



## GUERNSEY FINANCIAL SERVICES COMMISSION

# PRINCIPLE 1/1994/24 (amended) PRINCIPLES AND GUIDANCE TO BE FOLLOWED BY A LOCALLY INCORPORATED LICENSED DEPOSIT-TAKING INSTITUTION ENTERING INTO A LARGE EXPOSURE

### INTRODUCTION

1 The Commission requires each locally incorporated licensed deposit-taking institution wishing to enter into a large exposure (see Annex 1, paragraphs 10 and 11), whether on a one-off basis or as a regular part of its operations, to set out its policy on large exposures, including exposures to individual customers, countries, economic sectors and the group, in a policy statement. This policy should be formally adopted by the institution's board of directors with a copy supplied to the Commission. The Commission expects banks not to implement changes in these policies without prior discussion with the Commission. Significant departures from a bank's stated policy, in particular those involving breaches of agreed levels, will lead the Commission to consider whether the bank continues to meet the statutory minimum criteria for authorisation.

2 Each bank may be required to justify to the Commission its policy on exposures to individual counterparties, including the maximum size of an exposure contemplated. Relevant factors which the Commission will expect a bank to have taken into account when setting its policy and considering the acceptability of particular exposures include, for example, the standing of the counterparty, the nature of the bank's relationship with the counterparty, the nature and extent of security taken against the exposure, the maturity of the exposure, and the bank's expertise in the particular type of transaction. Exposures to counterparties related to the bank - for example, subsidiaries or sister companies or companies with common directors - will continue to be particularly closely examined. (Exposures to counterparties related to the reporting bank are considered in paragraph 8 and 15-18 below).

3 The necessary control systems to give effect to a bank's policy on large exposures must be clearly specified and monitored by its board. Banks will be required to detail how they intend to monitor the size of capital base to ensure that the limits detailed in these principles and in accordance with their policy are not exceeded.

### THE MEASURE OF EXPOSURE

4 The measure of exposure should reflect the maximum loss should a counterparty fail. Consistent with this, an exposure encompasses the amount at risk arising from the reporting bank's:-

(i) claims on a counterparty including actual claims, and potential claims which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank

has committed itself to provide, and claims which the bank has committed itself to purchase or underwrite; and  
(ii) contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide; and  
(iii) assets, and assets which the bank has committed itself to purchase or underwrite, whose value depends wholly or mainly on a counterparty performing his obligations, or whose value otherwise depends on that counterparty's financial soundness but which do not represent a claim on the counterparty. A fuller definition of the measure of exposure and the amount at risk is set out in Annex 1. This definition also covers items which are excluded from the measure of exposure.

### IDENTITY OF COUNTERPARTY

5 The identity of a counterparty will generally be the borrower (customer), the person on whose behalf a guarantee has been issued, the issuer of a security in the case of a security held or the party with whom a contract was made in the case of a derivatives contract. Where a third party has provided an explicit unconditional irrevocable guarantee, banks may however be permitted to report the exposure as being to the guarantor. As a condition for allowing banks to report exposures in this way, the Commission will require banks to include a section on guaranteed exposures in their large exposures policy statement. In particular the Commission would expect a consistent approach to be adopted in the reporting of such exposures. The Commission does not expect banks to report exposures to guarantors unless the banks have first approved the credit risk on the guarantor and the type of the exposure under the bank's normal credit approval procedures. It would be expected that any guarantees to a locally licensed bank, from a parent bank or any other bank, would be declared on the guarantors' reports to their regulators.

### EXPOSURE LIMITS

#### Aggregate Limit on Large Exposures

6 A bank may not incur exposures which exceed 10% of capital base to individual counterparties or groups of connected counterparties which in aggregate exceed 800% of the bank's capital base without prior agreement of the Commission.

#### Single Exposure Limit

7 A bank may not incur an exposure to an individual



counterparty (see Annex 1 section 12) which exceeds 25% of the bank's capital base without reference to the Commission in each case and without making such arrangements as may appear to the Commission desirable for the protection of the bank's capital base. Any such arrangements must be confirmed in writing to the Commission by the bank concerned. (See paragraph 18 below).

#### **Limit on Exposures to Related Counterparties**

**8** Exposures to companies or persons related to the lending bank, its managers, directors or controllers require special care to ensure a proper objective credit assessment is undertaken. Such exposures may be justified only when undertaken for the clear commercial advantage of the lending bank, and when they are negotiated and agreed on an arm's length basis. The Commission will examine particularly closely all exposures to companies or persons related to a lending bank and will deduct them from the bank's capital base if they are of the nature of a capital

**8A** Exposures to related counterparties as defined in Annex 1.16 must be aggregated and treated as a single exposure on a consolidated basis. The aggregated exposure must not exceed the Single Exposure Limit.

#### **NOTIFICATION OF EXPOSURES**

##### **Notification of exposures exceeding 25% of capital base**

**9** When a bank proposes to enter into an exposure, which either alone or together with other existing exposures to the same counterparty exceeds 25% of capital base, details must be notified to the Commission before the bank becomes committed to the exposure. Where the Commission has been pre-notified of, and acknowledged, a bank's limits for such an exposure, exposures which do not exceed those limits need not be further pre-notified to the Commission.

**10** If an exposure which exceeds 25% of capital base has been entered into without prior notification to the Commission notification must be made within two working days of entering such an exposure. A bank would not be expected to enter such exposures without notification unless the nature of the business is such that prior notification would be commercially disadvantageous but it would be expected that such possible circumstances are discussed with the Commission and outlined in the bank's large exposures policy.

**11** Exposures to overseas countries, and economic sectors, which exceed 25% of the bank's capital base are not covered by the pre-notification requirements. However, where a proposed transaction will result in an exposure which represents a significant departure from the bank's statement of policy on its large exposures submitted to the Commission (see paragraphs 1-3), the Commission will expect the proposed transaction to be pre-notified to and discussed with it.

##### **Quarterly notification of exposures**

**12** Locally incorporated banks are required to report their ten largest exposures (non-bank sector) on a quarterly basis in the Commission's prudential returns. If there are more than

ten loans each over 10% of capital base they should all be shown. Loans under 100,000 should not be included. In addition any inter-bank or building society exposure over 1 year should also be reported. The practice of listing any market loans of over 10% of total assets will continue. The more an individual exposure exceeds 10% of capital base the more rigorous the Commission will be in requiring a bank's management to justify that exposure. In any case banks are expected to adopt policies which will not lead to 10% being exceeded as a matter of course.

**13** Should any bank find that for reasons outside its control or otherwise (eg two counterparties merging to form a single counterparty) it has an exposure to an individual counterparty which results in it exceeding any of the limits set out above this should be reported immediately to the Commission. The Commission will discuss the circumstances of any such exposures to determine any action considered necessary.

#### **EXEMPT EXPOSURES**

**14** Certain types of exposure are exempt from the limits above but notification requirements set out in 12 above continue to apply to these exposures. The exemptions fall into the following categories.

- Inter-bank exposures and building society exposures (market loans) of less than one year;
- exposures which are covered by a parental guarantee; and
- exposures to Zone A central governments (and limited exposures to Zone B central governments).

**15** In respect of exposures to other group companies the Commission's policy allows a bank to take on a treasury role on behalf of the group (in this context a group is limited to parent, subsidiaries, subsidiaries of a parent and any group branches) as a whole (provided that the group is subject to consolidated supervision by its home supervisor). Levels for such exposures, if any, will be agreed on a case by case basis. It will be for the bank to satisfy the Commission that it should fulfil such a role and has appropriate management and other group control systems in place to ensure that risk-taking in those group companies is properly monitored and controlled.

**16** Other exposures to banks (over one year), financial and non-financial companies of a group will be aggregated and considered as an exposure to an individual non-bank counterparty (ie will be subject to the arrangements for exposures over 25% as described in these principles).

**17** Other forms of related exposure (in particular, to companies with which directors are associated) will be considered on a case by case basis. Where the link with the connected company is fairly remote, for example, where a non-executive director of a large bank is a director of the borrowing company, the exposure may be considered as acceptable up to the normal level for that bank.

##### **Exposures undertaken which are protected by a parent bank**

**18** A bank may, with the approval of the Commission, undertake exposures in excess of 25% of its capital base if it is guaranteed by its parent bank, or a transfer loan



agreement letter is in place (see possible acceptable letters in Annex 3 and 4). An acceptable parental 'guarantee' for this purpose should prevent a bank's capital from becoming deficient as a result of experiencing a loss on such an exposure. A transfer letter may take a number of forms and may where appropriate include, for example, a formal guarantee, a refinancing agreement to cover the whole of the exposure or an undertaking to make up any resultant deficiency in the subsidiary's capital.

#### **ADDITIONAL CAPITAL REQUIREMENTS**

**19** The Commission may require a locally incorporated bank to maintain higher capital ratios than would otherwise be the case when it considers it to be exposed to particular concentrations of risk. It will be the Commission's practice, where a bank has a number of exposures, which are not exempt from the limits, of more than 10% of capital base and, in particular, where the total of those exposures exceeds 100% of capital base, to consider whether such measures are necessary. However in considering the amount of capital to be maintained the Commission would have regard to the acceptability of the exposures when considered in the context of the bank's large exposures policy agreed with the Commission; the particular characteristics of the individual bank, including the nature of its business and the experience of its management; and the number of such exposures, their individual size and nature.

**20** In those cases where an exposure (which is not an exempt exposure) exceeds 25% of capital base, the Commission may require additional capital cover.

#### **EXPOSURES TO COUNTRIES**

**21** The Commission does not believe that a common limit should be applied to the aggregate of banks' exposures to counterparties in the same country; nor does it consider it appropriate to publish guideline percentages for the acceptable level of exposure to counterparties in particular countries. There may be circumstances where the Commission will insist on a limitation on a bank's country exposure. Banks likewise will be expected to set limits for country exposures on the basis of their own risk assessments which should be set out in their policy. The nature of the exposure (for example, whether it is trade finance or longer term balance of payments finance) will be relevant in considering an acceptable level of exposure.

#### **EXPOSURES TO ECONOMIC SECTORS**

**22** The extent to which a bank may be prudently exposed to a particular industrial sector or geographical region will vary considerably depending upon the characteristics of the bank and the sector or region concerned. Sectors and regions are difficult to define and the definitions for one bank may not be appropriate for another. The Commission will not therefore apply common maximum percentages to banks' sectoral exposures but will wish to discuss a bank's exposures to sectors and regions and their internal

#### **EXPOSURES UNDERTAKEN BY BRANCHES OF BANKS INCORPORATED OUTSIDE THE BAILIWICK**

**23** Knowledge of large exposures in a branch is important for a host supervisor, particularly, but not solely, in order to carry out a full assessment of the branch's liquidity. The

Commission may therefore wish to examine and discuss with the management of each branch its largest exposures measured in relation to the overall balance sheet of the branch and reserves the right to discuss with the home supervisory authority the size of exposures undertaken by the Guernsey branch. The Commission may also give particular consideration to the exposure of branches of overseas banks to the country of incorporation of the bank.

#### **ANNEX 1 - DEFINITIONS**

##### **An exposure**

- 1** An exposure is defined as the amount at risk arising from the reporting bank's assets and off-balance sheet items encompassed in the Guidance Note on completion of the Commission's prudential returns (ie the same as that used in the calculation of the risk asset ratio).
- 2** The amount at risk will be taken as the full amount (ie the book value) of the reporting bank's claims and contingent liabilities, and potential claims and liabilities in the ease of undrawn facilities, unless stated otherwise by written notice from the Commission or as set out below. In general, exposures should be reported on a gross basis, meaning that credit balances should not be offset against debit balances. Any deviance from reporting exposures gross will only be by prior agreement with the Commission.
- 3** The amount at risk arising from interest rate contracts (including interest rate swaps, forward rate agreements and interest rate options purchased), foreign exchange rate contracts (including cross currency swaps, forward foreign exchange contracts and foreign exchange options purchased) and other derivative contracts such as commodity and equity derivatives, is not taken to be the nominal amount of a contract but rather a credit equivalent amount. The method for calculating the credit equivalent amount is the same as that used in the calculation of the risk asset ratio (ie the replacement cost or original exposure method set out in the Guidance Note on completion of the Commission's prudential returns).
- 4** Should a bank be involved in underwriting activities the measure of exposure used in the monitoring and controlling of such exposures is not the nominal amount of exposure but a credit equivalent amount. See also Annex 1, paragraph 26.
- 5** All derivative products are also brought into the measure of exposure and therefore the Commission's policy regarding the taking on of a treasury role is extended to cover exposures arising from this function but only after the Commission has been satisfied that the necessary expertise is available locally.
- 6** The following items will not be included in the measurement of exposure:-
  - (i) items deducted from capital base (both for the calculation of capital ratios and for large exposures purposes);
  - (ii) claims arising in the course of settlement of a foreign exchange transaction on a counterparty where the reporting institution has its side of the transaction but has not received the countervalue, for a period of up to two working days



after payment was made. After this period such claims will constitute an exposure;

(iii) claims arising in the course of settlement of a securities transaction where such claims are outstanding up to a maximum of five working days. Such claims arise where payment has been made or securities delivered but before the countervalue (i.e. the securities or cash payment respectively) has been received. Where neither counterparty to the transaction has settled there will be no reportable exposure until 21 days after due settlement date (after which the replacement cost of the transaction will be considered to be an exposure).

**7** Risks arising from the settlement of transactions other than in the types of exposure mentioned above are not included within these principles. However, the control of such exposures needs to be carefully considered by banks since inadequate controls could be a cause of substantial loss for a bank. The Commission will therefore pay particular attention during the course of its supervision of how individual banks control such risks.

**8** A bank's exposure arising from securities trading operations is calculated as its net long position in a particular security. A short position in one security issue may not be offset against a long position in another issue made by the same issuer.

#### **Determining if a transaction entered by an institution relates to a person**

**9** For the purposes of Section 24 of the Banking Supervision (Bailiwick of Guernsey) Law, 1994 and these principles a transaction entered into by an institution relates to a person if it is:-

- (i) a transaction under which that person incurs an obligation to the institution or as a result of which he may incur such an obligation;
- (ii) a transaction under which the institution will incur, or as a result of which it may incur, an obligation in the event of that person defaulting on an obligation to a third party; or
- (iii) a transaction under which the institution acquires or incurs an obligation to acquire, or as a result of which it may incur an obligation to acquire, an asset the value of which depends wholly or mainly on that person performing his obligations or otherwise on his financial soundness;

and the risk of loss attributable to a transaction is, in a case within paragraph (a) or (b) above, the risk of the person concerned defaulting on the obligation there mentioned and, in a case within paragraph (c) above, the risk of the person concerned defaulting on the obligations there mentioned or of a deterioration in his financial soundness.

#### **A large exposure**

**10** A large exposure is defined as an exposure to a counterparty or group of connected counterparties which is greater than or equal to 10% of capital base.

#### **Capital base**

**11** The capital base used as the basis for monitoring and controlling large exposures should be calculated according to the method set out in the Guidance Note on completion

of the Commission's prudential returns (ie the same as that used in the calculation of the risk asset ratio). Amendments resulting from new issues of capital, payment of dividends, losses or interim profits verified by an external auditor should be reflected in the capital base at the appropriate time.

#### **An individual counterparty and a group of connected counterparties**

**12** Exposures are required to be reported and controlled according to the nature of the counterparty. Exposures to a group of connected counterparties must be aggregated and treated as if they were exposures to a single counterparty.

#### **Individual non-bank counterparty**

**13** An 'individual non-bank counterparty' comprises natural and legal persons and includes individual trusts, corporations, unincorporated businesses (whether as sole traders or partnerships) and non-profit making bodies.

#### **A Connected counterparty**

**14** A group of connected counterparties exists where:

- (i) unless it can be shown otherwise, two or more individual counterparties constitute a single risk because one of them has, directly or indirectly, control over the other or others; or
- (ii) individual counterparties are connected in such a way that the financial soundness of any of them may affect the financial soundness of the other or others or the same factors may affect the financial soundness of both or all of them.

In such cases the exposure to these individual counterparties should be aggregated and considered as a single exposure to a group of connected counterparties.

**15** Where there is doubt in a particular case whether a number of individual counterparties constitute a group of connected counterparties or where, notwithstanding that the relationship between a number of counterparties identified in the reporting instructions exist, the counterparties do not share a common risk, the circumstances should be discussed with the Banking Division at the Commission to determine how the exposure(s) should be reported.

#### **Related Counterparties**

**16** Parties related to the reporting bank comprise:-

- (i) group undertakings as defined by Section 56(1) of the Banking Supervision (Bailiwick of Guernsey) Law, 1994; or
- (ii) associated companies as recognised by current accounting standards followed in Guernsey; or
- (iii) directors, controllers and their associates as defined in Section 56(1) of the Banking Supervision (Bailiwick of Guernsey) Law, 1994; or
- (iv) non-group companies with which the reporting bank's directors and controllers are associated. A director (including an alternate director) and controller of the reporting bank is deemed to be associated with another company, whether registered or domiciled in the Bailiwick or overseas, if he holds the office of a director (or alternate director) with that company (whether in his or her own right, or as a result of a loan granted by, or financial interest



taken by, the reporting bank to, or in, that company, or even by virtue of a professional interest unconnected with the reporting bank), or if he and/or his associates, as defined above, together hold 10% or more of the equity share capital of that company.

For the purposes of the large exposures policy, an employee of the lending bank who is not a director but who is appointed by the lending bank to be a director of another company is also treated as a director of the lending bank.

**17** For exposures to related counterparties other than parent, subsidiary or sister companies, where the lending bank is able to demonstrate to the Commission's satisfaction that, notwithstanding that a connection with a counterparty exists, the bank's relationship with that counterparty is at arm's length, its exposure to that counterparty will not be considered as an exposure to a counterparty connected to the lending bank.

#### **EXEMPT EXPOSURES**

##### **Exposures to banks and building societies (not connected to the reporting bank)**

**18** Exposures to banks and building societies with a residual maturity of one year or less are exempt but exposures over one year will be considered in the same way as exposures to individual non-bank counterparties and are subject to the limits on large exposures. The Commission may review with each bank its policy on, and limits for, lending to other banks.

**19** Exposures to banks which are in the form of holdings of capital instruments (ie items eligible for inclusion in the capital base of the issuing bank) will normally be deducted in the calculation of capital base and excluded from the measure of exposure. In cases where such holdings are not deducted (ie where a bank has a market making concession) they will be subject to the limits on large exposures.

##### **Exposures to Zone A central governments or central banks**

**20** An exposure guaranteed by a Zone A central government or central bank may be treated as an exposure to that central government or central bank. Where, however, an exposure is covered by an ECGD<sub>1</sub> bank guarantee, the Commission will require to be fully satisfied that the reporting bank has sufficient expertise and systems in place to ensure that its obligations under the guarantee are met fully. Unless the Commission has notified the reporting bank that it is fully satisfied in this respect such exposures are not expected to exceed 25%.

*or an equivalent government department/agency in another Zone A country.*

##### **Exposures to Zone B central governments and central banks which are denominated and funded (if necessary) in the national currency of the borrower**

**21** Exposures to Zone B central governments or central banks which are denominated and funded (if necessary) in the national currency of the borrower are exempt from the limits set out above. Other exposures to Zone B central governments are subject to the large exposures limits.

#### **Zone A/Zone B countries**

**22** Zone A countries (see Guidance Note on completion of the Commission's prudential returns) are all countries which are full members of the Organisation for Economic Co-operation and Development (OECD), together with those countries which have concluded special lending arrangements with the International Monetary Fund associated with the General Agreement to Borrow. Zone B countries are all countries not in Zone A.

#### **Underwriting exposures**

**23** Exposures arising from underwriting activities which are being monitored and controlled according to the methods agreed under paragraph 26 below.

#### **SECURITY SUPPORTING EXPOSURES**

**24** The Commission will take security into account when considering the acceptability of a bank's exposure. The Commission will discuss particular types of securities on a case by case basis but generally an exposure up to 100% of capital base may be acceptable if secured by a cash deposit or up to 50% for security other than cash.

**25** Whether an exposure is secured by a cash deposit or other security the lender's legal title to the security should be fully protected. In the case of:-

- (i) an exposure secured by a cash deposit with a legal right of set off the deposit should have identical or longer maturity than the exposure. Alternatively a legally binding commitment should be in place to ensure the deposit cannot be repaid before the relevant loan matures. Where the cash deposit is in a different currency from the exposure, an appropriate margin over the amount of the exposure should be maintained to cover fluctuations in the relevant exchange rates. The margin should take account of the nature of the arrangements for ensuring that any resultant deficiency in the margin following an exchange rate change is made up and in any case total cover should be no less than 115%;
- (ii) an exposure secured by other securities should have an appropriate margin to cover fluctuations in the market value of the securities. The margin should, inter alia, take account of the maturity of the exposure, in the case where the security is denominated in a different currency from the exposure, fluctuations in the exchange rate, and the arrangements for marking to market the security and for ensuring that any resultant deficiency in the margin is made up.

#### **LARGE UNDERWRITING EXPOSURES**

**26** The risks involved in underwriting differ substantially from those involved in lending activities typically undertaken by banks. A bank must seek prior approval of the Commission **before** entering into any such exposure. The Commission will agree general guidelines with each bank when such business is to be undertaken.

#### **ANNEX 2**

##### **Banking Supervision (Bailiwick of Guernsey) Law, 1994**

##### **S.24 Reports of Large Exposures**

**1** A licensed institution other than one whose principal place of business is outside the Bailiwick shall make a report to



- the Commission if it proposes to enter into transactions relating to any one person which, either alone or together with previous transactions entered into by it in relation to that person, would result in its being exposed to a risk of incurring losses in excess of 25 per cent of its capital base.
- 2 Subsection (1) applies also where the transactions relate to different persons who are connected in such a way that the financial soundness of any of them may affect the financial soundness of the others or the same factors may affect the financial soundness of them all.
  - 3 If a licensed institution to which subsection (1) applies has subsidiaries which are not licensed institutions, the Commission may by notice in writing to the licensed institution direct that subsection (1) shall apply to it as if the transactions and capital base of the subsidiaries, or such of them as are specified in the notice, were included in those of the institution.
  - 4 The reports required to be made under subsection (1) shall be made before the transactions are entered into or at such time (if any) after the transactions are entered into as may be specified by notice in writing given by the Commission to the institution; and such reports shall be in such form and shall contain such particulars as the Commission may reasonably require.
  - 5 An institution which fails to make a report in accordance with this section is guilty of an offence unless it shows that it was not aware that the facts were such as to require the making of the report; but in such a case the institution shall be guilty of the offence if it fails to make the report within a period of 7 days immediately following the day upon which it becomes so aware.
  - 6 The Commission, upon becoming aware (whether upon receipt of a report under subsection (1) or otherwise) –
    - (i) of a proposal to enter into a transaction described in subsection (1); or
    - (ii) that such a transaction has been entered into;may require the institution concerned and any relevant subsidiary thereof to make such arrangements within such time as may appear to the Commission to be desirable for the protection of the institution's capital base.
  - 7 An arrangement under subsection (6) shall be notified in writing by the Commission to the institution concerned; and the institution shall comply with the arrangement in all respects.
  - 8 Any question as to whether an institution is or would be exposed to risk as mentioned in subsection (1) (or in that subsection as extended by subsection (2)) shall be determined in accordance with principles published by the Commission or notified by it to the institution concerned; and those principles may in particular make provision for determining the amount at risk in particular circumstances or the extent to which any such amount is to be taken into account for the purposes of this section.

- 9 For the purposes of this section, the capital base of an institution (or, in a case within subsection (3), of an institution and its relevant subsidiaries) and the value of that capital base at any time shall be determined by the Commission and notified by it to the institution by notice in writing; and any such determination, which may be varied from time to time, shall be made by the Commission after consultation with the institution concerned and in accordance with principles published by the Commission.

10 The principles referred to in subsection (8) and (9) may make different provisions for different cases; and those referred to in subsection (8) may in particular exclude from consideration, in whole or in part, risks resulting from transactions of a particular description or entered into in particular circumstances or with persons of particular descriptions.

11 The Committee may, after consultation with the Commission, by regulation:-

- (i) amend subsection (1) so as to substitute, for the percentage for the time being specified therein, some other percentage; and
- (ii) make provision for determining for the purposes of this section whether a transaction entered into by an institution relates to any person; and
- (iii) make provision in respect of the transactions and risks to be taken into account for the purposes of this section.

### **ANNEX 3**

#### **Possible Acceptable Specific Transfer Letter**

Addressed to: The Banking Division  
Guernsey Financial Services Commission

We are aware and approve of our wholly owned subsidiary making available a facility to (customer) such sum being more than 25% of the capital base of our subsidiary. We will notify (Supervisor) whenever such exposure needs to be reported on a consolidated basis in accordance with local requirements as revised from time to time in connection with their large exposures policy.

In the event that the above debtor fails to meet its obligation to (Guernsey bank) and recourse to any security held fails to provide sufficient to recover the amount due then it would be our intention either to take out such exposure or otherwise to take appropriate corrective action by means of forbearance, guarantee, injection of further capital or otherwise.

To be signed by an appropriate official of the relevant group company.

### **ANNEX 4**

#### **Possible Acceptable General Transfer Letter**

Addressed to: The Banking Division  
Guernsey Financial Services Commission

From time to time (Guernsey bank) enters into exposures in excess of 25% of its adjusted capital base. In all cases this is on the authority of the parent bank;



(Parent bank) reports to the (Parent supervisory authorities) on a consolidated basis and any exposure incurred in (Guernsey) which exceeded a reporting threshold in such consolidated reporting would be duly reported.

In the event that an exposure of 25% or more of the adjusted capital base of (Guernsey bank) were to become non-performing or require to be written off, it would be the intention of (Parent bank) to protect its subsidiary by taking appropriate corrective action.

To be signed by an appropriate official of the relevant group company.