

EESTI PANK

Governor's Decree No. 8

2 November 2009

Information subject to disclosure concerning risk management, own funds and capital adequacy of credit institutions

This Decree is established on the basis of subsection 92¹ (8) of the Credit Institutions Act.

Chapter 1

GENERAL PROVISIONS

§ 1. Scope of Decree

This Decree establishes the list of and requirements for the content of information concerning risk management, own funds and capital adequacy of a credit institution or a consolidation group of a credit institution, subject to disclosure by the credit institution.

§ 2. Application of Decree

- (1) This Decree shall apply to all credit institutions operating in Estonia.
- (2) A credit institution with a consolidation group in the meaning of Subsection 9 (1) of the Credit Institutions Act shall disclose the information specified in Chapters 2 and 3 of this Decree on a consolidated basis.
- (3) A credit institution without a consolidation group in the meaning of Subsection 9 (1) of the Credit Institutions Act shall disclose the information specified in Chapters 2 and 3 of this Decree on a solo basis.

§ 3. General principles for disclosure of information

- (1) A credit institution shall only disclose the part of the information subject to disclosure under Chapter 3 of this Decree which is relevant, considering the risk profile of the credit institution as well as the principles, calculation methods and models used for measuring risks and calculating own funds and capital requirements.
- (2) The information subject to disclosure under this Decree shall be presented in the Estonian language.
- (3) The numeric data subject to disclosure under Chapters 2 and 3 of this Decree shall be presented in Estonian kroons. The accuracy value of the numeric data subject to disclosure shall be specified.

§ 4. Definitions to be used in disclosure of information

The information shall be disclosed in accordance with the definitions, principles and methods stipulated in Eesti Pank Governor's Decree No. 13, 29 December 2006, "Procedure for application and calculation of prudential ratios of credit institutions and consolidation groups of credit institutions".

§ 5. Exceptions in disclosure of information

(1) A credit institution shall have the right not to disclose the information and numeric data specified in Chapter 3 of this Decree, if all of the following conditions have been met:

- 1) the credit institution directly or indirectly forms a part of the consolidation group of another credit institution registered in Estonia or another member state;
- 2) the credit institution and the parent company of the consolidation group specified in Clause 1 apply the same risk management strategy and rules of procedure, including the same internal rating systems and internal models, as well as the same principles for calculating own funds and capital adequacy;
- 3) the parent company of the consolidation group specified in Clause 1 is subjected, under the Credit Institutions Act and this Decree or the laws of the country of location, to the obligation to disclose information and numeric data equivalent to the information and numeric data specified in Chapter 3.

(2) A credit institution shall have the right not to disclose the information and numeric data specified in Subsection 1 also if the credit institution and the parent company of the consolidation group do not apply the same risk management strategy, rules of procedure and principles for calculating own funds and capital adequacy, provided that the parent company discloses the required information and numeric data itself. In this case, the parent company must disclose the specifics of the risk management strategy, rules of procedure and principles for calculating own funds and capital adequacy applied by the credit institution that is the obligated subject of this Decree.

§ 6. Frequency of and channels for disclosure of information

(1) The information shall be disclosed in the manner and by the terms stipulated in Subsections 92¹ (6) and (7) of the Credit Institutions Act.

(2) The information and numeric data subject to disclosure on the basis of Sections 9 and 11 of this Decree shall be disclosed on a quarterly basis, together with the interim report. The remaining information and numeric data shall be disclosed once a year, together with the annual report.

(3) If a credit institution has published the information stipulated in this Decree in other sources, including the annual report or interim report, the credit institution may, rather than disclosing the information, refer to the source where the corresponding information has been published.

§ 7. Principles and rules of procedure for disclosure of information

A credit institution shall establish the principles and rules of procedure for adhering to the requirements stipulated in this Decree concerning disclosure of information, and for assessment of the relevance and adequacy of the disclosed information.

§ 8. Insignificant information, and information subject to business or banking secrecy

(1) A credit institution shall have the right not to disclose information, if this information is insignificant. Information is considered significant, if non-disclosure of the information or disclosure of the information in inappropriate form could influence the economic decisions of the users of the information.

(2) A credit institution shall have the right not to disclose information subject to business secrecy. Information on the business activities of a credit institution is considered information subject to business secrecy, if disclosure of the information to third parties would damage the interests of the credit institution, including information on the credit institution's products and systems, if disclosure of the information to the competitors of the credit institution would reduce the value of the credit institution.

(3) Information subject to banking secrecy under Section 88 of the Credit Institutions Act shall not be subject to disclosure.

(4) In the cases specified in Subsections 2 and 3, the credit institution shall acknowledge the fact of non-disclosure and state the reasons for non-disclosure of the information, disclosing more general information – information that is not subject to business or banking secrecy – on the areas in question.

Chapter 2

INFORMATION SUBJECT TO DISCLOSURE

CONCERNING OWN FUNDS AND CAPITAL ADEQUACY

§ 9. General information subject to disclosure concerning the principles for calculating capital adequacy

A credit institution shall disclose the following general information concerning the principles for calculating capital adequacy:

1) the name of the credit institution to whom the capital adequacy regulations apply;

- 2) the differences between the definition of the consolidation group used in calculating capital adequacy and the definition of the consolidation used in preparing the financial statements;
- 3) the list of units incorporated into the consolidation group, including fully consolidated and proportionally consolidated units;
- 4) the units deducted from own funds and units which have neither been consolidated nor deducted from own funds;
- 5) any existing or foreseeable practical or legal impediments for immediate transfer of own funds or repayment of the liabilities between the consolidation group companies of the credit institution;
- 6) the total capital deficit and names of the unconsolidated subsidiary or subsidiaries with the capital deficit, if their capital is lower than the minimum established by law, except if the deficit has been deducted from own funds on the consolidation group level.

§ 10. Information subject to disclosure concerning the principles for calculating own funds and capital requirements

(1) A credit institution shall disclose the following information concerning the principles for calculating own funds:

- 1) the main components of own funds and the conditions for incorporating these components into own funds, presented by the tiers stipulated in Sections 73, 74 and 77 of the Credit Institutions Act;
- 2) significant deductions from own funds, made on the basis of Section 75 of the Credit Institutions Act;
- 3) limitations on own funds, established on the basis of Section 78 of the Credit Institutions Act.

(2) A credit institution shall disclose the methods applied for calculating the capital requirements, presented by risks, including the use of the Internal Ratings Based Approach to credit risk and the Advanced Measurement Approach to operational risk, and approval of the transfer to these methods by the Financial Supervision Authority.

§ 11. Numeric data subject to disclosure concerning own funds, capital requirements and capital adequacy

(1) A credit institution shall disclose the sum total and composition of the own funds, including:

- 1) the sum total and composition of Tier 1 own funds, and any deductions made from the Tier 1 own funds;

2) the sum total and composition of Tier 2 own funds, and any deductions made from the Tier 2 own funds;

3) the sum total and composition of Tier 3 own funds.

(2) A credit institution shall disclose the sum total and composition of the capital requirements, including:

1) the total capital requirement for credit risk associated with the banking portfolio, presented by methods uses and classes of exposure;

2) the total capital requirement for the position risk associated with the trading portfolio, presented by methods used;

3) the total capital requirement for the settlement/delivery risk and counterparty risk associated with the trading portfolio, presented by methods used;

4) the total capital requirement for the foreign exchange risk;

5) the total capital requirement for the commodities risk;

6) the total capital requirement for the operational risk, presented by methods used.

(3) A credit institution shall disclose the capital adequacy rate as a percentage. The capital adequacy rate is the ratio (expressed as a percentage) between the total own funds and the total capital requirements multiplied by ten.

(4) A credit institution with a consolidation group in the meaning of Subsection 9 (1) of the Credit Institutions Act shall disclose the indicators specified in Subsection 2 of this Section, presented by the consolidation group, sub-consolidation groups incorporated in the consolidation group, and significant subsidiaries.

§ 12. General information subject to disclosure concerning guarantee of internal capital adequacy

A credit institution shall disclose the principles for evaluating internal capital adequacy, as well as the description of the process of guaranteeing internal capital adequacy.

Chapter 3

INFORMATION SUBJECT TO DISCLOSURE CONCERNING RISK AND RISK MANAGEMENT

§ 13. General information subject to disclosure concerning the principles of risk management

(1) A credit institution shall separately disclose the objectives and general principles of each risk category, including the credit risk, market risk, operational risk, and the interest rate risk of the banking portfolio.

(2) The general information subject to disclosure shall contain at least the following:

- 1) the risk management strategies and processes;
 - 2) the structure and organisation of the risk management functions or other relevant measures;
 - 3) the scope and content of the risk measurement and reporting systems;
 - 4) the risk reduction and risk mitigation principles, as well as the strategy and rules of procedure for assessing the efficiency of risk management.
- (3) Additional information shall be disclosed on the management of each risk specified in Subsection 1 in accordance with the requirements stipulated in this Chapter.

§ 14. Information subject to disclosure concerning credit risk management and measurement

(1) A credit institution shall disclose the following information concerning credit risk management and measurement:

- 1) the description of the credit risk management policy;
- 2) the criteria used in accounting for classification of receivables into outstanding receivables and doubtful receivables;
- 3) the principles and methods used in accounting for specific and general write-down of receivables.

(2) If a credit institution partially uses the Internal Ratings Based Approach to credit risk stipulated in Sub-subdivision 3 of Subdivision 1 of Division 2 of Chapter 7 of the Credit Institutions Act for calculation of the capital requirements for credit risk, the following shall be disclosed:

- 1) the description of the positions covered by various credit risk methods (including the Standardised Approach, Foundation IRB Approach and Advanced IRB Approach);
- 2) management plan for full transfer to the selected Internal Ratings Based Approach.

§ 15. Numeric data subject to disclosure concerning credit risk

(1) A credit institution shall present the value of positions exposed to credit risk as follows:

- 1) by type and geographical area;
- 2) by type and sector of economy or counterparty;
- 3) by type and residual maturity.

(2) The categorisation of positions and division into geographical areas, sectors of economy or counterparties, as well as residual maturities, shall be based on the internal division within the credit institution. Types of positions may include loans, off-balance sheet positions, positions arising from derivative instruments or other similar positions.

(3) The numeric data subject to disclosure under Subsection 1 shall contain at least the following:

- 1) the net book value before write-down;
- 2) the write-down;
- 3) the net book value after write-down.

§ 16. Information subject to disclosure concerning calculation of capital requirements for credit risk

(1) A credit institution shall disclose the following information concerning calculation of capital requirements for credit risk on the basis of the Standardised Approach:

- 1) the names of the rating agencies whose external ratings are used for calculating the capital requirements, as well as the external ratings used, specified by exposure classes, and the reasons for any changes in the use of external ratings;
- 2) the description of the process of transfer of external ratings, which have been designated to public emissions, to positions of the same type within the banking portfolio;
- 3) the levels of credit quality designated on the basis of the use of external ratings, presented by rating agencies, if these differ from the credit quality levels designated by the Financial Supervision Authority.

(2) In calculation of the capital requirements on the basis of the Internal Ratings Based Approach, a credit institution shall disclose the information concerning the rating system and designation of the ratings as specified in Subsections 3 and 4.

(3) A credit institution shall disclose the following information concerning the rating system:

- 1) the structure of the rating system and connections between the internal ratings and external ratings;
- 2) the use of own estimates outside the capital requirement calculation system;
- 3) the description of the credit risk mitigation transactions taken into account in calculation of the capital requirements for credit risk by using the Internal Ratings Based Approach, as well as the principles for management of such transactions;
- 4) the control mechanisms of the rating system, including the description of the process of guaranteeing the independence and reliability, periodic monitoring and updating of the rating system.

(4) A credit institution shall disclose the following information concerning the process of designation of the ratings:

- 1) the types of positions included in the exposure classes;
- 2) the definition of the probability of default, the principles for evaluation and validation of the probability of probability of default, as well as the description of the source data and estimates used in the evaluation;
- 3) the list of exposure classes affected by the implementation of a definition of the probability of probability of default which differs from the definition set forth in Clause 2 of this Subsection on the basis of Subsection 86²² (3) of the Credit Institutions Act, if the effect is significant;
- 4) the description of the principles for calculating the exposure value;
- 5) the principles for evaluating the loss given default from the use of the Advanced IRB Approach to credit risk, as well as the description of the source data and estimates used in the evaluation.

(5) A credit institution shall disclose the description of the rating designation process, presented by the following exposure classes:

- 1) credit institutions and investment firms;
- 2) corporates, including small and medium-size companies, specialised lending and purchased corporate receivables;
- 3) retail exposures, including retail exposures secured by real estate, revolving exposures and other retail exposures;
- 4) equities.

§ 17. Numeric data subject to disclosure concerning capital requirements for credit risk

(1) A credit institution shall disclose the exposure value covered by the Standardised Approach, presented by exposure and credit quality levels, before and after the credit risk mitigation, including positions deducted from own funds.

(2) A credit institution shall disclose the exposure values covered by the Internal Ratings Based Approach, presented by exposure classes. The exposures covered by the Foundation IRB Approach to credit risk and the amounts of exposures covered by the Advanced IRB Approach to credit risk shall be presented separately.

(3) In the use of the Internal Ratings Based Approach to credit risk, the credit institution shall disclose the following information concerning the exposure classes of central governments and central banks, credit institutions and investment firms, corporates and equities:

- 1) the total amount of exposures;

- 2) the weighted average loss given default (expressed as a percentage) of exposures covered by the Advanced IRB Approach to credit risk;
- 3) the weighted average risk weight;
- 4) the risk weights used for the alternative treatment of specialised lending;
- 5) the value of unused credit lines covered by the Advanced IRB Approach to credit risk, and the weighted average value of the corresponding exposures.

(4) In the use of the Internal Ratings Based Approach to credit risk, the credit institution shall disclose the exposure class of retail exposures, separately disclosing the information specified in Subsection 3 concerning retail exposures secured by real estate, revolving retail exposures and other retail exposures, or an analysis of the hedging sets, presented by a number of expected loss classes sufficient for differentiating the credit risk.

(5) In the use of the Internal Ratings Based Approach to credit risk, the credit institution shall additionally disclose each exposure class, separately disclosing the following information concerning retail exposures secured by real estate, revolving exposures and other retail exposures:

- 1) write-downs made in the period, and the corresponding changes, compared to the write-downs of previous periods;
- 2) the factors contributing to the loss generated in the period, including higher-than-average loss given default or greater-than-average loss arising from probability of default;
- 3) comparison of the assessments of the credit institution and the actual long-term results, including comparison of estimated losses, probability of default, conversion factors and actual results.

§ 18. Information subject to disclosure concerning credit risk mitigation

A credit institution shall disclose the following information concerning mitigation of the credit risk taken into account in the calculation of the capital requirements for credit risk:

- 1) the principles, procedures and scope of on-balance sheet and off-balance sheet netting;
- 2) the principles for management and evaluation of the collateral;
- 3) the description of the collateral taken into account in the calculation of the significant capital requirements, presented by types of collateral;

4) the description of the providers of unfunded protection of credit risk taken into account in the calculation of the capital requirements for credit risk, presented by groups, and assessment of their credit quality;

5) the description of the concentration of the market and credit risk of credit derivatives taken into account in the calculation of the capital requirements for credit risk.

§ 19. Numeric data subject to disclosure concerning mitigation of the credit risk

(1) A credit institution shall disclose the following information, presented by exposure classes, concerning the credit risk mitigation transactions taken into account in the calculation of the capital requirements on the basis of the Standardised Approach and the Foundation IRB Approach to credit risk:

1) the amount of exposures covered by volatility-adjusted financial collateral or other collateral taken into account in the calculation of the capital requirements;

2) the amount of exposures covered by guarantees or credit derivatives.

(2) The information specified in Subsection 1 shall be presented after on-balance sheet netting or netting of off-balance sheet items.

§ 20. Information subject to disclosure concerning counterparty credit risk

A credit institution shall disclose the following information concerning counterparty risk:

1) the principles for calculation of internal capital and establishment of limits for covering the counterparty credit risk;

2) the principles for handling of the collateral to the counterparty credit risk and establishment of credit reserves;

3) the principles for considering the correlation risk in the assessment of the counterparty credit risk;

4) the scope of the obligation to provide a supplementary collateral in the case of a drop in the credit quality of a credit institution.

§ 21. Numeric data subject to disclosure concerning the counterparty credit risk

A credit institution shall disclose the following numeric data concerning the counterparty credit risk:

1) the positive fair value of the transactions involving the counterparty credit risk, the netting amount, the netted current exposure and the value of the collateral;

2) the net value of exposures arising from the derivative transactions;

3) the principles for calculation of the exposures;

- 4) the total risk mitigation arising from the credit derivatives and the current exposure, presented by types of positions (including transactions involving currency, interest rates, shares, commodities and other underlying obligations);
- 5) the nominal value of credit derivatives involving the counterparty credit risk, and the distribution of the acquired and disposed credit derivatives, presented by product groups;
- 6) the value of the scaling factor α in case of use of own estimates of alpha.

§ 22. Information subject to disclosure concerning securitisation

(1) A credit institution shall disclose the following information concerning securitisation transactions:

- 1) the purpose of the securitisation transactions and the scope of the credit risk to be transferred to the transaction partners with these transactions;
- 2) the role of the credit institution (originator, sponsor or other) in the securitisation transactions, and the scope of the transactions, presented by roles;
- 3) the methods used for calculating the capital requirements for the securitisation transactions;
- 4) the names of the rating agencies used in the calculation of the capital requirements for securitisation transactions, presented by types of positions arising from the securitisation transactions.

(2) The following information shall be disclosed on the accounting of the securitisation transactions:

- 1) information regarding whether the securitisation transactions have been recognised as items written off the balance sheet, or as financing;
- 2) the criteria for recognition of gains and losses from securitisation transactions;
- 3) the principles for assessing the retained risks and rewards associated with the financial assets transferred with the securitisation transactions;
- 4) the principles for accounting for synthetic securitisation transactions.

§ 23. Information to be published on calculation of the capital requirements for securitisation positions

A credit institution shall disclose, by types of risk positions, the following information concerning calculation of the capital requirements for securitisation positions:

- 1) the sum total of the securitisation positions, presented separately by traditional and synthetic securitisation positions;

- 2) the sum total of written-down and outstanding securitisation positions, and the loss generated by the securitisation positions over the period;
- 3) the sum total of securitisation positions managed or purchased;
- 4) the sum total of securitisation positions managed or purchased, presented by risk weights, with exposures which are subject to a risk weight of 1,250 per cent or which have been deducted from own funds presented separately;
- 5) the sum total of the revolving exposures of securitisation, presented by portions held by the originator and the investor;
- 6) the sum total of the securitisation positions, as well as the gains and losses from disposal of securitisation positions.

§ 24. Information subject to disclosure concerning the market risk

- (1) A credit institution shall disclose the values of the portfolios involving the market risk, presented by methods for calculating the capital requirements.
- (2) In the use of the Internal Models Approach, the following information shall be subject to disclosure, presented by sub-portfolios covered by the internal models:
 - 1) the description of the internal risk measurement models used;
 - 2) the description of the stress testing of the models;
 - 3) the description of the back-testing of models and validation of the models.

§ 25. Numeric data subject to disclosure concerning the market risk

- (1) A credit institution shall disclose the following numeric data on the market risk:
 - 1) capital requirement for interest rate risk;
 - 2) capital requirement for equity position risk;
 - 3) capital requirement for foreign exchange risk;
 - 4) capital requirement for commodities risk.
- (2) The following information shall be disclosed in case of use of the Internal Models Approach:
 - 1) the highest, the average and the lowest risk assessment for the reporting period (i.e. the value-at-risk measure);
 - 2) comparison of the risk assessments and actual revenue or expenses, as well as material differences between the assessments and the actual results, discovered during back-testing.

§ 26. Information subject to disclosure concerning equities investments recorded in the banking portfolio

Among other things, the general information subject to disclosure concerning equity investments recorded in the banking portfolio shall include the following:

- 1) the description of the principles of distinguishing equity investments acquired for strategic purposes;
- 2) the principles for accounting for equity investments, the methods of evaluation and significant circumstances which have an effect on the equity investments.

§ 27. Numeric data subject to disclosure concerning equity investments recorded in the banking portfolio

A credit institution shall disclose the following numeric data on the equity investments recorded in the banking portfolio:

- 1) the net book value and fair value, as well as market value in case of listed equity instruments, if this significantly differs from the fair value;
- 2) types, content and sum total of listed equity investments, non-listed equity investments kept in sufficiently diversified equity investment portfolios and other equity investments;
- 3) gains and losses generated from disposal and liquidation of equity instruments in the reporting period;
- 4) revaluation of equity instruments in the reporting period, including amounts included in own funds.

§ 28. Information to be published on the interest rate risk

A credit institution shall disclose the frequency of the interest rate measurement of the banking portfolio, and the estimates used in the calculation of the interest rate risk, including estimates used in the assessment of the scope of prematurely repaid loans and demand deposits.

§ 29. Numeric data subject to disclosure on the interest rate risk of the banking portfolio

A credit institution shall disclose the estimates of the fluctuations in revenue due to change of interest rate, as well as changes in net asset value and other relevant indicators used by the management to measure interest rate risk. These indicators shall be presented by currencies.

§ 30. Information subject to disclosure concerning operational risk

- (1) A credit institution shall disclose the methods used for calculation of the capital requirement for operational risk.

(2) In the use of the Advanced Measurement Approaches to operational risk, a credit institution shall disclose the following information:

- 1) the scope of use of the model;
- 2) the description of the model, including the internal and external factors considered in the model;
- 3) the description of insurance and other risk transfer mechanisms taken into account in the calculation of the capital requirement for operational risk, and the principles for calculating their effect.

Chapter 4

IMPLEMENTING PROVISIONS

§ 31. Repeal of Decree

The Eesti Pank Governor's Decree No. 20, 21 December 2007, "Information disclosed on credit institutions' risk management, own funds and capital adequacy and additional reports subject to disclosure" (RTL 2007, 101, 1694), shall be repealed.

§ 32. Application of Decree

The Decree shall be applied to submission of reports for reporting periods beginning on or after 30 September 2009.

Andres Lipstok

Governor