

## PROCEDURES & DEFINITIONS

# Large Exposures and Connected Exposures Prudential Surveys

November 2023

*Please contact the Reserve Bank Statistics Unit ([statsunit@rbnz.govt.nz](mailto:statsunit@rbnz.govt.nz)) to discuss these procedures and definitions if in any doubt about their meaning or if following them will produce an internal inconsistency with your available financial data. Please ensure your contact information is the latest available.*

## General Requirements

Data provided in each survey must be for the bank named on the cover page. Please select the reporting bank from the drop-down list provided.

### Financial data should be reported:

- As values, where applicable, as at the end of the reporting period.
- As millions to three decimal points, i.e. to the nearest thousand New Zealand dollars. For example \$1,234,567.89 is reported as 1.235
- Please do not load zeros to cells where there are no values, leave the cells blank. Only load a zero if the cell contains a value but it is really small e.g. 0.0004

This document has been updated following trials and parallel runs. Feedback is welcome at any time to enable quality improvements for all users.

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## Large exposures survey

### Procedures

This survey should be completed for each New Zealand-incorporated registered bank's banking group, as defined in its conditions of registration, and for the New Zealand operations of each Overseas-incorporated registered bank (but excluding any exposures of a New Zealand-incorporated registered bank in the banking group).

**Cover tab** – Please complete the “Bank name”, “Address” and “Reporting date” cells.

**Sign-off tab** – Please complete questions 1, 4 and 5 and, if applicable, 2 and 3 before submitting.

### Definitions for “Large Exposures”

Counterparties/Groups of closely related counterparties should be ordered by aggregate “Credit Exposure” (see definition 4 below), reported in column Q.

#### 1. Common Equity Tier 1 capital and Equity (NZ Incorporated banks only)

These figures should be reported as per the definitions in Disclosure Statement Order in Council (see references to BPR110 for capital) and the “New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting.”

#### 2. Reporting entity's external credit rating

Please provide the external long-term local currency issuer rating grade of your bank, by selecting from the drop-down list for the applicable rating agency (i.e. Standard and Poor's, Fitch or Moody's). If multiple rating agencies publish a rating for your bank, please record all published ratings.

### Sections 1, 2 and 3:

#### 3. Credit exposure

Should be calculated using the definitions in the Registered Bank Disclosure Statements Order in Council Schedule relating to “Concentration of credit exposures to individual counterparties” (Schedule 13 for New Zealand Incorporated banks). As specified in this schedule, credit exposure information must be calculated as the amount that best represents the registered bank's banking group's maximum exposure to credit risk taking into account guidance in paragraphs B9 and B10 of NZ IFRS 7.

As discussed below, several categories of large exposures are exempt from the disclosure statement reporting requirements, but are not to be excluded from this large exposures survey. The large exposures survey must include exposures to connected persons, all central governments and all banks, other than the Reserve Bank of New Zealand. Please report these in section 1, 2, 3, or 4a as appropriate.

For inter-bank lending, intra-day exposures should not be included.

#### 4. Group of closely related counterparties (Column B)

Exposures in the large exposures survey should be reported on the basis of exposures to individual counterparties or to groups of closely related counterparties. The term “group of

closely related counterparties” is defined in the Disclosure Statement Order in Council for New Zealand Incorporated Registered Banks, in the definition section of the Order. In that document, “group of closely related counterparties” means a group of legal or natural persons who are related in such a way that:

- a) the financial soundness of any one of them may materially affect the financial soundness of the others;
- b) one has the power to control the others; or
- c) one has the capacity to exercise significant influence over the others

Please note for Section 1 of the large exposures survey, banks are required to report the aggregate counterparty group exposure to each parent (group) of a New Zealand registered bank, and separately (below) the exposures to individual registered banks within that parent group, regardless of the size of those credit exposures<sup>1</sup>. This data will better enable the Reserve Bank to analyse the exposure inter-connections between registered banks. For Section 1 only, please select the respective registered bank/parent counterparty name from the drop-down list in column B, which will also ‘auto-fill’ the industry classification in column C. Additional rows are available (please unhide) if more than 40 rows are required for section 1 counterparties.

Furthermore, where a non-bank holding company exists as the ultimate parent of a banking group (i.e. ‘Citigroup Inc.’ and ‘HSBC Holdings plc’) an exposure to these ultimate parent entities must also be included in Section 1.

A few worked examples that may assist reporting banks with completing the survey are shown below in Appendix 1.

For other sections of the survey, banks are only required to report the aggregate counterparty group exposure. At this stage we have not asked for a detailed breakdown of exposures to individual entities in a counterparty group unless it includes a registered bank. This, and other information, may be requested by individual supervisors on an ad-hoc basis.

For State Owned Enterprises (SOEs), and other New Zealand Crown owned entities please show exposures to each entity separately from the New Zealand Crown (unless wholly-guaranteed by the Crown). A list of state sector organisations is available on the SSC website<sup>2</sup> at the link footnoted below.

## **5. Industry classification (Column C)**

For New Zealand-domiciled counterparties, please select the relevant category of ANZSIC description from the options provided in the drop-down menu. Additional counterparty options for the following non-industrial entities have been provided for ‘households’ and non-residents:

- Households: Housing
- Households: Other

<sup>1</sup>For example, if the reporting bank has no exposure to an ultimate parent bank but only has an exposure to the NZ incorporated registered bank, the same amount would be reported twice: as the aggregate counterparty exposure to the ultimate parent bank; and as the exposure to the NZ registered bank.

<sup>2</sup>[http://www.ssc.govt.nz/state\\_sector\\_organisations](http://www.ssc.govt.nz/state_sector_organisations)

- Non-residents: Sovereign, supranational & multilateral – include in this category any counterparties that are Kauri bond issuers that are not commercial banks. A sample list of institutions falling within this category, for the purposes of this survey, is available on the RBNZ website<sup>3</sup> at the link footnoted below.
- Non-residents: Financial institutions - banks
- Non-residents: Financial institutions - other
- Non-residents: Non-financial business
- Non-residents: Other

For exposures to groups of closely related counterparties where individual counterparties/exposures have differing ANZSIC descriptions, please select the ANZSIC description that corresponds to the largest exposure in the counterparty group.

The link footnoted below<sup>4</sup> is to the ANZSIC 2006 Classification Code Hierarchy tool on Statistics New Zealand's website. It has a lot of good supporting documentation to help classify businesses.

We have identified some institutions and types of businesses that are commonly misclassified to the wrong industry. The following table provides examples and correct industry classifications

Counterparty or type of counterparty	Correct industry classification
Supranational and Quasi-sovereign agencies	Non-residents: Sovereign, supranational & multilateral
Non-deposit-taking finance companies	All other financial institutions
Fonterra	Food product, beverage & tobacco manufacturing
NZ Local Government Funding Agency	Local government administration
Accident Compensation Corporation	Insurance

## 6. Aggregate credit limit (Column D)

In this column, please report the overall counterparty credit limit your bank has established for each individual counterparty or group of closely related counterparties. We recognise that this field will not be easy to compare across banks as there may be differing methods for calculating limits on credit portfolios. In principle, we expect that banks will report these limits on the same basis as the guidance in paragraphs B9 and B10 of NZ IFRS 7, including all committed facilities, trading and credit limits and financial guarantees, and the fair value derivative positions but excluding, for example, notional value derivative limits and intraday limits.

## 7. External credit ratings (Columns E, F & G)

If available, please provide the external long-term local currency issuer or issue credit rating grade and rating agency, by selecting from the drop-down list for the applicable rating agency (Standard and Poor's, Fitch or Moody's). Please provide original external ratings only, do not extrapolate based on internal ratings. If a counterparty has a credit rating from more than one rating agency, please provide all ratings for that counterparty. For aggregate exposures where individual borrower ratings vary, please select the rating of the largest individual exposure in the counterparty group.

<sup>3</sup><https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/banking-supervision-handbook/list-of-supranationals-and-quasi-sovereigns.pdf>  
<sup>4</sup>[http://archive.stats.govt.nz/tools\\_and\\_services/ClassificationCodeFinder/ClassificationCodeHierarchy.aspx?classification=4894](http://archive.stats.govt.nz/tools_and_services/ClassificationCodeFinder/ClassificationCodeHierarchy.aspx?classification=4894)

**8. Internal credit rating (Column H)**

If available, please provide the reporting bank's internal credit rating grade applicable to the exposure. For aggregate counterparty group exposures where individual internal borrower rating grades vary, please provide the rating grade of the largest individual exposure in the counterparty group. Please provide original internal ratings only, not extrapolations based on external ratings.

**9. Special mention / sub-standard status (Column I)**

For all counterparties/groups, please indicate the type (if any) of special reporting, monitoring or control category the credit exposure is subject to (e.g. special mention/sub-standard/watch or other control list, or 90 days past due but not impaired).

**10. Individual provisions (Column J)**

Individual provisions should be reported as the total of individual provisions allocated to members of the counterparty group (if any).

**11. On-balance sheet credit exposure (Column K)**

On balance sheet credit exposure should be reported as reflected in the reporting bank's general ledger and in the statement of financial position (balance sheet). This includes the mark-to-market carrying amount of any derivative contract with the counterparty that is recognised as an asset on the balance sheet.

(Sections 12 to 13 are applicable only to banks that are required to follow BPR131: Standardised credit risk RWAs)

**12. Off-balance sheet credit exposures (Column L)**

This column requires reporting banks to provide the off-balance sheet credit exposure as applicable in BPR131, based on credit-equivalent amounts. It is not the residual aggregate credit limit after deducting the on-balance sheet credit exposure. The off-balance sheet credit exposures should be calculated based on the methodology described in section D of BPR131, and should also include Potential Future Exposure (PFE) on derivative contracts calculated in accordance with section E of BPR131.

**13. Aggregate credit exposure (Column M)**

This column does not require any input from a bank on the standardised capital framework, as a formula is predetermined and will be automatically calculated based on input data completed by banks.

(Section 14 is applicable only to banks that are accredited by the Reserve Bank to follow BPR133: IRB credit risk RWAs)

**14. Total EAD (Columns N & O)**

Total exposure at default (EAD) must be determined without taking into account the effect of any collateral. Column N requires banks to record total EAD before credit risk mitigation and column O requires banks to record EAD after credit risk mitigation. See references to BPR133 for eligibility.

### **15. Eligible credit risk mitigation (Column P)**

In this column, only credit risk mitigation techniques recognised for capital adequacy purposes may be taken into account (see references to BPR132 for eligibility).

### **16. Aggregate credit exposure, as per OIC (Column Q)**

This column requires reporting banks to record, for each counterparty group, the amount that best represents the maximum exposure to credit risk, taking account of the guidance in B9 and B10 of NZ IFRS 7. Values reported in this column must be calculated in the same manner as required by Schedule 13 of the Disclosure Order in Council for New Zealand Incorporated Registered Banks. Please note that this maximum exposure amount is separate from the measure represented by Columns K to P, and in particular the NZ IFRS 7 definition recognises credit risk mitigation to a more limited extent than for capital adequacy purposes.

## **Sections 4a and 4b**

### **17. Summary for the Financial Strength Dashboard (NZ Inc. banks only)**

In very rare cases, the counterparties you record in sections 1 to 3 might not include enough qualifying counterparties to fully identify your bank's top-5 exposures to banks and non-banks (e.g. if all your bank's large exposures in section 2 are with highly-rated sovereigns or quasi-sovereigns / multilateral organisations). In this case, we have provided space in section 4a for you to identify any other counterparty exposure you need to report to fully identify your bank's top-5 qualifying counterparties. If your bank has less than 5 qualifying counterparties to report in either of the categories in Section 4b, please advise that information in the comment section of the Sign-off tab in the survey.

For the purposes of the Financial Strength Dashboard, Section 4b of the survey requires banks to identify their top-5 exposures to banking group counterparties and non-bank counterparties respectively, as well as identifying the total number/count of exposures in those categories that each equal or exceed 10% of the locally incorporated bank's CET1 capital. The definitions of banking-group and non-bank counterparties align with the definitions of those counterparties in the disclosure OIC. Exposures to bank holding companies are excluded from the definition of 'banking group' and therefore must be excluded from both your top-5 and count of exposures to banking groups that equals or exceeds 10% of the locally incorporated bank's CET1.

You must use the exact names of the counterparty as recorded in sections 1 to 4a of the survey.

To ensure consistency with the disclosure OIC, you must exclude from section 4 those counterparties that meet the following criteria:

- Credit exposures to sovereigns (e.g. NZ Government) and quasi-sovereigns / multilateral organisations (e.g. IMF and World Bank) that have a long-term credit rating of A- or A3 or better; and
- Any connected exposures as defined in the disclosure OIC and in the Connected Exposures Policy BS8.

A more detailed guidance note, with an illustrative example of how to complete a registered bank's top-5 counterparty exposures can be referred to below in Appendix 2.

**18. Notes on other items**

For overseas incorporated banks, reporting is required in sections 1 and 2 for credit exposures above a de-minimus amount of \$1 million.



## Credit exposures to connected persons (NZ Incorporated banks only)

### Procedures

For the purpose of this survey, information that is reported must be derived in accordance with the registered bank's conditions of registration relating to credit exposures to connected persons, and the [Connected Exposures Policy \(BS8\)](#)

### Definitions:

#### 19. Reporting bank's credit rating

BS8 paragraph B.1(7)(a): the credit rating will be the rating applicable to the bank's long-term senior unsecured New Zealand dollar obligations payable in New Zealand, in New Zealand dollars. Where a registered bank has more than one credit rating, the lowest rating will be used in determining the rating-contingent connected exposure limit.

#### 20. Tier 1 capital

For all banks Tier 1 capital has the same meaning as in the Reserve Bank document "Capital definitions" (BPR110), in the version applying to the bank in its conditions of registration.

#### 21. Bank and Non-Bank connected persons

The definition of 'Non-Bank connected persons' is described in BS8 paragraphs A.3(4). Connected persons that are not 'Non-Bank connected persons' are 'Bank connected persons'.

#### 22. Netting

As outlined in BS8, in certain circumstances credit exposures to connected persons can be calculated on a bilateral net basis.

#### 23. Peak end-of-day credit exposure

Amounts reported in this section will be peak end-of-day connected exposures within the current quarter ending on the reporting date e.g. for reporting period ended 30 June, this would be the peak credit exposure from 1 April to 30 June.

#### 24. Unfunded contingent credit protection arrangements

A bank may enter into an unfunded contingent credit protection arrangement (e.g. guarantee, credit derivative and indemnity) with a connected person to reduce the value of its underlying exposure to an unconnected counterparty, to the extent of the portion protected under the unfunded contingent credit protection arrangement. Such arrangements give rise to contingent credit exposures to connected persons.

The BS8 definition of aggregate credit exposure for the purpose of connected exposure limits excludes any such contingent exposures to connected persons. However, the aggregated amount of the contingent credit exposure to connected persons arising from such contingent credit exposures, and the number of individual exposures, should be reported to us under Section 2 of the Connected Exposure Survey.

**25. Individual impairment**

This section records the value of any credit impairment provisions or loss allowances, provided against credit exposures to connected persons.

## Appendix 1: Worked examples of counterparty group reporting

### Example A:

Reporting bank has an exposure to XYZ Bank New Zealand Limited of \$10m, an exposure to XYZ Bank (NZ Branch) of \$9, and no direct exposure to the ultimate parent bank or holding company. The following rows would be required for the large exposures survey:

Counterparty / Group name	Industry classification	Exposure (\$m)
XYZ – XYZ Group Inc. (Ultimate holding company)	Non-Residents: Financial Institutions - other	19.0
XYZ – XYZ Banking Group (Swiss banking group)	Non-Residents: Financial Institutions - banks	19.0
XYZ – XYZ Banking Group (NZ Branch)	Depository institution	9.0
XYZ – XYZ Bank New Zealand Limited	Depository institution	10.0

### Example B:

Reporting bank has an exposure to XYZ Bank New Zealand Limited of \$10m but no other exposures to any member of the XYZ Group. The following rows would be required for the large exposures survey:

Counterparty / Group name	Industry classification	Exposure (\$m)
XYZ – XYZ Group Inc. (Ultimate holding company)	Non-Residents: Financial Institutions - other	10.0
XYZ – XYZ Banking Group (Swiss banking group)	Non-Residents: Financial Institutions - banks	10.0
XYZ – XYZ Bank New Zealand Limited	Depository institution	10.0

### Example C:

Reporting bank has an exposure to XYZ Bank New Zealand Limited of \$10m and an exposure to its parent of \$8m. The following rows would be required for the large exposures survey:

Counterparty / Group name	Industry classification	Exposure (\$m)
XYZ – XYZ Group Inc. (Ultimate holding company)	Non-Residents: Financial Institutions - other	18.0
XYZ – XYZ Banking Group (Swiss banking group)	Non-Residents: Financial Institutions -banks	18.0
XYZ – XYZ Bank New Zealand Limited	Depository institution	10.0

**Example D:**

Reporting bank does not have an exposure to XYZ Bank New Zealand Limited but has a direct exposure to its parent bank of \$8m. The following rows would be required for the large exposures survey:

Counterparty / Group name	Industry classification	Exposure (\$m)
XYZ – XYZ Group Inc. (Ultimate holding company)	Non-Residents: Financial Institutions - other	8.0
XYZ – XYZ Banking Group (Swiss banking group)	Non-Residents: Financial Institutions - banks	8.0

## Appendix 2: Worked example for Financial Strength Dashboard

### RBNZ's guidance on identifying Top-5 exposures from the Large Exposures Survey Template for New Zealand-incorporated registered banks

The RBNZ Financial Strength Dashboard (the "Dashboard") will include information sourced from the quarterly Large Exposures Survey (the "LEX"). We have observed common errors and misreporting across most registered banks in the December 2017 'top-5' selections. The RBNZ is now providing feedback and guidance on identifying Top 5 exposures from the Large Exposures Survey, for further clarification.

This document demonstrates how the reporting bank should complete **section 4b of the LEX**.

#### Top-5 qualifying exposures to banking groups

The definition of a banking-group counterparty aligns with the definition of those counterparties as defined for OIC disclosure purposes. Exposures to bank holding companies (which are not banks themselves) do not meet the definition of 'banking group' and therefore do not qualify for inclusion in your top-5. For New Zealand registered banks in particular, this means the non-bank holding companies which sit above the banking groups for Citibank, HSBC, Kiwibank (i.e. NZ Post) and TSB do not qualify for inclusion in the top-5 qualifying exposures to banking groups.

Likewise, highly-rated quasi-sovereign and multilateral organisations do not qualify as Top-5 exposures to banking groups. Please refer to the following link for more information:  
<https://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/banks/banking-supervision-handbook/List-of-supranationals-and-quasi-sovereigns.pdf?la=en>

If you have a large exposure to a non-resident bank (which is not a highly-rated quasi-sovereign or multi-lateral organisations) with no presence in New Zealand (e.g. Agricultural Bank of China, Bank of America, or Deutsche Bank) this exposure would be recorded in section 2, 3 or 4a of the LEX and may also qualify for inclusion in your top-5 qualifying exposures to banking groups.

Exposures to connected parties (as defined in OICs) are excluded from your top-5 exposures.

In section 4b, we require the reporting bank to complete the Counterparty name or Group name from section 1, 2, 3, or 4a as appropriate. The template will then auto-complete the industry classification, exposure value, and exposure as a % of CET1 for each of the top-5 qualifying banking group exposures. Note that the only two industry classifications that qualify for this top-5 list are: *"Non-residents: Financial institutions – banks"* and *"Depository Institution"*.

#### Top-5 qualifying exposures to non-bank counterparties

The definition of non-bank counterparty aligns with the definition of those counterparties in the OIC. Your top-5 qualifying non-bank exposures excludes highly-rated (A- or A3 or better) exposures to sovereigns (e.g. NZ Government) and quasi-sovereigns / multilateral organisations (e.g. IFC and World Bank).

In very rare cases, the counterparties recorded in sections 1 to 3 might not include enough qualifying counterparties to fully identify your bank's top-5 exposures to banks and non-banks (e.g. if all your bank's large exposures in section 2 are with highly-rated sovereigns or quasi-sovereigns / multilateral organisations). In this case, we have provided space in section 4a for you to identify any other counterparty exposure you need to report to fully identify your bank's top-5 qualifying non-bank counterparties.

### Fictional example of LEX for XYZ Bank Ltd

The following fictional example for XYZ Bank Ltd provides a guide to the types of inclusions and exclusions we expect to see when section 4b is completed, refer to the attached excel file for details.



LEX example for XYZ  
Bank Ltd.xlsx

- *Top-5 banking group exposures*  
XYZ bank's top-5 qualifying banking group exposures include banking groups reported in section 1 and section 2 of the LEX. In this example XYZ bank has correctly "aggregated" its exposures to New Zealand banks in section 1 into (where relevant) their overseas parent bank and, therefore, the parent bank is the correct entity for XYZ to report in its top-5 in those cases. To complete the top-5 qualifying banking group exposures, XYZ bank has reported its two qualifying banking group exposures from section 2, and has identified and reported its next largest qualifying banking group exposure in section 4a, and recorded that exposure in section 4b.
- *Count of banking group exposures  $\geq$  10% of CET1*  
Of all qualifying exposures, **three** are greater than or equal to 10% of CET1.
- *Top-5 non-bank group exposures*  
XYZ bank's 20 largest non-bank group exposures are reported in section 2 of the LEX. Those exposures are almost entirely to counterparties in the financial institutions, sovereigns, and supranational/multilateral sectors and do not qualify for inclusion in XYZ's top-5 non-bank exposures. Therefore, in order to fully complete section 4b, XYZ has identified and reported its next largest qualifying non-bank exposure in section 4a and recorded that exposure in section 4b.
- *Count of non-bank exposures  $\geq$  10% of CET1*  
Of all qualifying exposures, only **one** (the exposure to the Local Government Funding Agency) is greater than or equal to 10% of CET1.

### Appendix 3: Document change log

Version	Date	Comment
V1.2	Apr 2018	Last issued reporting guide document
V1.3	Oct 2018	<p>Clarification on reporting ultimate parent entities in LEX survey (pg.4)</p> <p>Update to worked examples in Appendix 1 regarding ultimate parent entities in LEX survey</p> <p>Worked example document added previously referenced on pg. 7 has been instead added as Appendix 2.</p> <p>Added further definitions for terms and categories in the Connected Exposures Survey.</p>
V1.4	Feb 2021	Added definition for risk lay-off arrangements & clarified treatment of derivative contracts in large exposure reporting
V1.5	Dec 2021	BS2A and BS2B replaced by new 'Banking Prudential Requirements' (BPR), with subsequent changes in the Connected Exposures Policy BS8 document re-issued in October 2021.
V1.6	Nov 2023	<p>Removed definition for risk lay-off arrangements &amp; replaced them with new definitions for unfunded contingent credit protection arrangements.</p> <p>Edited the other definitions within the "Credit exposures to connected persons (NZ Incorporated banks only)" to reflect the new update to the BS8 policy.</p>