RBNZ risk weights for lending to Housing Cooperatives and Community Housing Providers

Problem definition

1. New Zealand's internal-ratings based banks (ANZ, ASB, BNZ and Westpac) and Kiwibank are not treating lending to housing co-operatives (HC's) and community housing providers (CHP's) for ownership of their homes as residential mortgage lending.

2. Instead, these banks are treating such lending for risk weighting purposes as specialised lending for income-producing real estate under the RBNZ's corporate lending category, using supervisory slotting.

3. This means that HC and CHP borrowers, based on current RBNZ risk classifications and risk weights[1] pay corporate lending rates for corporate loans that do not meet their requirements (term, amortisation profile, loan-to-value ratio, terms and conditions).

4. HC's and CHP's cannot be appropriately and efficiently financed. The impact on their total cost of capital of higher than necessary borrowing costs, higher equity requirements and periodic refinancing is in the order 100 to 150 basis points per annum, which translates to higher than necessary total cost of ownership of 15 to 20 percent.

5. HC's and CHP's are paying for risks that the banks are not taking, consequently inflating bank profitability. The 15 to 20 percent higher than necessary total cost of ownership amounts to a direct and unjustifiable transfer to bank profitability.

6. The RBNZ's risk classifications and risk weights also go to the heart of the Government's social and market housing policies by:

   - requiring the government to provide larger subsidies to CHP's than otherwise necessary
   - accordingly making establishing competitive neutrality amongst public housing providers more complex and challenging and
   - causing the housing market to see only limited HC development, a highly efficient form of housing that is a missing step in the New Zealand housing continuum.

7. This problem may also apply to build-to-rent projects.

8. Approaches to the Government to support and participate in complex, inflexible, expensive and difficult to manage securitisation programmes to address CHP funding are sub-optimal responses to what is a simple problem for the Government to fix.

Cause of the problem

9. RBNZ is enabling and practically requiring the banks to apply an incorrect risk classification and risk weighting of corporate lending to HC's and CHP's. They are using a supervisory slotting approach for income-producing real estate.

[1] Appendix 1

10. However RBNZ's definition of residential mortgage lending in BPR 131 is:

    RML means a loan secured by a first ranking mortgage over a residential property used primarily for residential purposes by the mortgagor, a related party of the mortgagor, or a tenant of the mortgagor.[2]

    This definition could be construed as including HC's and CHP's but it is not how the RBNZ is practically communicating its requirements to banks.

11. In communication with RBNZ they have chosen to be ambiguous about the risk weighting for the standardised approach to risk weightings and have said they cannot be included in internal-ratings based approach.

Evidence

12. The evidence that RBNZ and the banks are incorrectly applying a corporate risk weighting when they should be applying a residential mortgage risk weighting for both standardised and internal-ratings based approaches is as follows.

    Bank of International Settlements' Basel Committee Framework

13. RBNZ is a member of the Bank of International Settlements.

14. RBNZ is not complying with the Bank of International Settlements' Basel Committee 2023 Framework standardised[3] (CRE20) or internal ratings[4] (CRE30) approaches to the calculation of risk weighted assets (the 2023 Framework is commonly referred to as Basel IV, although officially still known as Basel III). See clause 20.81 of CRE20 and clause 30.20 of CRE30 in Appendices 2 and 3 respectively.

15. The European Union has responded to Basel IV by adopting regulations[5] that amongst other things adopt the CRE20 and CRE30 treatment of CHP's and HC's. These regulations come into force on 1 January 2025. See Appendix 4.

16. APRA, which regulates the owners of New Zealand's large banks, has repeatedly said in its Prudential Practice Guides in respect to the standardised approach to credit risk that it expects banks would treat exposures to community housing providers as "'other' standard residential mortgages"[6].

17. APRA's risk weighting for 'other' standard residential mortgages at 80% LVR is 45%. See Appendix 5.

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[2] https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/bpr-documents/bpr131-standardised-credit-risk-rwas-apr-24.pdf
[3] https://www.bis.org/basel_framework/chapter/CRE/20.htm?inforce=20230101&published=20221208
[4] https://www.bis.org/basel_framework/chapter/CRE/30.htm?inforce=20230101&published=20200327
[5] https://www.europarl.europa.eu/doceo/document/A-9-2023-0030_EN.pdf
[6] https://www.apra.gov.au/sites/default/files/2023-12/Draft%20Prudential%20Practice%20Guide%20APG%20112%20Capital%20Adequacy%20-%20Standardised%20Approach%20to%20Credit%20Risk.pdf

First principles

18. There is a strong first principles basis to suggest that lending to HC's and CHP's have at least similar, if not lower, risk than lending to individual owner-occupiers.

19. In regard to HC's there is no difference in incentives between residents of a housing co-operative and individual owner-occupiers. They will all try hard to maintain their ownership.

20. Moreover the:

- mutualisation of the ownership risk amongst residents of a housing co-operative
- contractual and governance requirements for precautionary cash balances and
- relative difficulty of gaining agreement amongst residents of a housing co-operative to refinance to increase indebtedness

all suggest that the lending risk for a HC is actually lower than that for lending to an individual owner-occupier.

21. In regard to CHP's the Crown guarantees their rental revenues which act as a credit risk mitigant under clause 20.76 of CRE20 and the "loan splitting" approach under clause 20.83 of CRE20.

Empirical

22. There are at least 11 jurisdictions in Europe that have significant housing cooperative sectors.

23. By way of example Swedish banks Swedbank and SBAB are lenders to the Nordic tenant housing associations. Appendices 6 and 7 contain their last published reports of probability of default and risk weightings for tenant housing associations and other residential mortgage lending[7][8].

24. The probability of default for tenant housing associations for each bank is substantially below the probability of default for other residential mortgage lending.

[7] https://internetbank.swedbank.se/ConditionsEarchive/download?bankid=1111&id=WEBDOC-PRODE78501435

[8] https://www.sbab.se/download/18.1a43fdec17fb5d81a2b41/1648116099143/SBAB_P3_2021_FINAL_20220325.pdf

Appendix 1: New Zealand IRB risk weights for residential mortgage and corporate specialised lending

IRB residential mortgage exposure-weighted risk weight				
Disclusre statement date	Bank	RW	URL	page
31-Mar-24	ANZ	16%	https://www.anz.com/content/dam/anzcom/shareholder/ANZ-Bank-NZ-Ltd-DS-31.3.24.pdf	39
31-Dec-23	ASB	27%	https://www.asb.co.nz/content/dam/asb/documents/legal/disclosurestatements/2023/asb-(	28
30-Sep-23	BNZ	26%	https://www.bnz.co.nz/assets/about-us/financials/pdfs/bnz-disclosure-statement-year-end	59
31-Mar-24	Westpac	23%	https://www.westpac.co.nz/assets/About-us/disclosure-statements/Documents/Westpac-N	39
Corporate specialised lending subject to the supervisory slotting approach exposure-weighted risk weight				
Disclusre statement date	Bank	RW	URL	page
31-Mar-24	ANZ	83%	https://www.anz.com/content/dam/anzcom/shareholder/ANZ-Bank-NZ-Ltd-DS-31.3.24.pdf	40
31-Dec-23	ASB	94%	https://www.asb.co.nz/content/dam/asb/documents/legal/disclosurestatements/2023/asb-(	30
30-Sep-23	BNZ	93%	https://www.bnz.co.nz/assets/about-us/financials/pdfs/bnz-disclosure-statement-year-end	63
31-Mar-24	Westpac	82%	https://www.westpac.co.nz/assets/About-us/disclosure-statements/Documents/Westpac-N	41

Appendix 2: BIS CRE20 – Standardised approach: individual exposures

Real estate exposure class

20.69

Real estate is immovable property that is land, including agricultural land and forest, or anything treated as attached to land, in particular buildings, in contrast to being treated as movable/personal property. The real estate exposure asset class consists of:

(1) Exposures secured by real estate that are classified as "regulatory real estate" exposures.

(2) Exposures secured by real estate that are classified as "other real estate" exposures.

(3) Exposures that are classified as "land acquisition, development and construction" (ADC) exposures.

20.70

"Regulatory real estate" exposures consist of:

(1) "Regulatory residential real estate" exposures that are not "materially dependent on cash flows generated by the property".

(2) "Regulatory residential real estate" exposures that are "materially dependent on cash flows generated by the property".

(3) "Regulatory commercial real estate" exposures that are not "materially dependent on cash flows generated by the property".

(4) "Regulatory commercial real estate" exposures that are "materially dependent on cash flows generated by the property".

Regulatory real estate exposures

20.71

For an exposure secured by real estate to be classified as a "regulatory real estate" exposure, the loan must meet the following requirements:

(1) Finished property: the exposure must be secured by a fully completed immovable property. This requirement does not apply to forest and agricultural land. Subject to national discretion, supervisors may allow this criteria to be met by loans to individuals that are secured by residential property under construction or land upon which residential property would be constructed, provided that: (i) the property is a one-to-four family residential housing unit that will be the primary residence of the borrower and the lending to the individual is not, in effect, indirectly financing land acquisition, development and construction exposures described in CRE20.90; or (ii) sovereign or PSEs involved have the legal powers and ability to ensure that the property under construction will be finished.

(2) Legal enforceability: any claim on the property taken must be legally enforceable in all relevant jurisdictions. The collateral agreement and the legal process underpinning it must be such that they provide for the bank to realise the value of the property within a reasonable time frame.

(3) Claims over the property: the loan is a claim over the property where the lender bank holds a first lien over the property, or a single bank holds the first lien and any sequentially lower ranking lien(s) (ie there is no intermediate lien from another bank) over the same property. However, in jurisdictions where junior liens provide the holder with a claim for collateral that is legally enforceable and constitute an effective credit risk mitigant, junior liens held by a different bank than the one holding the senior lien may also be recognised.[28] In order to meet the above requirements, the national frameworks governing liens should ensure the following: (i) each bank holding a lien on a property can initiate the sale of the property independently from other entities holding a lien on the property; and (ii) where the sale of the property is not carried out by means of a public auction, entities holding a senior lien take reasonable steps to obtain a fair market value or the best price that may be obtained in the circumstances when exercising any power of sale on their own (ie it is not possible for the entity holding the senior lien to sell the property on its own at a discounted value in detriment of the junior lien).[29]

(4) Ability of the borrower to repay: the borrower must meet the requirements set according to CRE20.73.

(5) Prudent value of property: the property must be valued according to the criteria in CRE20.74 to CRE20.76 for determining the value in the loan-to-value ratio (LTV). Moreover, the value of the property must not depend materially on the performance of the borrower.

(6) Required documentation: all the information required at loan origination and for monitoring purposes must be properly documented, including information on the ability of the borrower to repay and on the valuation of the property.

2 Footnotes

20.72

The risk weights for regulatory real estate exposures will apply to jurisdictions where structural factors result in sustainably low credit losses associated with the exposures to the real estate market. National supervisors should evaluate whether the risk weights in the corresponding risk weight tables are too low for these types of exposures in their jurisdictions based on default experience and other factors such as market price stability. Supervisors may require banks in their jurisdictions to increase these risk weights as appropriate.

1 FAQ

20.73

National supervisors should ensure that banks put in place underwriting policies with respect to the granting of mortgage loans that include the assessment of the ability of the borrower to repay. Underwriting policies must define a metric(s) (such as the loan's debt service coverage ratio) and specify its (their) corresponding relevant level(s) to conduct such assessment.[30] Underwriting policies must also be appropriate when the repayment of the mortgage loan depends materially on the cash flows generated by the property, including relevant metrics (such as an occupancy rate of the property). National supervisors may provide guidance on appropriate definitions and levels for these metrics in their jurisdictions.

1 Footnote

20.74

The LTV is the amount of the loan divided by the value of the property. When calculating the LTV, the loan amount will be reduced as the loan amortises. The value of the property will be maintained at the value measured at origination, with the following exceptions:

(1) The national supervisors elect to require banks to revise the property value downward. If the value has been adjusted downwards, a subsequent upwards adjustment can be made but not to a higher value than the value at origination.

(2) The value must be adjusted if an extraordinary, idiosyncratic event occurs resulting in a permanent reduction of the property value.

(3) Modifications made to the property that unequivocally increase its value could also be considered in the LTV.

20.75

The LTV must be prudently calculated in accordance with the following requirements:

(1) Amount of the loan: includes the outstanding loan amount and any undrawn committed amount of the mortgage loan.[31] The loan amount must be calculated gross of any provisions and other risk mitigants, except for pledged deposits accounts with the lending bank that meet all requirements for on-balance sheet netting and have been unconditionally and irrevocably pledged for the sole purposes of redemption of the mortgage loan.[32]

(2) Value of the property: the valuation must be appraised independently[33] using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations on price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors should provide guidance setting out prudent valuation criteria where such guidance does not already exist under national law. If a market value can be determined, the valuation should not be higher than the market value.[34]

4 Footnotes, 1 FAQ

20.76

A guarantee or financial collateral may be recognised as a credit risk mitigant in relation to exposures secured by real estate if it qualifies as eligible collateral under the credit risk mitigation framework. This may include mortgage insurance[35] if it meets the operational requirements of the credit risk mitigation framework for a guarantee. Banks may recognise these risk mitigants in calculating the exposure amount; however, the LTV bucket and risk weight to be applied to the exposure amount must be determined before the application of the appropriate credit risk mitigation technique.

1 Footnote

Definition of "regulatory residential real estate" exposures

20.77

A "regulatory residential real estate" exposure is a regulatory real estate exposure that is secured by a property that has the nature of a dwelling and satisfies all applicable laws and regulations enabling the property to be occupied for housing purposes (ie residential property).[36]

1 Footnote

20.78

A "regulatory commercial real estate" exposure is regulatory real estate exposure that is not a regulatory residential real estate exposure.

Definition of exposures that are "materially dependent on cash flows generated by the property"

20.79

Regulatory real estate exposures (both residential and commercial) are classified as exposures that are "materially dependent on cash flows generated by the property" when the prospects for servicing the loan materially depend on the cash flows generated by the property securing the loan rather than on the underlying capacity of the borrower to service the debt from other sources. The primary source of these cash flows would generally be lease or rental payments, or the sale of the property. The distinguishing characteristic of these exposures compared to other regulatory real estate exposures is that both the servicing of the loan and the prospects for recovery in the event of default depend materially on the cash flows generated by the property securing the exposure.

20.80

It is expected that the material dependence condition, set out in CRE20.79 above, would predominantly apply to loans to corporates, SMEs or SPVs, but is not restricted to those borrower types. As an example, a loan may be considered materially dependent if more than 50% of the income from the borrower used in the bank's assessment of its ability to service the loan is from cash flows generated by the residential property. National supervisors may provide further guidance setting out criteria on how material dependence should be assessed for specific exposure types.

20.81

As exceptions to the definition contained in CRE20.79 above, the following types of regulatory real estate exposures are not classified as exposures that are materially dependent on cash flows generated by the property:

(1) An exposure secured by a property that is the borrower's primary residence;

(2) An exposure secured by an income-producing residential housing unit, to an individual who has mortgaged less than a certain number of properties or housing units, as specified by national supervisors;

(3) An exposure secured by residential real estate property to associations or cooperatives of individuals that are regulated under national law and exist with the only purpose of granting its members the use of a primary residence in the property securing the loans; and

(4) An exposure secured by residential real estate property to public housing companies and not-for-profit associations regulated under national law that exist to serve social purposes and to offer tenants long-term housing.

Risk weights for regulatory residential real estate exposures that are not materially dependent on cash flows generated by the property

20.82

For regulatory residential real estate exposures that are not materially dependent on cash flow generated by the property, the risk weight to be assigned to the total exposure amount will be determined based on the exposure's LTV ratio in Table 11 below. The use of the risk weights in Table 11 is referred to as the "whole loan" approach.

Whole loan approach risk weights for regulatory residential real estate exposures that are not materially dependent on cash flows generated by the property — Table 11

	LTV ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
Risk weight	20%	25%	30%	40%	50%	70%

20.83

As an alternative to the whole loan approach for regulatory residential real estate exposures that are not materially dependent on cash flows generated by the property, jurisdictions may apply the "loan splitting" approach. Under the loan splitting approach, the risk weight of 20% is applied to the part of the exposure up to 55% of the property value and the risk weight of the counterparty (as prescribed in CRE20.89(1)) is applied to the residual exposure.[37] Where there are liens on the property that are not held by the bank, the treatment is as follows:

(1) Where a bank holds the junior lien and there are senior liens not held by the bank, to determine the part of the bank's exposure that is eligible for the 20% risk weight, the amount of 55% of the property value should be reduced by the amount of the senior liens not held by the bank. For example, for a loan of €70,000 to an individual secured on a property valued at €100,000, where there is also a senior ranking lien of €10,000 held by another institution, the bank will apply a risk weight of 20% to €45,000 (=max(€55,000 - €10,000, 0)) of the exposure and, according to CRE20.89(1), a risk weight of 75% to the residual exposure of €25,000.

(2) Where liens not held by the bank rank pari passu with the bank's lien, to determine the part of the bank's exposure that is eligible for the 20% risk weight, the amount of 55% of the property value, reduced by the amount of more senior liens not held by the bank (if any), should be reduced by the product of: (i) 55% of the property value, reduced by the amount of any senior liens (if any, both held by the bank and held by other institutions); and (ii) the amount of liens not held by the bank that rank pari passu with the bank's lien divided by the sum of all pari passu liens. For example, for a loan of €70,000 to an individual secured on a property valued at €100,000, where there is also a pari passu ranking lien of €10,000 held by another institution, the bank will apply a risk weight of 20% to €48,125 (=€55,000 - €55,000 * €10,000/€80,000) of the exposure and, according to CRE20.89(1), a risk weight of 75% to the residual exposure of €21,875. If both the loan and the bank's lien is only €30,000 and there is additionally a more senior lien of €10,000 not held by the bank, the property value remaining available is €33,750 (= (€55,000 - €10,000) - ((€55,000 - €10,000) * €10,000/(€10,000+€30,000)), and the bank will apply a risk weight of 20% to €30,000.

Appendix 3: BIS CRE30 – IRB approach: overview and asset class definitions

Definition of retail exposures

30.19

An exposure is categorised as a retail exposure if it meets all of the criteria set out in CRE30.20 (which relate to the nature of the borrower and value of individual exposures) and all of the criteria set out in CRE30.22 (which relate to the size of the pool of exposures).

30.20

The criteria related to the nature of the borrower and value of the individual exposures are as follows:

(1) Exposures to individuals – such as revolving credits and lines of credit (eg credit cards, overdrafts, or retail facilities secured by financial instruments) as well as personal term loans and leases (eg instalment loans, auto loans and leases, student and educational loans, personal finance, or other exposures with similar characteristics) – are generally eligible for retail treatment regardless of exposure size, although supervisors may wish to establish exposure thresholds to distinguish between retail and corporate exposures.

(2) Where a loan is a residential mortgage[1] (including first and subsequent liens, term loans and revolving home equity lines of credit) it is eligible for retail treatment regardless of exposure size so long as the credit is:

(a) an exposure to an individual;[2] or

(b) an exposure to associations or cooperatives of individuals that are regulated under national law and exist with the only purpose of granting its members the use of a primary residence in the property securing the loan.

(3) Where loans are extended to small businesses and managed as retail exposures they are eligible for retail treatment provided the total exposure of the banking group to a small business borrower (on a consolidated basis where applicable) is less than €1 million. Small business loans extended through or guaranteed by an individual are subject to the same exposure threshold.

30.21

It is expected that supervisors provide flexibility in the practical application of the thresholds set out in CRE30.20, such that banks are not forced to develop extensive new information systems simply for the purpose of ensuring perfect compliance. It is, however, important for supervisors to ensure that such flexibility (and the implied acceptance of exposure amounts in excess of the thresholds that are not treated as violations) is not being abused.

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30.22

The criteria related to the size of the pool of exposures are as follows:

(1) The exposure must be one of a large pool of exposures, which are managed by the bank on a pooled basis.

(2) Where a loan gives rise to a small business exposure below €1 million, it may be treated as retail exposures if the bank treats such exposures in its internal risk management systems consistently over time and in the same manner as other retail exposures. This requires that such an exposure be originated in a similar manner to other retail exposures. Furthermore, it must not be managed individually in a way comparable to corporate exposures, but rather as part of a portfolio segment or pool of exposures with similar risk characteristics for purposes of risk assessment and quantification. However, this does not preclude retail exposures from being treated individually at some stages of the risk management process. The fact that an exposure is rated individually does not by itself deny the eligibility as a retail exposure.

Appendix 4: Draft European Parliament Resolution 2021/0342

(a) a non-IPRE exposure shall be treated as an exposure not secured by the immovable property concerned;

(b) an IPRE exposure shall be risk-weighted at 150 %.

2. A non-ADC exposure secured by an immovable property, where all of the conditions laid down in paragraph 3 are met , shall be treated as follows:

(a) where the exposure is secured by a ***non-IPRE*** residential property ***or is secured by a IPRE residential property that meets any of the following conditions***, the exposure shall ***not qualify as an IPRE exposure and shall*** be treated in accordance with Article 125(1) where the exposure meets any of the following conditions:

   (i) the ***income-producing*** immovable property securing the exposure is the obligor's primary residence, either where the immovable property as a whole constitutes a single housing unit or where the immovable property securing the exposure is a housing unit that is a separated part within an immovable property;

   (ii) the exposure is to ***a natural person*** and is secured by an income-producing residential housing unit, either where the immovable property as a whole constitutes a single housing unit or where the housing unit is a separated part within the immovable property, and total exposures of the institution to that ***natural person*** are not secured by more than four immovable properties, including those which are not residential properties or which do not meet any of the criteria in this point, or separate housing units within immovable properties;

   (iii) the exposure secured by ***an income-producing*** residential property is to associations or cooperatives of ***natural persons*** that are regulated by law and solely exist to grant their members the use of a primary residence in the property securing the loans;

   (iv) the exposure is secured by ***an income producing*** residential property to public housing companies or not-for-profit associations that are regulated by law and exist to serve social purposes and to offer tenants long-term housing;

(b) where the exposure is secured by residential property and ***either an IPRE exposure or*** the exposure does not meet any of the conditions laid down in point (a), points (i) to (iv), the exposure shall be treated in accordance with Article 125(2);

(c) where the exposure is secured by a commercial immovable property, the exposure shall be treated as follows:

   (i) a non-IPRE exposure shall be treated in accordance with Article 126(1);

   (ii) an IPRE exposure shall be treated in accordance with Article 126(2).

3. In order to be eligible for the treatment laid down in ***Article 125(1), point (a), or Article 126(1), point (a)***, an exposure secured by an immovable property shall fulfil all of the following conditions:

(a) the immovable property securing the exposure meets any of the following conditions:

   (i) the immovable property has been fully completed;

   (ii) the immovable property is forest or agricultural land;

   (iii) ***the lending is to a natural person and*** the immovable property is ***either a*** residential property under construction or it is land upon which a residential property is planned to be constructed where that plan has been ***legally*** approved by all ***relevant*** authorities***, as applicable***, concerned and where any of the following conditions is met:

      – the property does not have more than four residential housing units and will be the primary residence of the obligor and the lending to the ***natural person*** is not indirectly financing ADC exposures;

      – a central government, regional government or local authority or a public sector entity, exposures to which are treated in accordance with Articles 115(2) and 116(4), respectively, has the legal powers and ability to ensure that the property under construction will be finished within a reasonable time frame and is required to or has committed in a legally binding manner to do so where the construction would otherwise not be finished within a reasonable time frame***. Alternatively, there is an equivalent legal mechanism to ensure that the property under construction is completed within a resonable timeframe***;

(b) the exposure is secured by a first lien held by the institution on the immovable property, or the institution holds the first lien and any sequentially lower ranking lien on that property;

(c) the property value is not materially dependent upon the credit quality of the obligor;

(d) all the information required at origination of the exposure and for monitoring purposes is properly documented, including information on the ability of the obligor to repay and on the valuation of the property;

(e) the requirements set out in Article 208 are met and the valuation rules set out in Article 229(1) are complied with.

For the purposes of point (c), institutions may exclude situations where purely macro-economic factors affect both the value of the property and the performance of the obligor.

4. By way of derogation from paragraph 3, point (b), in jurisdictions where junior liens provide the holder with a claim on collateral that is legally enforceable and constitutes an effective credit risk mitigant, junior liens held by an institution other than the one holding the senior lien may also be recognised, including where the institution does not hold the senior lien or does not hold a lien ranking between a more senior lien and a more junior lien both held by the institution.

For the purposes of the first subparagraph, the rules governing the liens shall ensure all of the following:

Appendix 5: APRA Prudential Standard – Capital Adequacy: Standardised Approach to Credit Risk, Attachment A Clause 16

16. An ADI must apply the risk weights in Table 1 to its residential property exposures that satisfy all of the conditions of a standard loan as set out in paragraphs 3 to 7 of this Attachment, based on their classification as an owner-occupied principal-and-interest or other standard residential property exposure, the application of eligible LMI and the exposure's LVR.

Table 1 Risk weights for standard loans

LVR (%)		Risk weight (%)						
		≤ 50	50.01 - 60	60.01 - 70	70.01 - 80	80.01 - 90	90.01 - 100	> 100
Owner-occupied principal-and-interest	LMI	20	25	30	35	40	55	70
	No LMI					50	70	85
Other standard residential property	LMI	25	30	40	45	50	70	85
	No LMI					65	85	105

Appendix 6: Swedbank 2020 Risk and capital adequacy report

Table 3.5: Exposure, exposure-weighted average PD and average risk weight by industry and business area, IRB approach, 31 December 2020

	Private mortgage	Tenant owner associations	Private other	Agriculture, forestry, fishing	Manufacturing	Public sector and utilities	Construction	Retail	Transportation	Shipping and offshore	Hotels and restaurants	Information and communication	Finance and insurance	Property management	Residential properties	Commercial properties	Industrial and warehouse	Other property management	Professional services	Other corporate lending	Credit institutions, incl central banks	Total
Exposure (SEKm)																						
Swedish Banking	844 182	94 216	57 439	60 567	12 124	19 136	15 598	14 008	5 703	74	4 350	1 844	4 715	120 697	55 797	31 934	19 165	13 800	11 415	7 735	8 008	1 281 810
Baltic Banking	88 024		17 274	5 393	11 838	7 648	2 722	9 100	6 531	877	2 838	964	402	22 719	118	16 153	2 910	3 538	3 529	433	10 565	190 856
of which Estonia	37 383		7 134	2 763	4 989	3 798	1 661	3 139	3 430	877	767	352	370	12 694	42	7 938	1 797	2 917	2 196	84	3 964	85 599
of which Latvia	15 867		4 278	2 142	3 026	1 539	515	2 164	1 476	0	1 191	183	17	4 230	71	3 253	682	224	728	67	2 728	40 151
of which Lithuania	34 774		5 862	488	3 822	2 311	546	3 798	1 625	0	880	429	16	5 794	5	4 961	430	397	605	282	3 874	65 106
Large Corporates & Inst.	0	1 466	59	920	38 333	21 084	9 010	21 013	3 321	18 641	2 358	16 669	23 721	139 841	27 756	69 547	26 825	15 713	10 544	8 848	33 110	348 940
Group Functions	1 680	8 965	3	3	12	1 536	0	55	0	0	0	0	1 487	41	0	32	7	2	5		461 600	475 387
Total	**933 886**	**104 647**	**74 775**	**66 883**	**62 307**	**49 404**	**27 331**	**44 176**	**15 555**	**19 591**	**9 546**	**19 478**	**30 326**	**283 297**	**83 671**	**117 666**	**48 906**	**33 054**	**25 493**	**147 015**	**383 285**	**2 296 994**
Average PD (%)																						
Swedish Banking	0.14%	0.18%	0.31%	0.83%	1.53%	0.31%	1.71%	1.68%	1.70%	2.30%	3.54%	1.45%	0.77%	0.94%	0.79%	1.10%	1.03%	1.05%	1.66%	2.11%	0.14%	0.36%
Baltic Banking	1.60%		2.12%	3.26%	2.07%	0.51%	3.69%	2.91%	1.82%	1.70%	2.34%	1.35%	0.91%	1.15%	2.89%	0.74%	0.63%	3.43%	5.69%	4.12%	0.02%	1.73%
of which Estonia	1.38%		1.65%	2.18%	2.39%	0.41%	4.00%	1.40%	1.44%	1.70%	3.72%	1.39%	0.81%	1.28%	5.33%	0.67%	0.44%	3.38%	7.05%	4.21%	0.04%	1.59%
of which Latvia	2.52%		3.06%	4.32%	1.64%	0.74%	3.08%	4.10%	2.55%		1.73%	1.46%	2.14%	1.22%	1.59%	0.97%	0.48%	6.86%	3.08%	9.77%	0.02%	2.32%
of which Lithuania	1.43%		2.01%	4.70%	2.00%	0.51%	3.34%	3.47%	1.95%		1.94%	1.28%	1.97%	0.83%	0.89%	0.68%	1.64%	1.85%	3.92%	2.75%	0.01%	1.55%
Large Corporates & Inst.		0.38%	0.09%	0.30%	0.48%	0.21%	1.60%	0.49%	0.45%	2.29%	0.78%	0.56%	0.18%	0.35%	0.34%	0.32%	0.35%	0.53%	0.70%	0.39%	0.10%	0.49%
Group Functions	0.20%	0.00%	0.38%	0.20%	0.73%	0.00%		0.55%	0.37%			0.98%	0.01%	0.53%		0.60%	0.21%	0.45%	2.45%		0.00%	0.00%
Total	**0.28%**	**0.17%**	**0.73%**	**1.02%**	**0.99%**	**0.29%**	**1.87%**	**1.36%**	**1.48%**	**2.26%**	**2.50%**	**0.68%**	**0.27%**	**0.67%**	**0.65%**	**0.59%**	**0.63%**	**1.06%**	**1.82%**	**0.15%**	**0.02%**	**0.42%**
Average risk weight (%)																						
Swedish Banking	2.06%	7.44%	12.67%	13.65%	43.15%	13.05%	34.30%	44.49%	35.61%	40.39%	49.71%	40.72%	31.15%	20.05%	21.23%	20.79%	15.98%	19.20%	34.44%	42.15%	25.38%	7.73%
Baltic Banking	19.70%		39.95%	67.66%	65.08%	33.55%	63.07%	69.65%	52.26%	116.14%	71.07%	53.64%	59.16%	54.24%	76.20%	53.38%	47.69%	62.83%	74.44%	66.64%	24.44%	37.32%
of which Estonia	14.93%		28.78%	53.20%	57.70%	32.36%	65.09%	49.47%	38.89%	116.14%	80.24%	38.52%	58.28%	50.57%	33.48%	47.59%	41.96%	64.25%	79.28%	45.46%	23.72%	33.06%
of which Latvia	35.63%		61.55%	78.30%	65.97%	34.70%	49.20%	86.12%	67.99%		63.28%	37.18%	83.56%	64.02%	102.85%	64.84%	56.68%	62.05%	60.56%	118.29%	28.59%	50.95%
of which Lithuania	17.55%		37.76%	102.84%	74.00%	34.74%	70.02%	76.94%	66.18%		73.62%	73.07%	54.16%	55.14%	50.76%	55.13%	57.36%	52.89%	73.58%	60.69%	22.25%	34.52%
Large Corporates & Inst.		50.94%	29.59%	30.73%	44.67%	26.64%	52.76%	47.97%	41.57%	73.99%	66.50%	55.61%	30.35%	17.10%	21.45%	15.87%	15.64%	17.31%	51.32%	36.42%	26.04%	32.38%
Group Functions	2.60%	98.02%	8.76%	36.81%	40.12%	9.64%		51.98%	3.71%			37.16%	5.66%	53.20%		57.31%	37.84%	40.55%	101.95%		1.47%	3.35%
Total	**3.72%**	**15.81%**	**18.98%**	**18.24%**	**48.25%**	**21.92%**	**43.25%**	**51.34%**	**43.87%**	**75.75%**	**60.21%**	**54.10%**	**29.65%**	**21.34%**	**21.38%**	**22.37%**	**17.68%**	**22.97%**	**46.97%**	**5.49%**	**4.89%**	**13.03%**

Appendix 7: SBAB 2021 Risk and capital adequacy report (pages 50 and 51)

Exposure amounts by exposure class for credit risk exposures

SEK million	Original exposure before credit risk protection	Value adjust-ments	Net exposure after value adjustments and reserves	Collateral that reduces capital requirements in the form of guaran-tees and financial securities	Inflows	Off-balance-sheet exposures before CCF	Exposure after CCF[1]	Off-balance-sheet exposures after CCF
Credit risk in lending portfolio recognised under the IRB approach								
Corporate exposures	84,150	–	84,150	59	–	9,095	81,554	6,558
Retail exposures	447,687	–	447,687	387	–	58,692	402,719	14,111
of which, houses and holiday homes	*193,108*	–	193,108	14	–	*22,641*	*175,709*	*5,256*
of which, tenant-owners' rights	*199,037*	–	199,037	0	–	*35,451*	*171,941*	*8,355*
of which, tenant-owners' associations	*55,542*	–	55,542	374	–	*600*	*55,069*	*501*
Total credit risk under the IRB approach	**531,837**	**–**	**531,837**	**446**	**–**	**67,788**	**484,273**	**20,669**

SEK million	Exposure amounts covered by credit risk protection in the form of proper-ties	Average exposure amounts for lend-ing portfolio expo-sures[2]	Risk exposure amounts before SME discount	Risk exposure amounts after SME discount	Capital requirement	Average risk weight, %	Specific credit risk adjustment	Expected loss	Exposure-weighted average PD, %	Expo-sure-weighted average LGD, %
Credit risk in lending portfolio recognised under the IRB approach										
Corporate exposures	81,081	65,683	22,640	20,110	1,609	24.7	15	58	0.19	37.13
Retail exposures	402,679	375,101	13,220	12,889	1,031	3.2	120	120	0.27	10.00
of which, houses and holiday homes	*175,683*	*163,545*	*5,045*	*5,045*	*404*	*2.9*	*33*	*41*	*0.25*	*9.62*
of which, tenant-owners' rights	*171,927*	*159,319*	*6,774*	*6,774*	*542*	*3.9*	*79*	*64*	*0.33*	*11.15*
of which, tenant-owners' associations	*55,069*	*52,237*	*1,401*	*1,070*	*86*	*1.9*	*8*	*14*	*0.18*	*7.63*
Total credit risk under the IRB approach	**483,760**	**440,785**	**35,860**	**32,999**	**2,640**	**6.8**	**134**	**178**		