|
| **Consolidated** | Quarterly | End-of-quarter | 5 days after quarter-end |

37. Banks are required to disclose and detail to the CBN the sources of material differences between their total balance sheet assets as reported in their Audited Financial Statement (accounting assets) and their on-balance sheet exposures for their leverage ratio exposure measure. The disclosure should be as per the Table below:

| | Item | In Naira |
|---|---|---|
| **1** | Total consolidated assets as per published financial statements | |
| **2** | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | |
| **3** | Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | |
| **4** | Adjustments for derivative financial instruments | |
| **5** | Adjustment for Securities Financing Transactions | |
| **6** | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures) | |
| **7** | Other adjustments (please specify) | |
| **8** | **Leverage ratio exposure** | |

38. Banks are required to provide an explanation for the key drivers of material changes in their Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period.

39. The public disclosure requirements for the LeR are set out in **Appendix III**.

## 7. Appendix I - Requirements for the Recognition of Risk Transference

1. An originating bank may exclude underlying securitized exposures from the calculation of the LeR only if all of the following conditions are met on an ongoing basis.

2. Significant credit risk associated with the underlying exposures has been transferred to third parties.

3. The transferor does not maintain effective or indirect control over the transferred exposures. The exposures are legally isolated from the transferor in such a way (e.g. through the sale of assets or through sub participation) that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. Banks should obtain legal opinion from a qualified legal counsel with relevant experience in the financial sector that confirms true sale. The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures. The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it:

    a) is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or

    b) is obligated to retain the risk of the transferred exposures. The originating bank's retention of servicing rights to the exposure will not necessarily constitute indirect control of the exposures.

4. The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying exposures.

5. The transferee is a Special Purpose Entity (SPE) and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction unless such restriction is imposed by a risk retention requirement.

6. Clean-up call options must satisfy the following conditions:

    a) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank;

    b) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and

c) the clean-up call must only be exercisable when 10% or less of the original underlying portfolio or securities issued remains, or, for synthetic securitizations, when 10% or less of the original reference portfolio value remains.

7. The securitisation does not contain clauses that:

   a) require the originating bank to alter the underlying exposures such that the pool's credit quality is improved unless this is achieved by selling exposures to independent and unaffiliated third parties at market prices;

   b) allow for increases in a retained first-loss position or credit enhancement provided by the originating bank after the transaction's inception; or

   c) increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool of the securitized assets.

8. There must be no termination options/triggers except eligible clean-up calls.

## 8. Appendix II - Add-on Factors

1. The following add-on factors apply to financial derivatives, based on residual maturity:

| | Interest rates | Foreign exchange and gold | Equities | Precious metals except gold | Other commodities |
|---|---|---|---|---|---|
| One year or less | 0.0% | 1.0% | 6.0% | 7.0% | 10.0% |
| Over one year to five years | 0.5% | 5.0% | 8.0% | 7.0% | 12.0% |
| Over five years | 1.5% | 7.5% | 10.0% | 8.0% | 15.0% |

**Notes:**

a) For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract.

b) For contracts that are structured to settle outstanding exposures following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year that meet the above criteria, the add-on is subject to a floor of 0.5%.

c) Forwards, swaps, purchased options and similar derivative contracts not covered by any of the columns in this matrix are to be treated as “other commodities”.

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

2. For bilateral netting, the add-on for the netted transactions (ANet) will equal the weighted average of the gross add-on (AGross) and the gross add-on adjusted by the ratio of the net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4 \times A_{Gross} + 0.6 \times NGR \times A_{Gross}$$

Where:

a) NGR is the ratio of net replacement cost to gross replacement cost for transactions subject to legally enforceable netting agreements;

b) $A_{Gross}$ is the sum of individual add-on amounts calculated by multiplying the notional principal amount by the appropriate add-on factors set out above of all transactions subject to legally enforceable netting agreements with one counterparty.

3. Calculation of potential future exposure: The potential future exposure (PFE) for derivative exposures must be calculated mathematically as follows:

$$PFE = multiplier \text{ x } AddOn^{aggregate}$$

For the purposes of the leverage ratio framework, the multiplier is fixed at one. Further, as written options create an exposure to the underlying, they must be included in the leverage ratio exposure measure by applying the treatment described in this Appendix, even if certain written options are permitted the zero exposure at default (EAD) treatment allowed in the risk-based framework.

4. The following add-on factors for PFE apply to single-name credit derivatives:

| | Protection buyer | Protection seller |
|---|---|---|
| **Total return swaps** | | |
| "Qualifying" reference obligation | 5% | 5% |
| "Non-qualifying" reference obligation | 10% | 10% |
| **Credit default swaps** | | |
| "Qualifying" reference obligation | 5% | 5%* |
| "Non-qualifying" reference obligation | 10% | 10%* |

## 9. Appendix III - Leverage Ratio Templates and Explanatory Note

### a) Leverage Ratio Disclosure Template

| | |
|---|---|
| Name of the bank: | XYZ Bank Ltd |
| Basis of reporting: | [consolidated] or [unconsolidated] |
| Reporting period start date: | DD/MM/YYYY |
| Reporting period end date: | DD/MM/YYYY |

| Row | Item | Leverage ratio framework Naira equivalent |
|---|---|---|
| **On-balance sheet exposures** | | |
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 0 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | 0 |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2) | **0** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 0 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| 11 | Total derivative exposures (sum of lines 4 to 10) | **0** |
| **Securities financing transaction exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | CCR exposure for SFT assets | 0 |
| 15 | Agent transaction exposures | 0 |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15) | **0** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposure at gross notional amount | 0 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | 0 |

| Row | Item | Leverage ratio framework Naira equivalent |
|---|---|---|
| 19 | Off-balance sheet items (sum of lines 17 and 18) | **0** |
| **Capital and total exposures** | | |
| 20 | Tier 1 capital – fully phased-in definition | 0 |
| 21 | Tier 1 capital - transitional definition | 0 |
| 22 | Regulatory adjustments - Tier 1 - fully phased-in definition | 0 |
| 23 | Regulatory adjustments - Tier 1 - transitional definition | 0 |
| 24 | Total exposures (sum of lines 3, 11, 16 and 19) | 0 |
| **Leverage ratio** | | |
| 25 | **Leverage Ratio -** using a fully phased-in definition of Tier 1 | **0** |
| 26 | **Leverage Ratio -** using a transitional definition of Tier 1 | **0** |

## b) Explanatory Note to the Leverage Ratio Disclosure Template

The table below provides an explanation of some of the line items to be reported in the Leverage Ratio ("LeR") Common Disclosure Template

| Row Number | Explanatory note |
|---|---|
| **On-balance sheet exposures** | |
| 1 | On-balance sheet assets, excluding on-balance sheet derivative and securities financing transaction (SFT) assets but including on-balance sheet derivatives collateral and collateral for SFTs. |
| 2 | Deductions from Tier 1 capital in accordance with the **Revised Guidance Note for Regulatory Capital** |
| **Derivative exposures** | |
| 4 | Replacement cost associated with all derivatives transactions, net of cash variation margin received and with, where applicable, bilateral netting under a valid and CBN approved bilateral netting agreement. |
| 5 | Add-on amounts for PFE associated with all derivative transactions. |
| 6 | Gross-up for collateral provided in respect of derivative transactions where the provision of that collateral has reduced the value of the bank's balance sheet assets pursuant to the operative accounting framework. |
| 7 | Deductions of receivables assets in respect of cash variation margin provided in derivatives transactions, reported as negative amounts. |
| 8 | Exempted trade exposures associated with the central counterparty (CCP) leg of derivatives transactions resulting from client-cleared transactions, reported as negative amounts. |
| 9 | Adjusted effective notional amount for written credit derivatives. |
| 10 | Adjusted effective notional offsets and permitted deductions from add-on amounts for PFE of written credit derivatives, reported as negative amounts. |
| **Securities financing transaction (SFT) exposures** | |
| 12 | Gross SFT assets with no recognition of any accounting netting other than novation with qualifying central counterparties (in which case the final contractual exposure is to replace the gross SFT assets amount), removing any securities received under an SFT where the bank has recognized the securities as an asset on its balance sheet; and adjusting for any sales accounting transactions |
| 13 | Adjustment for netted amount of cash payables and cash receivables of gross SFT assets, reported as negative amounts, if the set criteria is met. |
| **Other off-balance sheet exposures** | |
| 17 | Total off-balance sheet exposure amounts on a gross notional basis before any adjustment for credit conversion factors (CCFs). |
| 18 | Reduction in gross amount of off-balance sheet exposures due to the application of CCFs, reported as negative amounts. |
| ***Calculation of the LeR*** | |
| 20 & 21 | Tier 1 capital as determined based on the **Revised Guidance Note for Regulatory Capital** and taking into consideration any transitional arrangements in place. |

## c) Additional Breakdown of Exposures

| Row | Item | On- and off-balance sheet exposures in Naira | Nominal Value in Naira |
|---|---|---|---|
| 01 | Total on- and off-balance sheet exposures belonging to the banking book (breakdown according to the effective risk weight): | | |

| Row | Item | On- and off-balance sheet exposures in Naira | Nominal Value in Naira |
|---|---|---|---|
| 02 | = 0% | | |
| 03 | > 0 and ≤ 20% | | |
| 04 | > 20 and ≤ 50% | | |
| 05 | > 50 and ≤ 75% | | |
| 06 | > 75 and ≤ 100% | | |
| 07 | > 100 and ≤ 425% | | |
| 08 | > 425 and ≤ 1250% | | |
| 09 | Exposures in default | | |
| 10 | Low risk off-balance sheet items and off-balance sheet items attracting a 0% conversion factor under the solvency ratio | | |

## d) Breakdown of Leverage Ratio Exposure Measure Components

| Row | Item | Leverage Ratio Exposure Value | RWA |
|---|---|---|---|
| **Off-balance sheet items, derivatives, SFTs and trading book** | | | |
| 01 | Off-balance sheet items | | |
| 02 | Of which: Trade finance | | |
| 03 | Derivatives and SFTs subject to a cross-product netting agreement | | |
| 04 | Derivatives not subject to a cross-product netting agreement | | |
| 05 | SFTs not subject to a cross-product netting agreement | | |
| 06 | Other assets belonging to the trading book | | |
| **Other non-trading book exposures** | | | |
| 07 | Exposures treated as sovereigns | | |
| 08 | Central Governments and Central Banks | | |
| 09 | State Government and Local Authorities treated as sovereigns | | |
| 10 | Multilateral Development Banks (MDBs) and International organisations treated as sovereigns | | |
| 11 | Non-Central Government Public Sector Entities (PSEs) treated as sovereigns | | |
| 12 | Exposures to State Government, MDB, international organisations and PSE NOT treated as sovereigns | | |
| 13 | State Government and Local Authorities NOT treated as sovereigns | | |
| 14 | Multilateral Development Banks (MDBs) NOT treated as sovereigns | | |
| 15 | Non-Central Government PSEs NOT treated as sovereigns | | |
| 16 | Supervised Institutions | | |
| 17 | Exposures Secured by Mortgages on Commercial Real Estates Property | | |
| 18 | Exposures Secured by Mortgages on Residential Properties | | |
| 19 | Regulatory Retail Portfolio | | |
| 20 | Retail SME | | |
| 21 | Corporate and Other Persons | | |
| 22 | Past Due Exposures | | |
| 23 | High Risk Exposures | | |
| 24 | Unsettled and Failed Transactions | | |

| Row | Item | Leverage Ratio Exposure Value | RWA |
|---|---|---|---|
| 25 | Other Assets (e.g., other non-credit obligation assets) | | |
| *24* | *Securitisation Exposures* | | |
| *25* | *Trade finance* | | |

## e) Explanatory Note to the Breakdown of the Exposure Measure Components

The table below provides an explanation of some of the line items to be reported in the Breakdown of Leverage Ratio Exposure Measure Components as per the Template above.

| Row Number | Explanatory note |
|---|---|
| 17 & 18 | Exposures from real estate shall include exposures secured by a mortgage on real estate or connected with real estate leasing contracts provided that the following conditions are adhered to:<br><br>a) The value of the property does not materially depend upon the credit quality of the debtor;<br>b) The property is appraised by an independent valuer at a value that does not exceed the market value;<br>c) The claim on the collateral is legally enforceable in all relevant jurisdictions and may be realized in a reasonable period of time;<br>d) The property value shall be adequately monitored. Thus;<br>i. The value of the property shall be verified at least once every year three years for residential property and once every year for commercial real estate or more frequently where the market is subject to significant changes in conditions;<br>ii. Where the verifications under (i) reveal a material decline in the value of the property, a valuation shall be made by an independent valuer based on a value that shall exceed the market value, the property valuation shall be reviewed by an independent valuer at least once every three years for exposures exceeding 5% of the bank's regulatory capital.<br>e) The types of property accepted as collateral and the related lending policies shall be clearly documented;<br>f) The property serving as collateral shall be adequately insured against damage. |
| 19 | Exposures to be qualified in the Regulatory Retail Portfolio must meet the following criteria:<br>a) **Orientation criterion**: the exposure is to an individual person or persons or to a small business which may include sole proprietorships, partnerships, or small and medium-scale enterprises.<br>b) **Product Criterion**: the exposures should take the form of revolving credits, lines of credit, personal term of loans, other terms of loans (installment loans, auto financing loans, educational loans, personal finance) and small business facilities. Investment in debt and equity securities (listed or not) and mortgages loans that qualify for treatment as exposures secured by residential property should be excluded from this portfolio.<br>c) **Granularity criterion**: the aggregate exposure to one counterpart cannot exceed 0.2% of the overall regulatory retail portfolio.<br>d) **Low Value of individual criterion**: the aggregate retail exposure to one counterpart cannot exceed an absolute threshold of N100 million. |
| 21 | Exposures to insurance companies, securities firms and collective investment schemes shall be treated as exposures to corporates. |

## 10. Appendix IV - Definition of Terms

1. **Originating bank:** a bank shall be considered an originating bank in a securitization transaction if it meets either of the following conditions:
   a) The bank originates directly or indirectly the underlying exposures included in the securitization; or
   b) The bank serves as a sponsor of an ABCP (asset-backed commercial paper) conduit or similar programme that acquires exposures from third-party entities. In the context of such a program, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements.
2. **Securitization** is a transaction that divides the credit risk of an asset or portfolio of assets into two or more tranches and in which: (i) payments in the transaction are dependent on the performance of the asset or portfolio of assets in question, and (ii) tranches have different degrees of subordination in supporting the losses of the securitized asset or portfolio. Securitization exposures may arise from the following activities of the banks among others:
   a) Investments in any securitization issue, including retention or repurchase of one or more securitization positions;
   b) Provision of credit risk mitigants or credit enhancement to parties to securitization transactions;
   c) Provision of liquidity facilities or other similar facilities;
   d) Obligations due to early amortization features in a securitization; or
   e) Entitlements to future income, generated by a securitization through various forms of arrangements such as deferred purchase price, excess servicing income, gain-on-sale, future margin income, cash collateral accounts or other similar arrangements.