

OWN FUNDS**1.0.0 ORIGINAL OWN FUNDS****PAID UP CAPITAL****1.1.1 Ordinary shares**

The nominal paid-up value of the share capital shall be reported. The unpaid element of partly-paid shares or authorised but unissued share capital is not to be reported. Where shares have been issued at a premium, the premium should be reported separately under item 1.1.2 'Share premium account'. Should the base currency differ from the reporting currency, institutions are requested to convert the ordinary share capital from the functional (base) currency to the reporting currency using the historical rate as required by the authority.

The ordinary shares to be reported under this item are to fully absorb losses in going concern situations, and in the event of bankruptcy or liquidation rank after all other claims.

1.1.2 Share premium account

Report any amount received in excess of the nominal value of any shares issued by the credit institution.

1.1.3 Perpetual non-cumulative preference shares

Only perpetual (non-redeemable) non-cumulative preference shares which have been issued and paid up, are to be reported. These shares are to fully absorb losses in going concern situations, and in the event of bankruptcy or liquidation rank after all other claims.

1.1.4 Exchange rate revaluation adjustments on paid up capital

This item shall comprise movements which are being reflected in the foreign exchange value of a currency upon conversion of the paid up capital (items 1.1.1 to 1.1.3) from the institution's functional (base) currency to the reporting currency.

1.1.5 Total Paid Up Capital (sum of items 1.1.1 to 1.1.4)

This sum is computed automatically.

RESERVES**1.1.6 Retained profits/(losses)**

Report the balance of retained earnings which is available for distribution to the shareholders. Retained losses (debit balance) must be included as a negative amount. Any balance reported should be net of any foreseeable dividends.

1.1.7 Interim/year-end net profits/(losses) (eligible for inclusion)

Report interim or year-end net profits after deduction of any foreseeable charge, tax or dividend. A credit institution shall include interim or year-end net profits before a formal decision has been taken only if these profits have

been verified by persons responsible for the auditing of the accounts (i.e. external auditors) and if it is proved to the satisfaction of the authority that the amount thereof has been evaluated in accordance with IFRSs as adopted by the EU. The conditions do not apply to interim net losses which should always be included. *Net profits should be inserted as a positive figure, while net losses must be inserted as a negative figure.*

Note re items 1.1.6 and 1.1.7: Any charges or dividends that are reasonably expected to be paid out in relation to the time period over which the profits are being assessed shall reduce the amount of profit that is eligible for inclusion. Where a decision regarding the dividends for the profits under consideration has been taken, this decision will serve as a basis for the deduction of foreseeable dividends. Where no such decision has been taken, the bank is still to reduce the profits eligible for inclusion by a reasonable amount based on past dividend distributions.

1.1.8 Undistributable reserves

(specify in calculation 1)

Report any funds set aside for specific purposes, and which cannot be made available for distribution. This item is the sum of the reserves listed in calculation 1 and is computed automatically.

1.1.9 Reserve for general banking risks

Report any funds that the institution may want to set aside for future losses and other unforeseeable risks associated with banking.

1.1.10 Other reserves

(specify in calculation 2)

This item shall comprise any other reserves not reported elsewhere in the Own Funds computation. A breakdown of this item is to be included in calculation 2. This reserve shall not include any revaluation reserves and/or hedging reserves as these are included under other headings in the own funds computation. On the other hand, any reserves or provisions that are not free and unencumbered would not be available to the credit institution for unrestricted and immediate use to cover risks or losses as soon as these occur and should therefore not form part of the computation of the own funds of the institution. For example, any reserves set aside for the purpose of the Deposit Compensation Scheme should not be included in the own funds computation. This item is the sum of the reserves listed in calculation 2 and is computed automatically.

1.1.11 Minority interests

Where the global integration method is used, to include any minority interests where the amount attributable to shares in subsidiary undertakings included in the consolidation is held by persons other than the undertakings included in the consolidation. This item shall only apply for consolidation purposes. Minority interests forming part of the 'Upper tranche' or 'Lower tranche' of 'Additional Own Funds' of subsidiary undertakings included in the consolidation are to be included under items 2.1.4 and 2.1.10 respectively while minority interests in the form of other instruments are to be included in calculation 3.

1.1.12 Total Reserves (sum of items 1.1.6 to 1.1.11)

This sum is computed automatically.

OTHER INSTRUMENTS ELIGIBLE AS ORIGINAL OWN FUNDS**1.1.13 Other Instruments**

(specify in calculation 3)

This item shall be composed of convertible instruments, innovative instruments and non-innovative instruments subject to certain limits (vide main text of BR/03 for description of instruments). In no case should this item exceed 50% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds'.

Different limits have been identified with respect to the instruments that can be reported under this item. The limit of 50% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' may be composed of solely convertible instruments. On the other hand, non-innovative instruments must not exceed a maximum of 35% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' within the 50% limit set for convertible instruments while innovative instruments may not exceed a maximum of 15% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' within the 35% limit set for non-innovative instruments.

Other instruments shall comply with the following requirements:

- [i] they may not be reimbursed on the bearer's initiative or without the prior agreement of the authority;
- [ii] the lender's claims on the credit institution must be wholly subordinated to those of all non-subordinated creditors;
- [iii] the documents governing the issue of the securities shall provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the credit institution in a position to continue trading;
- [iv] only fully paid-up amounts shall be taken into account;
- [v] The instruments shall be undated or have an original maturity of at least 30 years. The instruments may include one or more call options at the sole discretion of the issuer, but they shall not be redeemed before five years after the date of issue. If the provisions governing undated instruments provide for a moderate incentive (step up) for the credit institution to redeem as determined by the authority, such

incentive shall not occur within ten years of the date of issue. The provisions governing dated instruments shall not permit an incentive to redeem on a date other than the maturity date.

Dated and undated instruments may be called or redeemed⁶ only with the prior consent of the authority and under the condition that they will be replaced by items of same or better quality. The authority may waive the condition and still grant permission, provided the request is made at the initiative of the credit institution, and either financial or solvency conditions of the credit institution are not unduly affected. The credit institution is required to submit an application to the authority before calling or redeeming other instruments, including dated instruments. This application must be accompanied by all required/necessary information⁷ allowing the authority to conduct its assessment on the potential impact of the redemption on the credit institution's financial and solvency position. The credit institution would have to demonstrate that it is neither at present, nor in the foreseeable future, materially in danger of not meeting its capital requirements and that after the redemption it will still have adequate capital buffers above the regulatory minimum requirements. In its decision the authority may also take into account the credit institution's liquidity positions and its profitability, the evaluation of the risks to which the credit institution is exposed and the evaluation of the business plan of the credit institution, assessing if circumstances arise that might jeopardize the positive business development. The assessment process by the authority will to the extent possible, be linked to the Supervisory Review and Evaluation Process.

The authority shall require the suspension of the redemption for dated instruments if the credit institution does not comply with paragraph 5 of BR/04 and may require the suspension of the redemption at other times based on the financial and solvency situation of the credit institution.

⁶Buy-backs are considered prudentially equivalent to a call or redemption and therefore should also be subject to the authority's prior consent and not take place before five years after the issuance.

⁷The credit institution is to submit:

- (a) a well-founded explanation of why the credit institution intends to call or redeem the instrument;
- (b) current solvency data including the level and composition of original own funds before and after the exercise of the call or redemption and confirmation that the credit institution continues to comply with all other regulatory requirements after calling or redeeming the instrument;
- (c) information on the planned development of the data under item (b) for the following 3-5 years based on its business plan including the planned development of its balance sheet and profit and loss account; and
- (d) an evaluation of the risks to which the credit institution is or might be exposed and whether the level of own funds ensures the coverage of such risks, including stress tests on main risks showing potential losses under different scenarios.

The authority may ask for additional information if necessary, particularly on the credit institution's liquidity position, or other information such as the other instrument's term sheet. In the event that other instruments are to be replaced by other other instruments, the credit institution is to also submit information on the replacement's impact on its profitability.

The authority may grant permission at any time for an early redemption of dated and undated instruments in the event that there is a change in the applicable tax treatment or regulatory classification of such instruments which was unforeseen at the date of issue;

- [vi] The statutory or contractual provisions governing the instrument shall allow the credit institution to cancel, when necessary, the payment of interest or dividends for an unlimited period of time, on a non-cumulative basis. However, the credit institution shall cancel such payments if it does not comply with paragraph 5 of BR/04.

The authority may require the cancellation of such payments based on the financial and solvency situation⁸ of the credit institution. Such cancellation shall not prejudice the right of the credit institution to substitute the payment of interest or dividend by a payment in the form of an instrument referred to in items 1.1.1 to 1.1.3⁹, provided that any such mechanism allows the credit institution to preserve financial resources. Such substitution may be subject to specific conditions established by the authority; and

- [vii] The statutory or contractual provisions governing the instrument shall provide for principal, unpaid interest or dividend to be such as to absorb losses and to not hinder the recapitalisation of the credit institution through appropriate mechanisms¹⁰.

- [viii] In the event of the bankruptcy or liquidation of the credit institution, the instruments shall rank after item 2.1.1 of Appendix 1 & 2 of the Rule.

In reporting Own Funds on a consolidated basis, where the global integration method is used, to include any minority interests under calculation 3 where the amount attributable to outside interests reported in items forming part of

⁸ In considering a credit institution's financial and solvency situation, the authority will take into account, among other things, the following:

- a) the solvency data before and after that payment, namely if such payment, or other foreseeable internal and external events/circumstances, may increase the risk situation of the credit institution by causing a breach of its capital requirements;
- b) information on the forecast development of the data under item (a) for the following 3-5 years based on the business plan, including the planned development of its balance sheet and profit and loss account;
- c) evaluation of the risks to which the credit institution is or might be exposed and whether the level of own funds ensures the coverage of such risks, including stress tests on the main risks showing potential losses under different scenarios.

⁹ Alternative Coupon Satisfaction Mechanism (ACSM) is only acceptable if it achieves the same economic result as cancellation of the coupon (i.e. no decrease in capital) and when the issuer has full discretion over the payment of the coupons or dividends at all times.

¹⁰ Possible mechanisms are for example:

- a) The possibility of writing down the principal permanently at a trigger point.
- b) The possibility of writing down the principal temporarily at a trigger point.
- c) Conversion into ordinary shares at an appropriate trigger point.

A combination of these mechanisms or other mechanisms may be applied provided the authority is satisfied. Until such time the EBA develops draft regulatory technical standards concerning these "mechanisms", institutions should refer to the CEBS Implementation Guidelines for Hybrid Capital Instruments issued on 10 December 2009 for further detail.

‘Other Instruments’ of subsidiary undertakings included in the consolidation is held by persons other than the undertakings included in the consolidation. Any minority interests included, according to their type, are to abide to the limits referred to above.

This item is computed automatically once all the other instruments held by the Institution are listed in calculation 3.

1.2.0 DEDUCTIONS

1.2.1 Own shares

Report own shares held at book value¹¹ by the credit institution.

1.2.2 Intangible assets (other than goodwill)

Report any intangible assets (other than goodwill) including copyrights, patents, intellectual property.

1.2.3 Goodwill

Report any goodwill arising on consolidation which represents the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeding cost.

1.2.4 Material losses

Report any material losses incurred during the current financial year and not included under item 1.1.7. The reporting under this item should only take place when a bank has registered an interim net profit which has not as yet been verified by external auditors.

1.2.5 Shares issued by the capitalisation of property revaluation reserve

Report all shares issued by the capitalisation of property revaluation reserves.

1.2.6 Unrealised fair value movements, net gains/(net losses), on ‘Designated at inception at fair value through the profit and loss account’ financial instruments

Report any unrealised fair value movements (including both unrealised gains and losses) on ‘Designated at inception at fair value through the profit and loss account’ financial instruments. *The resulting net gains should be deducted and the resulting net losses should be added back to neutralise their effect on the income statement as included under items 1.1.6 and 1.1.7. Net gains should be inserted as a positive figure, while net losses must be inserted as a negative figure.*

1.2.7 Net gains from capitalisation of future income from securitisations

Where a credit institution is the originator of a securitisation transaction, the said institution is to report any net gains arising from the capitalisation of future income from the securitised asset/s, together with any unrealised fair

¹¹ For the purposes of this Rule, the term ‘book value’ shall be construed to mean the value depicted in the balance sheet.

value movements that might take place. This does not include any residuary income.

1.2.8 Other Deductions

Vide note (6) in Appendix 1. This item is equal to COD 10 and is computed automatically.

1.2.9 Total Deductions (sum of items 1.2.1 to 1.2.8)

The sum of the Deductions is computed automatically.

1.2.10 TOTAL Original Own Funds BEFORE deduction of prudential filters

Item 1.1.14 'Total Gross Original Own Funds' less item 1.2.9 'Total Deductions' represents 'TOTAL Original Own Funds BEFORE deduction of prudential filters'. This calculation is computed automatically.

1.3.0 IFRS PRUDENTIAL FILTERS: DEDUCTIONS FROM ORIGINAL OWN FUNDS

1.3.1 Unrealised net losses on fair value movements on 'Designated at inception at fair value through the profit and loss account' financial instruments

Report any unrealised net losses on fair value movements on 'Designated at inception at fair value through the profit and loss account' financial instruments reported under item 1.2.6. This item is computed automatically.

1.3.2 Deductions in relation to fair value movements on available for sale (AFS) financial assets

1.3.2.1 Unrealised net losses on equity instruments classified as AFS financial assets

Report any unrealised net losses on equity instruments classified as AFS.

1.3.2.2 Unrealised net losses on loans and receivables included in the AFS category

Report any unrealised net losses on loans and receivables included in the AFS category apart from those related to impairment.

1.3.2.3 Unrealised net losses on other AFS financial assets

Report any other unrealised net losses on any other instruments classified as AFS not captured in items 1.3.2.1 and 1.3.2.2.

1.3.3 Deductions in relation to fair value movements on revaluation of immovable property

1.3.3.1 Unrealised net losses on revaluation of own use property

Report any unrealised net losses on revaluation of own use immovable property not included under items 1.1.6 and 1.1.7.

1.3.3.2 Unrealised net losses on revaluation of investment property

Report any unrealised net losses on revaluation of investment property (in line with the requirements of IAS 40, however within the limits specified in Article 15(1)(f) of the Act) not included under items 1.1.6 and 1.1.7.

1.3.4 Unrealised net losses reported in the hedging reserve

Report any unrealised net losses which are being reflected in the hedging reserve. There should be a consistent treatment of gains and losses resulting from a transaction whereby a cash flow hedge is created for an available for sale instrument: i.e. if the gains of the hedged item are recognised in additional own funds, so should the results of the corresponding cash flow hedge.

Credit institutions shall not include in Own Funds either the fair value reserves related to losses on cash flow hedges on financial instruments measured at amortised cost, or any losses on their liabilities valued at fair value that are due to changes in the credit institutions' own credit standing.

Note re items 1.2.6 and 1.3.1 to 1.3.4: Credit institutions shall apply the requirements of sections 1.2 and 1.3 of Appendix C to BR/08 to all their assets measured at fair value and shall deduct any additional value adjustments necessary.

1.3.5 Unrealised net losses reported in the currency revaluation reserve

Report any unrealised net losses which are being reflected in the currency revaluation reserve other than that depicted in item 1.1.4.

1.3.6 Total Deductions attributable to IFRS Prudential Filters (sum of items 1.3.1 to 1.3.5)

The sum of the Deductions is computed automatically.

1.3.7 TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds (item 1.2.11 less item 1.3.6)

This calculation is computed automatically.

1.3.8 Other Deductions brought forward from excess in Additional Own Funds

Vide note (6) in Appendix 1. Should COD 10 'Half total other deductions' exceed the sum of items 2.1.5 'Total Upper Tranche Additional Own Funds' and 2.1.11 'Total Lower Tranche Additional Own Funds' less item 2.2.1 'Excess of the limits of the lower tranche of the Additional Own Funds', the excess shall be computed automatically.

1.4.0 TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds

Item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' less item 1.3.8 'Other Deductions brought forward from excess in Additional Own Funds' represents 'TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds'. The result of the above calculation shall be computed automatically.

2.0.0 ADDITIONAL OWN FUNDS**UPPER TRANCHE****2.1.1 Perpetual securities**

Report securities and other instruments of indeterminate duration that fulfill the following conditions:

- [a] they may not be reimbursed on the bearer's initiative or without the prior agreement of the authority;
- [b] the debt agreement must provide for the credit institution to have the option of deferring the payment of interest on the debt;
- [c] the lender's claims on the credit institution must be wholly subordinated to those of all non-subordinated creditors;
- [d] the documents governing the issue of the securities must provide for debt and unpaid interest to be such as to absorb losses, whilst leaving the credit institution in a position to continue trading; and
- [e] only fully paid-up amounts shall be taken into account.

Perpetual cumulative preference shares are included under this item.

2.1.2 Shares issued by the capitalisation of property revaluation reserves

Report the amount deducted under item 1.2.5. This amount is computed automatically.

2.1.3 Excess on limits on other instruments from Original Own Funds transferred to Additional Own Funds

Vide note (4) in Appendix 1. Report the amount over and above the limits set on other instruments. This item is the sum of all other instruments held by the Institution less those eligible under item 1.1.13 and is computed automatically.

2.1.4 Minority interests

Where the global integration method is used, to include any minority interests where the amount attributable to outside interests reported in capital items forming part of the 'Upper tranche' of 'Additional Own Funds' of subsidiary undertakings included in the consolidation is held by persons other than the undertakings included in the consolidation. This item shall only apply for consolidation purposes. Minority interests forming part of 'Original Own Funds' and those forming part of the 'Lower tranche' of 'Additional Own Funds' of subsidiary undertakings included in the consolidation are to be included under items 1.1.11 and 2.1.10 respectively while minority interests in the form of other instruments are to be included in Calculation 3.

2.1.5 Total Upper Tranche Additional Own Funds (sum of items 2.1.1 to 2.1.4)

This sum is computed automatically.

LOWER TRANCHE**2.1.6 Fixed term preference shares**

Report any fixed term cumulative and non-cumulative preference shares if binding agreements exist under which, in the event of the bankruptcy or liquidation of the credit institution, they rank after the claims of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. The extent to which fixed term preference shares may rank as Own Funds must be proportionately reduced (on a quarterly basis) during, at least, the last five years before the repayment date.

2.1.7 Subordinated loan capital

Report subordinated loan capital if the following conditions are fulfilled:

- [a] if binding agreements exist under which, in the event of the bankruptcy or liquidation of the credit institution, they rank after the claims of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled;
- [b] only fully paid-up funds may be taken into account;
- [c] the loans involved must have an original maturity of at least five years, after which they may be repaid; if the maturity of the debt is not fixed, they shall be repayable only subject to five years' notice unless the loans are no longer considered as Own Funds or unless the prior consent of the authority is specifically required for early repayment. The permission for the early repayment of such loans may only be granted provided that the request is made at the initiative of the issuer and the solvency of the credit institution in question is not affected;
- [d] the extent to which they may rank as Own Funds must be proportionately reduced (on a quarterly basis) during, at least, the last five years before the repayment date; and
- [e] the loan agreement must not include any clause providing that in specified circumstances, other than the winding up of the credit institution, the debt will become repayable before the agreed repayment date.

2.1.8 IRB Provision excess

Credit institutions calculating risk-weighted exposure amounts under the Internal Ratings Based (IRB) approach may include positive amounts resulting from the calculation in Appendix 2, Section II.2, Paragraph 4.1.0 of BR/04 *'Treatment of Expected Loss Amounts'* up to a limit of 0.6% of risk weighted exposure amounts calculated under that approach.

This calculation measures the excess of value adjustments and provisions over expected loss amounts for the exposures indicated in Appendix 2, Section II.2, Paragraph 4.1.0 of BR/04 *'Treatment of Expected Loss Amounts'*.

For these credit institutions value adjustments and provisions included in the calculation referred to in Appendix 2, Section II.2, Paragraph 4.1.0 of BR/04 and other value adjustments and provisions to be reported elsewhere in the Schedule shall not be included in Own Funds other than in accordance with this provision.

For these purposes, risk-weighted exposure amounts shall not include those calculated in respect of securitisation positions which have a higher risk weight of 1250%.

2.1.9 Collective provisioning

Credit institutions adopting the standardised approach to credit risk may report the amount of collective provisions, that are not being deducted directly from the book value¹¹ of assets prior to the application of the risk weight for capital requirements purposes.

Collective provisions are to have the following characteristics:

- (a) they are freely available to the credit institution to cover normal banking risks where revenue or capital losses have not yet been identified;
- (b) their existence is disclosed in internal accounting records; and
- (c) their amount is determined by the management of the credit institution, verified by independent auditors and made known to the authority.

Where a credit institution is unable to determine whether collective provisions relate only to exposures on either the standardised or the IRB approach, the credit institution must allocate them on a basis which is reasonable and consistent.

2.1.10 Minority interests

Where the global integration method is used, to include any minority interests where the amount attributable to outside interests reported in items forming part of the 'Lower tranche' of 'Additional Own Funds' of subsidiary undertakings included in the consolidation is held by persons other than the undertakings included in the consolidation. This item shall only apply for consolidation purposes. Minority interests forming part of 'Original Own Funds' and those forming part of the 'Upper tranche' of 'Additional Own Funds' of subsidiary undertakings included in the consolidation are to be included under items 1.1.11 and 2.1.4 respectively while minority interests in the form of other instruments are to be included in Calculation 3.

2.1.11 Total Lower Tranche Additional Own Funds (sum of items 2.1.6 to 2.1.10)

This sum is computed automatically.

2.2.0 DEDUCTIONS

2.2.1 Excess of the limits of the lower tranche of the Additional Own Funds

Report the amount in item 2.1.11 'Total Lower Tranche Additional Own Funds' which exceeds 50% of the amount in item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other

Deductions brought forward from excess in Additional Own Funds' as stipulated in Note 1 of Appendix 1. This amount is computed automatically.

2.2.2 Other Deductions

Vide note (6) in Appendix 1. Should COD 10 'Half total other deductions' exceed the sum of items 2.1.5 and 2.1.11 less item 2.2.1, the excess shall be reported under item 1.3.8. This amount is computed automatically.

2.2.3 Total Deductions (sum of items 2.2.1 and 2.2.2)

The sum of the Deductions is computed automatically.

2.2.4 TOTAL Additional Own Funds BEFORE the application of prudential filters

Report the total of item 2.1.5 'Total Upper Tranche Additional Own Funds' and item 2.1.11 'Total Lower Tranche Additional Own Funds' less item 2.2.3 'Total Deductions'. This amount is computed automatically.

2.3.0 IFRS PRUDENTIAL FILTERS: INCREASES TO ADDITIONAL OWN FUNDS

2.3.1 Unrealised net gains on fair value movements on 'Designated at inception at fair value through the profit and loss account' financial instruments

Report any unrealised net gains on fair value movements 'Designated at inception at fair value through the profit and loss account' financial instruments reported under item 1.2.6. This figure should be net of any foreseeable tax and charges. This amount is computed automatically.

2.3.2 Additions in relation to fair value movements on AFS financial assets

2.3.2.1 Unrealised net gains on equity instruments classified as AFS financial assets

Report up to 65%¹² of the unrealised net gains on equity instruments classified as AFS.

2.3.2.2 Unrealised net gains on loans and receivables included in the AFS category

Report up to 65%¹² of the unrealised net gains on loans and receivables included in the AFS category apart from those related to impairment.

2.3.2.3 Unrealised net gains on other AFS financial assets

Report up to 65%¹² of any other unrealised net gains on any other instruments classified as AFS not captured in items 2.3.2.1 and 2.3.2.2.

2.3.3 Additions in relation to fair value movements on revaluation of immovable property

2.3.3.1 Unrealised net gains on revaluation of own use property

¹² After taking into effect the foreseeable tax element of 35%. Should a different tax rate be applicable to the credit institution, the authority should be consulted to verify whether the bank may utilise a different discount.

Report up to 65%¹² on any unrealised net gains on revaluation of own use immovable property not included under items 1.1.6 and 1.1.7.

2.3.3.2 Unrealised net gains on revaluation of investment property

Report up to 65%¹² of any unrealised net gains on revaluation of investment property (in line with the requirements of IAS 40, however within the limits specified in Article 15(1)(f) of the Act) not included under items 1.1.6 and 1.1.7.

2.3.4 Unrealised net gains reported in the hedging reserve

Report **up to 65%¹²** of any unrealised net gains which are being reflected in the hedging reserve. There should be a consistent treatment of gains and losses resulting from a transaction whereby a cash flow hedge is created for an available for sale instrument: i.e. if the gains of the hedged item are recognised in additional own funds, so should the results of the corresponding cash flow hedge.

Credit institutions shall not include in Own Funds either the fair value reserves related to gains on cash flow hedges on financial instruments measured at amortised cost, or any gains on their liabilities valued at fair value that are due to changes in the credit institutions' own credit standing.

Note re items 2.3.1 to 2.3.4: Credit institutions shall apply the requirements of sections 1.2 and 1.3 of Appendix C to BR/08 to all their assets measured at fair value.

2.3.5 Unrealised net gains reported in the currency revaluation reserve

Report **up to 65%¹²** of unrealised net gains which are being reflected in the currency revaluation reserve other than that depicted in item 1.1.4.

2.3.6 Total Increase attributable to IFRS Prudential Filters (sum of items 2.3.1 to 2.3.5)

This sum is computed automatically.

2.4.0 TOTAL Additional Own Funds AFTER application of prudential filters

Report the total of item 2.2.4 'TOTAL Additional Own Funds BEFORE the application of prudential filters' and item 2.3.6 'Total Increase attributable to IFRS Prudential Filters'. This sum is computed automatically.

Credit institutions shall not include in Own Funds the fair value reserves relating to gains or losses on their liabilities valued at fair value that are due to changes in the credit institutions' own credit standing.

2.5.0 DEDUCTION

2.5.1 Excess of limits of Additional Own Funds

Report the amount in item 2.4.0 'TOTAL Additional Own Funds AFTER application of prudential filters' which is in excess of the amount in item 1.4.0 'TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own

Funds' as stipulated in Note 2 of Appendix 1. This amount is computed automatically.

2.6.0 TOTAL Eligible Additional Own Funds

Item 2.4.0 'TOTAL Additional Own Funds AFTER application of prudential filters' less item 2.5.1 'Excess of limits of Additional Own Funds' represents 'TOTAL Eligible Additional Own Funds'. This deduction is computed automatically.

3.0.0 TOTAL Gross Own Funds

The total of items 1.4.0 'TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds' and item 2.6.0 'TOTAL Eligible Additional Own Funds' represent 'Total Gross Own Funds'. This sum is computed automatically. This item represents 'Total Own Funds' for those credit institutions which are exempted from the trading book requirements under the Capital Adequacy Rule BR/08.

4.0.0 SUPPLEMENTARY OWN FUNDS

4.1.0 Subordinated loan capital

Vide note (3) in Appendix 1. Report subordinated loan capital if the following conditions are fulfilled:

- [a] if binding agreements exist under which, in the event of the bankruptcy or liquidation of the credit institution, they rank after the claims of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled;
- [b] only fully paid-up funds may be taken into account;
- [c] the loans involved must have an original maturity of at least two years, after which they may be repaid; if the maturity of the debt is not fixed, they shall be repayable only subject to two years' notice unless the loans are no longer considered as Own Funds or unless the prior consent of the authority is specifically required for early repayment. The permission for the early repayment of such loans may only be granted provided that the request is made at the initiative of the issuer and the solvency of the credit institution in question is not affected;
- [d] the extent to which they may rank as Own Funds must be proportionately reduced during, at least, the last two years before the repayment date; and
- [e] the loan agreement must not include any clause providing that in specified circumstances, other than the winding up of the credit institution, the debt will become repayable before the agreed repayment date.

4.2.0 Net trading book profits/(losses)

Net trading book profits/(losses) after deduction of any foreseeable charge, tax or dividend provided that none of this amount has already been included in item 1.1.6 'Retained profits/(losses)', item 1.1.7 '**Interim/year-end net profits/(losses)**' and item 1.2.4 'Material Losses' of this Rule. The authority must be satisfied that these trading book profits/(losses) have been calculated using appropriate techniques.

4.3.0 TOTAL Supplementary Own Funds

Vide note (5) in Appendix 1. The total of items 4.1.0 'Subordinated loan capital' and item 4.2.0 'Net trading book profits/(losses)' represent the 'TOTAL Supplementary Own Funds'. This sum is computed automatically.

5.0.0 TOTAL OWN FUNDS (sum of items 3.0.0 and 4.3.0)

This item represents 'Total Own Funds' for those credit institutions which are *not* exempt from the trading book requirements and therefore subject to the Capital Adequacy Rule BR/08. This sum is computed automatically.

6.0.0 TOTAL Own Funds for the purposes of 'LARGE EXPOSURES' (item 3.0.0 less item 2.1.8 plus COD 7 and COD 8)

For the purposes of 'Large Exposures' item 4.3.0 'TOTAL Supplementary Own Funds', item 2.1.8 'IRB Provision excess', COD 7 'Securitisation exposures not included in risk-weighted assets' and COD 8 'IRB Provision shortfall and IRB equity expected loss amounts' shall not be taken into account. This amount is computed automatically.

7.0.0 TOTAL Own Funds for the purposes of 'QUALIFYING HOLDINGS OUTSIDE THE FINANCIAL SECTOR' (item 3.0.0 less item 2.1.8 plus COD 3, COD 7 and COD 8)

For the purposes of 'Qualifying Holdings outside the Financial Sector' item 4.3.0 'TOTAL Supplementary Own Funds', item 2.1.8 'IRB Provision excess', COD 3 'Shareholding in a company other than a credit and/or financial institution¹³ which is not supervised on a consolidated basis', COD 7 'Securitisation exposures not included in risk-weighted assets' and COD 8 'IRB Provision shortfall and IRB equity expected loss amounts' shall not be taken into account. This amount is computed automatically.

8.0.0 TOTAL Own Funds for the purposes of COD 2 (sum of items 3.0.0, COD 1, COD 2, COD 4 and COD 5)

TOTAL Own Funds for the purposes of COD 2 shall not take into account item 4.3.0 'TOTAL Supplementary Own Funds', COD 1 'Holdings in other credit and/or financial institutions¹³ amounting to more than 10% of the investee institutions capital', COD 2 'Aggregate holdings in other credit and/or financial institutions¹³ of up to 10% of their capital and instruments which the credit institution holds in such institutions which are eligible as own funds (other than those included in COD 1 above) which in aggregate exceed

¹³ 'financial institution' means an undertaking other than a credit institution, the principal activity of which is to acquire holdings or to pursue one or more of the activities listed in points 2 to 12 and 15 of Annex I of Directive 2006/48/EC.

10% of item 8.0.0', COD 4 'Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies' and COD 5 'Other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained'. This amount is computed automatically.

CALCULATION OF OTHER DEDUCTIONS

COD 1. Holdings in other credit and/or financial institutions¹³ amounting to more than 10% of the investee institutions' capital

When the credit institution holds more than 10% of the capital¹⁴ of another credit institution and/or financial institution¹³, for each holding, the following shall be deducted as per note (6) of Appendix 1:

- [a] the book value¹¹ amount of the capital which the credit institution holds in the investee credit institution and/or financial institution¹³; and
- [b] all instruments which the credit institution holds in the investee credit institution and/or financial institution¹³ which are eligible as own funds.

COD 2. Aggregate holdings in other credit and/or financial institutions¹³ of up to 10% of their capital and instruments which the credit institution holds in such institutions which are eligible as own funds (other than those included in COD 1 above) which in aggregate exceed 10% of item 8.0.0

When a credit institution holds capital and instruments in credit and/or financial institutions¹³ other than those included in COD 1 above, the aggregate book value¹¹ which exceeds 10% of the credit institution's own funds as per COD 11 shall be deducted as per note (6) of Appendix 1.

COD 3. Qualifying shareholding in a company other than a credit and/or financial institution¹³ which is not supervised on a consolidated basis. (To deduct the excesses of the 15% limit [to any one company or group of connected persons] and 60% limit [with respect to the total amount of such holdings] calculated on the basis of item 7.0.0. Where both limits are exceeded, the greater of the excess amounts shall be deducted.)

When a credit institution has a qualifying shareholding in any company other than a credit institution, financial institution¹³ or undertaking carrying on activities which are a direct extension of banking or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts,

¹⁴ Ordinary and Preference Shares

the management of data processing services, or any other similar activity, which is not supervised on a consolidated basis in terms of Article 15(1)(d) of the Act particularly to proviso (v) of the said Article, whereby the book value¹¹ of the investment amount exceeds either the 15% or 60% limits in terms of proviso (i) and (ii) respectively of Article 15(1)(d), the excess is to be deducted from the institution's Own Funds and when both limits are exceeded, the greater of the excess amounts shall be deducted in the Own Funds computation.

COD 4. Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies

For the purposes of this paragraph, a 'participating interest' shall mean:

- (a) rights in the capital of an insurance undertaking, reinsurance undertaking and insurance holding company whether or not represented by certificates, which, by creating a durable link with those undertakings, are intended to contribute to the company's activities; or
- (b) the ownership, direct or indirect, of 20% or more of the voting rights or capital of an insurance undertaking, reinsurance undertaking and insurance holding company.

COD 5. Other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained

A 'participating interest' shall have the same meaning as in COD 4 above. 'Other instruments' shall mean instruments that are eligible for the available solvency margin of insurance companies.

***Note re COD 1 to 5.** For the purposes of COD 1 to 5 above, where shares in another credit institution, financial institution¹³, insurance or reinsurance undertaking or insurance holding company are held temporarily for the purposes of a financial assistance operation designed to reorganise and save that entity in terms of the requirements of Article 15(1)(d)(iv) of the Act, the authority may waive the deductions of COD 1 to 5 above.*

COD 6. Deduction in line with the First schedule of the Financial Conglomerates Regulation

As an alternative to the deduction of the items referred to in COD 4 and 5, the authority may allow credit institutions to apply, mutatis mutandis methods 1, 2, or 3 of item II, Technical Calculations Methods, of the First schedule to LN 521 of 2004 – Financial Conglomerates Regulations.

Method 1 (Accounting Consolidation) may be applied only if the authority is confident about the level of integrated management and internal control regarding the entities which would be included in the scope of consolidation.

The method chosen shall be applied in a consistent manner by the credit institution over time.

COD 7. Securitisation exposures not included in risk-weighted assets

Deduct the exposure amount of securitisation positions which would otherwise receive a risk weight of 1250% in accordance with Appendix 3 of Banking Rule BR/04. Include also the exposure amount of securitisation positions in the trading book that would have otherwise received a 1250% risk weight if they were in the credit institution's banking book.

This item shall not be deducted, if it has already been included for the purposes of Capital Requirements as per paragraph 5 of BR/04 in the calculation of risk weighted exposure amounts, as specified in BR/04 or BR/08.

COD 8. IRB Provision shortfall and IRB equity expected loss amounts

For credit institutions calculating risk-weighted exposure amounts under the IRB approach, this item shall include:

- (i) negative amounts resulting from the calculation in Appendix 2, Section II.2, Paragraph 4.1.0 of BR/04 '*Treatment of expected loss amounts*' (to include as a positive amount); and
- (ii) expected loss amounts calculated in accordance with Appendix 2, Section II.2, Paragraphs 3.4.0 (Expected loss amounts under the *Simple Risk Weight Approach* to calculating risk weighted exposure amounts for exposures belonging to the equity exposure IRB exposure class) and 3.5.0 (Expected loss amounts under the *PD/LGD Approach* to calculating risk weighted exposure amounts for exposures belonging to the equity exposure IRB exposure class) of BR/04.

COD 9. Total other deductions (sum of COD 1 to COD 8)

This sum is computed automatically.

COD 10. Half total other deductions (i.e. half COD 9)

This amount is computed automatically.

Calculation 1:

Itemise 'Undistributable reserves' which are eligible for inclusion in Original Own Funds. The total of this amount will be automatically transferred to item 1.1.8.

Calculation 2:

Itemise 'Other reserves' which are eligible for inclusion in Original Own Funds. The total of this amount will be automatically transferred to item 1.1.10.

Calculation 3:

Itemise under the relevant type and describe 'Other Instruments' which are eligible for inclusion in Original Own Funds. To include type of instrument and any other relevant information.

9.0.0 LIMITS

- 9.1.0 The ‘Original Own Funds’, ‘Additional Own Funds’ and ‘Supplementary Own Funds’ of a credit institution which is subject to the Capital Adequacy Rule BR/08 must be assigned between the banking book and the trading book. Capital must first be assigned to the banking book (including counterparty and settlement risks), and sufficient capital must be left to support the trading book. The bank only meets its requirements if it has sufficient capital for both books.

The Risk Weighted Assets of the banking book should be covered by Original Own Funds and Additional Own Funds. Supplementary Own Funds cannot be used to support the banking book or counterparty and settlement risks under the Capital Adequacy Rule BR/08. Any remaining Original Own funds will be eligible for the trading book capital requirements.

- 9.2.0 The following limits shall apply:
- 9.2.1 The amount of the items which may be included in the ‘Lower Tranche’ of the ‘Additional Own Funds’ must not exceed 50% of item 1.3.7 ‘TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds’. Vide deduction as per item 2.2.1.
- 9.2.2 Item 2.6.0 ‘TOTAL Eligible Additional Own Funds’ shall not exceed item 1.4.0 ‘TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds’.
- 9.2.3 Item 2.6.0 ‘TOTAL Eligible Additional Own Funds’ and item 4.1.0 ‘Subordinated loan capital’ used to meet the trading book capital requirements must not in total exceed 150% of item 1.4.0 ‘TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds’ left to meet trading book activities and foreign exchange risk.
- 9.2.4 It is the policy of the authority that, at overall consolidated group level or at solo level if a credit institution is not part of a consolidated group the sum of item 2.6.0 ‘TOTAL Eligible Additional Own Funds’ and item 4.3.0 ‘Total Supplementary Own Funds’ cannot exceed 100% of the credit institution/group item 1.4.0 ‘TOTAL Original Own Funds AFTER application of prudential filters and AFTER Other Deductions brought forward from excess in Additional Own Funds’. This limit cannot be exceeded without the authority’s permission, which will only normally be granted where a credit institution/group trading book accounts for a substantial part of its business.
- 9.2.5 Item 1.1.13 ‘Other Instruments’ shall be composed of convertible instruments, innovative instruments and non-innovative instruments subject to certain limits (vide main text of BR/03 for description of instruments). In no case should this item exceed 50% of item 1.3.7 ‘TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds’.

Different limits have been identified with respect to the instruments that can be reported under this item. The limit of 50% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' may be composed of solely convertible instruments. On the other hand, non-innovative instruments must not exceed a maximum of 35% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' within the 50% limit set for convertible instruments while innovative instruments may not exceed a maximum of 15% of item 1.3.7 'TOTAL Original Own Funds AFTER application of prudential filters BEFORE Other Deductions brought forward from excess in Additional Own Funds' within the 35% limit set for non-innovative instruments.

In reporting Own Funds on a consolidated basis, where the global integration method is used, to include any minority interests where the amount attributable to outside interests reported in items forming part of 'Other Instruments' of subsidiary undertakings included in the consolidation is held by persons other than the undertakings included in the consolidation. Any minority interests included, according to their type, are to abide to the limits referred to above. Minority interests in the form of 'Other Instruments' issued by SPVs which are subsidiary undertakings are to be included in calculation 3 under innovative instruments in order to be subject to the 15% limit.

The excess of Other Instruments over the limits identified above shall be transferred to Additional Own Funds through item 2.1.3.

- 9.2.6 Half of COD 9 'Total other deductions' shall be deducted from item 1.1.14 'TOTAL Gross Original Own Funds' and half from items 2.1.5 'Total Upper Tranche Additional Own Funds' and 2.1.11 'Total Lower Tranche Additional Own Funds' less item 2.2.1 'Excess of the limits of the lower tranche of the Additional Own Funds'. To the extent that half of COD 9 'Total other deductions' exceeds the total of items 2.1.5 and 2.1.11 less item 2.2.1, the excess shall be deducted from item 1.3.7.
- 9.2.7 The authority may authorise credit institutions to exceed the limits laid down in paragraphs 9.2.1, 9.2.2, 9.2.3 and 9.2.5 of this Rule, temporarily during emergency situations.

10.0.0 CONSOLIDATED OWN FUNDS

- 10.1.0 When a credit institution is reporting consolidated Own Funds, the consolidated balance sheet figures shall be used. The balance sheet figures of the credit institution shall be used when reporting unconsolidated Own Funds¹⁵.
- 10.2.0 When Own Funds are being calculated by the credit institution for unconsolidated purposes, items 1.1.11, 2.1.4 and 2.1.10 'Minority interests',

¹⁵ Refer to paragraph 15 of the Rule.

shall not apply. Also, no 'Minority interests' should be reported under calculation 3.

10.3.0 When consolidated Own Funds are being reported, COD 1 and 2 of 'Total other deductions' shall not include holdings in subsidiary credit and/or financial institutions¹³ which are included in the consolidated balance sheet. Qualifying shareholdings in companies other than credit and/or financial institutions¹³ not supervised on a consolidated basis which are specified in COD 3 of 'Total other deductions' shall, however, be deducted from the total of Gross Own Funds. COD 4 shall not include participations held in insurance undertakings, reinsurance undertakings and insurance holding companies, while COD 5 shall not include other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained if included in the consolidation.

10.4.0 When minority interest(s), translation differences and any other differences arising on consolidation are debit balances, they must be shown as negative amounts under the relevant Own Funds items.