

**MFSA**

---

**MALTA FINANCIAL SERVICES AUTHORITY**

**BANKING SUPERVISION UNIT**

**BANKING RULES**

*PUBLICATION OF ANNUAL REPORT AND  
AUDITED FINANCIAL STATEMENTS  
OF CREDIT INSTITUTIONS AUTHORISED  
UNDER THE BANKING ACT 1994*

Ref: BR/07/2013

# **PUBLICATION OF ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS OF CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994**

## **INTRODUCTION**

1. In terms of Article 4(2) of the Banking Act 1994 (Cap. 371) ('the Act') the competent authority ('the authority') as appointed under Article 3(1) of the Act may make Banking Rules as may be required for carrying into effect any of the provisions of the Act. The authority may amend or revoke such Banking Rules. The Banking Rules and any amendment or revocation thereof shall be officially communicated to banks and the authority shall make copies thereof available to the public.

2. The publication of audited financial statements by credit institutions is to be made pursuant to Article 30 of the Act:

*“Every credit institution shall, not later than four months from the closing of its financial year or at any other time as may be authorised in writing by the competent authority -*

*(a) forward to the competent authority and the Central Bank, and*

*(b) exhibit in a conspicuous position in each of its offices and branches in Malta and keep so exhibited throughout the year,*

*a copy of its audited financial statements drawn up and published in such manner as may be specified in accordance with a Banking Rule.”*

Other disclosures applicable to credit institutions include requirements emanating from Chapter 5 (Articles 145 to 149 - Disclosure by credit institutions) and Annex XII (Technical criteria on disclosure) of EU Directive 2006/48/EC.

## **SCOPE AND APPLICATION**

3. The Rule applies to all credit institutions licensed under the Act 1994.
4. The Rule takes into account the requirements of the Act and the Companies Act (Cap. 386) which mandates compliance by all companies with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as adopted by the European Union through Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 and the Commission Regulation (EC) No 1126/2008 of 3 November 2008, and any subsequent amendments thereto.

5. Accordingly, the Rule requires credit institutions to prepare their annual accounts, both on a solo and consolidated basis, using IASs and IFRSs as adopted by the European Union. Moreover, the Rule aims:
  - (a) to outline the authority's views and interpretations of the provisions of Article 30 of the Act;
  - (b) to implement Chapter 5 (Articles 145 to 149 - Disclosure by credit institutions) and Annex XII (Technical criteria on disclosure) of EU Directive 2006/48/EC as amended from time to time; and
  - (c) to enhance transparency through public disclosures by credit institutions, thus facilitating assessment of such institutions by the public.

#### **SUBMISSIONS TO THE AUTHORITY AND THE CENTRAL BANK**

6. Article 30(a) of the Act requires a credit institution to forward a copy of its audited financial statements to the authority and the Central Bank of Malta.
7. The authority expects that the copy submitted as in paragraph 6 above, shall be accompanied by the Declaration under Appendix 3, as well as all statements under paragraph 9 to 10 of this Rule and shall:
  - (a) bear the original signatures of the bank's auditor, the bank's Chairman and/or other officials signing the accounts as the case may be; or
  - (b) be authenticated by the company secretary where such signatures are not the originals.
8. In terms of Article 20(1) of the Act, licensed institutions shall submit to the authority any information which it may reasonably require in the exercise of its duties under the Act and any Regulations or Banking Rules made thereunder, and the authority may enquire into and request clarifications accordingly. In this respect, apart from the submission of audited financial statements as required by Article 30 of the Act, credit institutions are also required to submit a copy of the auditors' management letter and the institution's reply thereto, within six (6) months from the closing of its financial year.

#### **PUBLISHED ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS**

9. The authority expects that the published Annual Report shall at a minimum include the following:
  - i. Directors' Report;
  - ii. Statement of Directors' Responsibilities;

- iii. Report of the Auditors on Financial Statements;
  - iv. A complete set of financial statements including notes thereto;
  - v. Additional Regulatory Disclosures (under Appendix 2);
  - vi. Five year summary figures; and
  - vii. *Supplementary Financial Information* in accordance to Appendix 1 paragraph ii of this Rule.
10. In the case where a credit institution is listed on a regulated market authorised in Malta in terms of the Financial Markets Act (Cap. 345) the publication of the financial statements should include all other financial information required for publication under the listing requirements in terms of the Financial Markets Act (Cap. 345).

#### **EXHIBIT OF AUDITED FINANCIAL STATEMENTS**

11. Article 30(b) of the Act requires a credit institution to exhibit, and keep so exhibited throughout the year, a copy of its audited financial statements in a conspicuous position in each of its offices and branches in Malta.
12. In the authority's view such exhibit should as a minimum also include items (i) to (iii) under paragraph 9 of this Rule. This should be accompanied by a note to the effect that the published Annual Report is kept and is made available to any person interested in viewing it.

#### **BRANCHES OF THIRD COUNTRY CREDIT INSTITUTIONS**

13. Paragraph 29 of the Rule on Application for a Licence under the Act (Banking Rule BR/01) states that a licence issued to an institution incorporated in a third country, to operate its business of banking through a branch in Malta is deemed to have been granted to that institution as a whole.
14. In this respect, the requirements of Article 30 of the Act shall be deemed as having been satisfied by the institution incorporated in a third country by:
- (a) forwarding to the authority and the Central Bank; and
  - (b) exhibiting in a conspicuous position in each of its offices in Malta and keep so exhibited throughout the year,
- a copy of its audited financial statements.
15. Notwithstanding the provisions of paragraph 14, the authority may require branches established in Malta of institutions incorporated in a third country, to publish in accordance with IASs and IFRSs as adopted by the EU, separately abridged or full branch audited accounts, together with other financial or non-financial information as may be relevant to their own activities in Malta.

16. As an alternative to paragraph 15, the authority may, if it deems it appropriate, require the overseas institution to include with its audited financial statements additional information required in pursuance of paragraph 9 of this Rule, as applicable, provided that as a minimum the following information is included:
- (1) the income and costs of the branch deriving from:
    - (a) Interest receivable and similar income, showing separately that arising from fixed-income securities
    - (b) Income from securities:
      - (i) Income from shares and other variable-yield securities
      - (ii) Income from participating interests
      - (iii) Income from shares in affiliated undertakings
    - (c) Commissions receivable
    - (d) Net profit or net loss on financial operations
    - (e) Other operating income
    - (f) General administrative expenses:
      - (i) Staff costs, showing separately:
        - wages and salaries
        - social security costs, with a separate indication of those relating to pensions
      - (ii) Other administrative expenses
    - (g) Tax on profit or loss on ordinary activities;
  - (2) the average number of staff employed by the branch;
  - (3) the total claims and liabilities attributable to the branch, broken down into those in respect of credit institutions and those in respect of customers, together with the overall amount of such claims and liabilities expressed in Euro;
  - (4) the total assets and the amounts corresponding to:
    - (a) Treasury bills and other bills eligible for refinancing with central banks:
      - (i) Treasury bills and similar securities
      - (ii) Other bills eligible for refinancing with central banks
    - (b) Loans and advances to credit institutions:
      - (i) repayable on demand
      - (ii) other loans and advances
    - (c) Loans and advances to customers

- (d) Debt securities including fixed-income securities:
    - (i) issued by public bodies
    - (ii) issued by other borrowers, showing separately:
      - own-debt securities
  - (e) Shares and other variable-yield securities;
- (5) the total liabilities and the amounts corresponding to:
- (a) Amounts owed to credit institutions:
    - (i) repayable on demand
    - (ii) with agreed maturity dates or periods of notice
  - (b) Amounts owed to customers:
    - (i) savings deposits, showing separately those repayable on demand and those with agreed maturity dates or periods of notice
    - (ii) other debts
      - repayable on demand
      - with agreed maturity dates or periods of notice
  - (c) Debts evidenced by certificates:
    - (i) debt securities in issue
    - (ii) others;
- (6) the off-balance sheet items corresponding to:
- (a) Contingent liabilities, showing separately:
    - (i) acceptances and endorsements
    - (ii) guarantees and assets pledged as collateral security
  - (b) Commitments, showing separately:
    - (i) commitments arising out of sale and repurchase transactions;

and in the case of paragraph 16 sub-paragraphs 4 (a), (d) and (e), a breakdown of securities according to whether they have or have not been regarded as financial fixed assets<sup>1</sup>.

The said documentation should be submitted to the authority in accordance with the time limit stipulated in paragraph 2 of this Rule.

---

<sup>1</sup> For the purpose of this Rule, 'financial fixed assets' shall be taken to mean participating interests, shares in affiliated undertakings and securities intended for use on a continuing basis in the normal course of an undertaking's activities.

## **BRANCHES OF EEA CREDIT INSTITUTIONS**

17. Where branches of credit institutions within the European Economic Area (EEA) are established in Malta in terms of Article 25 of EU Directive 2006/48/EC, paragraphs 13 and 15 above shall not apply. However, the authority, in line with the provisions of the Branch Accounts Directive 89/117/EEC, may if it deems appropriate require a branch of an EEA institution to publish the additional information relevant to the activities of the branch in Malta as laid down in paragraph 16 above.

## **AUTHORISATIONS REGARDING LATE SUBMISSIONS**

18. In terms of Article 30 of the Act, if for valid reasons a credit institution is not able to carry out its obligations under that Article within four months from the closing of its financial year, it should apply to the authority for consent to extend the period of submission as the authority may authorise.
19. When a credit institution is applying for authorisation under paragraph 18 above it has to provide all relevant details and reasons for such application and should allow appropriate time for the authority to consider such application.
20. It is at the authority's discretion to approve such application and, if and when approval is given, this shall be for exceptional cases only.

## **PUBLISHED FINANCIAL STATEMENTS**

21. In terms of sub-article (4) of Article 2 of the Companies Act 1995, credit institutions are expected to adhere to IASs and IFRSs as may be issued from time to time by the International Accounting Standards Board (IASB) and as adopted by the EU.
22. Appendix 1 of this Rule defines *Supplementary Financial Information* that is to form part of the institutions' Annual Report in accordance with paragraphs 9 to 10 of this Rule. Furthermore, Appendix 2 determines the *Additional Regulatory Disclosures* that are required to be included subject to paragraphs 23 to 29 below.

## **ADDITIONAL REGULATORY DISCLOSURES**

### **DISCLOSURES FOR SUBSIDIARIES**

23. The obligations related to the compilation of the Additional Regulatory Disclosures shall be complied by parent credit institutions and financial holding companies on the basis of their consolidated financial situation.

Furthermore credit institutions controlled by an EU parent financial holding company or by an EU parent mixed financial holding company shall comply with the disclosure requirements laid down in the Rule on the basis of the consolidated financial situation of that financial holding company or that mixed financial holding company.

- 23A. Notwithstanding the provisions of paragraph 23, the disclosure requirements laid down in Appendix 2, Part 2, paragraphs 3 and 4 of this Rule, shall also be provided on an individual or sub-consolidated basis by credit institutions which are considered by the authority to be a significant local subsidiary of:
- (a) an EU parent institution; or
  - (b) an EU parent financial holding company; or
  - (c) an EU parent mixed financial holding company.

In this respect, unless as may be otherwise specified by the Authority, a local credit institution which is a subsidiary of an EU parent institution, an EU parent financial holding company or an EU parent mixed financial holding company is deemed to be significant for the purposes of this Rule.

24. The authority may decide to apply in full or in part the provisions laid down in paragraph 23A to credit institutions which are included within comparable disclosures provided on a consolidated basis by a parent undertaking established in a third country.

#### **INFORMATION TO BE DISCLOSED**

25. For the purposes of this Rule, credit institutions shall publicly disclose the information laid down in Appendix 2, Part 2, subject to the provisions laid down in paragraphs 27 to 29. Furthermore:
- (a) a credit institution which has obtained permission to utilise the Internal Ratings Based (IRB) Approach in line with Appendix 2 Section II.1 to II.5 of Banking Rule BR/04 (Capital Requirements of Credit Institutions), shall publicly disclose information in accordance with Appendix 2, part 3 paragraph 1 of this Rule (BR/07);
  - (b) a credit institution which utilises credit risk mitigation techniques in line with Appendix 2 Section III.1 to III.7 of Banking Rule BR/04 (Capital Requirements of Credit Institutions), shall publicly disclose information in accordance with Appendix 2, part 3 paragraph 2 of this Rule (BR/07); and
  - (c) a credit institution which utilises the Advanced Measurement Approach in line with Appendix 4 Section I.4 of Banking Rule BR/04 (Capital Requirements of Credit Institutions), shall publicly disclose



information in accordance with Appendix 2, part 3 paragraph 3 of this Rule (BR/07).

- 25A. The authority expects credit institutions to disclose within the Annual Report the means of verification utilised for those Additional Regulatory Disclosures referred to in paragraph 9 not covered by the annual statutory audit.

#### **DISCLOSURE POLICY**

26. Credit institutions shall adopt a formal policy to comply with the disclosure requirements laid down in paragraphs 25 and 25A, and have policies for assessing the appropriateness of their disclosures, including their verification and frequency. Credit institutions shall also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.

Where those disclosures do not convey the risk profile comprehensively to market participants, credit institutions shall publically disclose the information necessary in addition to that required in accordance with paragraphs 25 and 25A. However, they shall only be required to disclose information which is material and not proprietary or confidential in accordance with the technical criteria set out in Appendix 2, Part 1.

#### **EXEMPTION FROM DISCLOSURE: MATERIALITY**

27. Credit institutions are expected to publicly disclose information in line with paragraphs 25 to 26. Notwithstanding this, prior to the requisite public disclosure, the authority is to be informed by a credit institution, when the latter, in the light of the criterion specified in Appendix 2, Part 1, paragraph 1 of this Rule, omits one or more of the disclosures listed in Appendix 2, Part 2 of this Rule, on the basis that such information has been regarded as not material. Such omissions are subject to the authority's verification that the institution's determination is valid.

#### **EXEMPTION FROM DISCLOSURE: PROPRIETARY OR CONFIDENTIAL INFORMATION**

28. Credit institutions are expected to publicly disclose information in line with paragraphs 25 to 26. Notwithstanding this, prior to the requisite public disclosure, the authority is to be informed by a credit institution, when the latter, in the light of the criteria specified in Appendix 2, Part 1, paragraphs 2 and 3 of this Rule, omits one or more of the disclosures listed in Appendix 2, Parts 2 and 3 of this Rule, on the basis that such information has been regarded as proprietary or confidential. Such omissions are subject to the authority's verification that the institution's determination is valid.

29. In the exceptional cases referred to in paragraph 28, the credit institution concerned shall state in its disclosures the fact that the specific items of information are not disclosed, the reason for non-disclosure, and publish more general information about the subject matter of the disclosure requirement, except where these are to be classified as proprietary or confidential under the criteria set out in Appendix 2, Part 1, paragraphs 2 and 3 of this Rule.

#### **DISCLOSURE AT THE LEVEL OF THE BANKING GROUP**

- 29A. Credit institutions shall disclose publicly, at the level of the banking group, on an annual basis, either in full or by way of references to equivalent information, a description of their legal structure, and their governance and organisational structure.

#### **FREQUENCY OF PUBLICATION**

30. Credit institutions shall publish the disclosures required under paragraphs 25 and 25A on an annual basis at a minimum. Disclosures shall be published as soon as practicable in line with paragraph 2 of this Rule.
31. Credit institutions shall also determine whether more frequent publication than is provided for in paragraph 30, is necessary in the light of the criteria set out in Appendix 2, Part 1, paragraph 4.
32. In cases where credit institutions publish one or more disclosures more frequently than annually they may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements laid down in paragraphs 25 and 25A. To the degree feasible, all disclosures shall be provided in one medium or location.
33. Equivalent disclosures made by credit institutions under accounting, listing or other requirements may be deemed to constitute compliance with paragraphs 25 and 25A. If disclosures are not included in the published Annual Report, credit institutions shall indicate where they can be found.

#### **MEDIA AND LOCATION OF PUBLICATION**

34. Notwithstanding paragraphs 27 to 33, the authority may require credit institutions to:
- (a) make one or more of the disclosures referred to in Appendix 2, Parts 2 and 3;
  - (b) publish one or more disclosures more frequently than annually, and to set deadlines for publication;
  - (c) use specific media and locations for disclosures other than the published Annual Report; and

- (d) use specific means of verification for the disclosures not covered by the annual statutory audit.

#### **CURRENCY OF FINANCIAL STATEMENTS**

35. Where the financial statements of a credit institution are drawn up in a currency other than the Euro in terms of Article 187(2) of the Companies Act 1995, then that credit institution should state on its balance sheet the exchange rate applicable between the functional currency and the local currency.

#### **RECONCILIATION REPORT**

36. Institutions are required to prepare a reconciliation report of the Statement of Comprehensive Income, Income Statement and Statement of Financial Position showing any reporting divergences between financial figures reported under Banking Rule BR/07 and their end of year statutory data presented under Banking Rule BR/06 and prudential returns submitted under other Banking Rules. The reconciliation report should be made available to the authority within four months from the end of the financial year.

#### **OFFENCES AND PENALTIES**

37. Any person who commits an offence in terms of this Rule as provided for under Article 35 of the Act is liable to such penalties as may be prescribed pursuant to the said Article.

#### **LANGUAGE OF PUBLICATION**

38. Any documents and/or submissions provided for in this Rule must be published in one of the official languages of Malta. Where the audited financial statements of institutions incorporated in third countries submitted in terms of Paragraph 14, are primarily published in another language in the foreign jurisdiction, a certified translation thereof needs to be published locally.

## SUPPLEMENTARY FINANCIAL INFORMATION

### *i. Interest in suspense*

The aggregate amount of loans and advances on which interest is reserved is ..... gross of impairment allowances against which ..... is being provided for after taking into account the extendible value of security backing such loans and advances.

### *ii. Shareholder register information*

-----  
 Directors' interest in the share capital of the Company or in any related company as at \_\_\_\_\_  
 -----

Name	No. of Shares
------	---------------

{Note: A related company is defined by Article 2 of Chapter 345 - Financial Markets Act as "any body corporate which is that company's subsidiary, associated or holding company, or is the manager of or managed by, or is advisor to or is advised by or otherwise controls or is controlled by that company or a subsidiary or associate of that company's holding company." }

-----  
 Shareholders holding 5% or more of the share capital or of the voting rights of the reporting institution (not earlier than six weeks from the date of issue of the annual audited accounts). Credit institutions are also required to report any direct and indirect shareholding of 5% or more of the reporting institution's share capital or of the voting rights, if connectivity of holders has been identified by the institution or the authority as the case may be.  
 -----

Name	%
------	---

-----  
Number of holders in each class of shares as at (not earlier than six weeks from the date of issue of the annual audited accounts).  
-----

Class	Number of Shares
"A"	
"B"	
"C"	

Voting rights

-----  
Number of shareholders as at (not earlier than six weeks from the date of issue of the annual audited accounts).  
-----

Range	Class "A"	Class "B"	Class "C"
1 - 500			
501 - 1000			
1001 - 5000			
5001 & over			

-----  
Company Secretary  
-----

Name

Registered address

Telephone

## **ADDITIONAL REGULATORY DISCLOSURES**

### **TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE**

#### **Part 1 - General Criteria**

##### **CRITERIA FOR MATERIALITY**

1. Information shall be regarded as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

##### **CRITERIA FOR PROPRIETARY OR CONFIDENTIAL INFORMATION**

2. Information shall be regarded as proprietary to a credit institution if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render a credit institution's investments therein less valuable.
3. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding a credit institution to confidentiality.

##### **CRITERIA FOR FREQUENCY OF PUBLICATION**

4. Credit institutions are required to assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business such as:
  - (a) scale of operations,
  - (b) range of activities,
  - (c) presence in different countries,
  - (d) involvement in different financial sectors,
  - (e) participation in international financial markets, and
  - (f) payment, settlement and clearing systems.

This assessment shall pay particular attention to the possible need for more frequent disclosure of items of information laid down in Appendix 2, Part 2, paragraphs 3(b) and 3(e), and 4(b) to 4(e) of this Rule, and information on risk exposure and other items prone to rapid change.

## Part 2 – General Requirements

### DISCLOSURE: RISK MANAGEMENT OBJECTIVES AND POLICIES

1. The risk management objectives and policies of the credit institution shall be disclosed for each separate category of risk, including the risks referred to under Appendix 2, Part 2, paragraphs 1 to 14 of this Rule. These disclosures shall include:
  - (a) the strategies and processes to manage those risks;
  - (b) the structure and organisation of the relevant risk management function or other appropriate arrangements;
  - (c) the scope and nature of risk reporting and measurement systems; and
  - (d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

### DISCLOSURE: SCOPE OF APPLICATION OF APPLICABLE CONSOLIDATED REQUIREMENTS

2. The following information shall be disclosed taking into consideration the scope of application of the requirements of Banking Rule BR/10 (Supervision on a Consolidated Basis of Credit Institutions) if applicable:
  - (a) the name of the credit institution to which the requirements of Banking Rule BR/10 apply;
  - (b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:
    - (i) fully consolidated,
    - (ii) proportionally consolidated,
    - (iii) deducted from own funds, or
    - (iv) neither consolidated nor deducted;
  - (c) any current or foreseen material practical or legal impediments to the prompt transfer of Own Funds or repayment of liabilities among the parent undertaking and its subsidiaries; and
  - (d) the aggregate amount by which the actual Own Funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries.

**DISCLOSURE: OWN FUNDS**

3. The following information shall be disclosed by the credit institutions regarding their own funds as specified in Appendix 2 of Banking Rule BR/03:
  - (a) summary information on the terms and conditions of the main features of all own-funds items and components thereof, including Other Instruments, the provisions of which provide an incentive for the credit institution to redeem them, and instruments subject to paragraph 12 of Banking Rule BR/03;
  - (b) the amount of the original own funds, with separate disclosure of all items and deductions; the overall amount of Other Instruments and instruments the provisions of which provide an incentive for the credit institution to redeem them, shall also be disclosed separately; those disclosures shall each specify instruments subject to paragraph 12 of Banking Rule BR/03;
  - (c) the total amount of Additional Own Funds;
  - (d) deductions from Original and Additional Own Funds, including separate disclosure of any expected loss amounts deducted from Own Funds; and
  - (e) total Eligible Own Funds.

**DISCLOSURE REQUIREMENTS ON CREDIT RISK, INTERNAL RATINGS BASED APPROACH, OPERATIONAL RISK, MARKET RISK AND CONCENTRATION RISK.**

4. The following information shall be disclosed regarding the compliance by the credit institution with the following requirements:
  - (a) a summary of the credit institution's approach in terms of Banking Rule BR/12 in assessing the adequacy of its internal capital to support current and future activities;
  - (b) for credit institutions calculating the risk-weighted exposure amounts in accordance with the *Standardised Approach* to credit risk as defined in Appendix 2, Section I.1 to I.4 of Banking Rule BR/04, 8 per cent of the risk-weighted exposure amounts for each of the *Standardised Credit risk exposure* classes specified in Appendix 2, Section I.2 of Banking Rule BR/04;
  - (c) for credit institutions calculating risk-weighted exposure amounts in accordance with the *IRB Approach* as defined in Appendix 2, Section II.1 to II.5 of Banking Rule BR/04, the capital requirement for each of the IRB exposure classes as specified in Appendix 2, Section II.1 paragraph 13. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations



in Appendix 2 Section II.2, paragraphs 1.3.1 to 1.3.4 correspond to. For the equity exposure class, this requirement applies to:

- (i) each of the approaches provided in Appendix 2, Section II.2 of Banking Rule BR/04, paragraphs 1.4.0 to 1.4.10;
- (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
- (iii) exposures subject to supervisory transition regarding capital requirements; and
- (iv) exposures subject to grandfathering provisions regarding capital requirements;

(d) minimum capital requirements calculated in accordance with paragraph 4 and paragraph 18 (i to iii) of Banking Rule BR/08;

(e) its operational risk capital requirements calculated in accordance with the *Basic Indicator Approach*, the *Standardised Approach* or the *Advanced Measurement Approach* as specified in Sections I.2 to I.4 of Appendix 4 of Banking Rule BR/04, and disclosed separately.

5. The following information shall be disclosed regarding the credit institution's exposure to counterparty credit risk as defined in Annex I, of Banking Rule BR/04:

- (a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;
- (b) a discussion of policies for securing collateral and establishing credit reserves;
- (c) a discussion of policies with respect to wrong-way risk exposures;
- (d) a discussion of the impact of the amount of collateral the credit institution would have to provide given a downgrade in its credit rating;
- (e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure<sup>2</sup>;
- (f) measures for exposure value as set out in methods 1 to 4 of Annex IV of Banking Rule BR/04, whichever is applicable;
- (g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;
- (h) credit derivative transactions (notional), segregated between use for the credit institution's own credit portfolio, as well as in its intermediation

---

<sup>2</sup> 'Net derivatives credit exposure' is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements.

activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and

- (i) the estimate of  $\alpha$  if the credit institution has received the authority's approval to estimate  $\alpha$ .

#### **CREDIT RISK AND DILUTION RISK**

- 6. The following information shall be disclosed regarding the credit institution's exposure to credit risk and dilution risk:
  - (a) the definitions for accounting purposes of 'past due' and 'impaired';
  - (b) a description of the approaches and methods adopted for determining value adjustments and provisions;
  - (c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;
  - (d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;
  - (e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate;
  - (f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;
  - (g) by significant industry or counterparty type, the amount of:
    - (i) impaired exposures and past due exposures, provided separately,
    - (ii) value adjustments and provisions,
    - (iii) charges for value adjustments and provisions during the period;
  - (h) the amount of the impaired exposures and past due exposures, provided separately, broken down by the significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;
  - (i) the reconciliation of changes in the value adjustments and provisions for impaired exposures, shown separately. The information shall comprise:
    - (i) a description of the type of value adjustments and provisions,
    - (ii) the opening balances,

- (iii) the amounts taken against the provisions during the period,
- (iv) the amounts set aside or reversed for estimated probable losses on exposures during the period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between provisions, and
- (v) the closing balances.

Value adjustments and recoveries recorded directly to the income statement shall be disclosed separately.

**DISCLOSURES: CREDIT INSTITUTIONS CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS IN ACCORDANCE WITH THE STANDARDISED APPROACH**

7. For credit institutions calculating the risk-weighted exposure amounts in accordance with the Standardised Approach to credit risk as detailed in Sections I.1 to I.4 of Appendix 2 of Banking Rule BR/04, the following information shall be disclosed for each of the exposure classes specified in paragraph 4.0 and 5.0 of Section I.1 of Appendix 2 of Banking Rule BR/04:
  - (a) the names of the nominated ECAIs and ECAs and the reasons for any changes;
  - (b) the exposure classes for which each ECAI or ECA is used;
  - (c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;
  - (d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Sections I.2 to I.4 of Appendix 2 of Banking Rule BR/04, taking into account that this information need not be disclosed if the credit institution complies with the standard association published by the authority;
  - (e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Sections I.2 to I.4 of Appendix 2 of Banking Rule BR/04, as well as those deducted from own funds.

**DISCLOSURE: CREDIT INSTITUTIONS CALCULATING THE RISK-WEIGHTED EXPOSURE AMOUNTS USING THE IRB APPROACH**

8. The credit institutions calculating the risk-weighted exposure amounts in accordance with paragraphs 1.2.4 or 1.4.3 to 1.4.5 of Section II.2 of Appendix 2 of Banking Rule BR/04, shall disclose the exposures assigned to each category of the table in the paragraph 1.2.4 referred to above, or to each risk weight mentioned in the paragraphs 1.4.3 to 1.4.5 referred to above.

**DISCLOSURE: MARKET RISK**

9. The credit institutions calculating their capital requirements in accordance with paragraph 5(b) and (c) of Banking Rule BR/04, shall disclose those requirements separately for each risk referred to in those provisions. In addition, the capital requirement for specific interest rate risk of securitisation positions shall be disclosed separately.

**DISCLOSURE: USE OF VAR MODEL FOR CALCULATION OF MARKET RISK CAPITAL REQUIREMENT**

10. The following information shall be disclosed by each credit institution which calculates its capital requirements in accordance with Annex VII of Banking Rule BR/08:

- (a) for each sub-portfolio covered:
  - (i) the characteristics of the models used,
  - (ii) for the capital charges in accordance with paragraphs 5(a) and 5(1) of Annex VII of Banking Rule BR/08 separately, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the credit institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;
  - (iii) a description of stress testing applied to the sub-portfolio,
  - (iv) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
- (b) the scope of acceptance by the authority;
- (c) a description of the extent and methodologies for compliance with the requirements set out in paragraph 1.2 of Appendix C of Banking Rule BR/08.
- (d) the highest, the lowest and the mean of the following:
  - (i) the daily value-at-risk measures over the reporting period and as per the period end;
  - (ii) the stressed value-at-risk measures over the reporting period and as per the period end;
  - (iii) the capital charges in accordance with paragraph 5(a) and 5(1) of Annex VII of Banking Rule BR/08 separately over the reporting period and as per the period-end;

- (e) the amount of capital in accordance with paragraph 5(a) and 5(l) of Annex VII of Banking Rule BR/08 separately, together with the weighted average liquidity horizon for each sub-portfolio covered; and
- (f) a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.

**DISCLOSURE: OPERATIONAL RISK**

- 11. The following information shall be disclosed by the credit institutions on operational risk:
  - (a) the approaches for the assessment of own funds requirements for operational risk that the credit institution qualifies for; and
  - (b) a description of the methodology set out in paragraph 7.1 to 7.4 of Section I.1 of Appendix 4 of Banking Rule BR/04, if used by the credit institution, including a discussion of relevant internal and external factors considered in the credit institution's measurement approach. In the case of partial use, the scope and coverage of the different methodologies used.

**DISCLOSURE: NON-TRADING BOOK EXPOSURES IN EQUITIES**

- 12. The following information shall be disclosed regarding the exposures in equities not included in the trading book:
  - (a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;
  - (b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;
  - (c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
  - (d) the cumulative realised gains or losses arising from sales and liquidations in the period; and

- (e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds.

**DISCLOSURES: EXPOSURES TO INTEREST RATE RISK IN THE NON-TRADING BOOK**

- 13. The following information shall be disclosed by credit institutions on their exposure to interest rate risk on positions not included in the trading book:
  - (a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and
  - (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

**DISCLOSURES: SECURITISATION**

- 14. Credit institutions calculating risk weighted exposure amounts in accordance with paragraphs 2.0 to 14.6 of Section I.1, Appendix 3 of Banking Rule BR/04 or Paragraph 19(a) of Annex III of Banking Rule BR/08 shall disclose the following information, where relevant, separately for their trading and non-trading book:
  - (a) a description of the credit institution's objectives in relation to securitisation activity;
  - (b) the nature of other risks including liquidity risk inherent in securitised assets;
  - (c) the type of risks in terms of seniority of underlying securitisation positions and in terms of assets underlying those latter securitisation positions assumed and retained with re-securitisation activity;
  - (d) the different roles played by the credit institution in the securitisation process;
  - (e) an indication of the extent of the credit institution's involvement in each of the roles referred to in point (d);
  - (f) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures including, how the behaviour of the underlying assets impacts securitisation exposures and a description of how those processes differ for re-securitisation exposures;

- (g) a description of the credit institution's policy governing the use of hedging and unfunded protection to mitigate the risks of retained securitisation and re-securitisation exposures, including identification of material hedge counterparties by relevant type of risk exposure;
- (h) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities including the types of securitisation exposures to which each approach applies;
- (i) the types of SSPE that the credit institution, as sponsor, uses to securitise third-party exposures including whether and in what form and to what extent the credit institution has exposures to those SSPEs, separately for on- and off-balance sheet exposures, as well as a list of the entities that the credit institution manages or advises and that invest in either the securitisation positions that the credit institution has securitised or in SSPEs that the credit institution sponsors;
- (j) a summary of the credit institution's accounting policies for securitisation activities, including:
  - (i) whether the transactions are treated as sales or financings,
  - (ii) the recognition of gains on sales,
  - (iii) the methods, key assumptions, inputs and changes from the previous period for valuing securitisation positions;
  - (iv) the treatment of synthetic securitisations if not covered by other accounting policies;
  - (v) how assets awaiting securitisation are valued and whether they are recorded in the credit institution's non-trading book or the trading book;
  - (vi) policies for recognising liabilities on the balance sheet for arrangements that could require the credit institution to provide financial support for securitised assets;
- (k) the names of the ECAs used for securitisations and the types of exposure for which each agency is used;
- (l) where applicable, a description of the Internal Assessment Approach as set out in Section I.4 of Appendix 3 of Banking Rule BR/04, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for IAA capital purposes, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type;

- (m) an explanation of significant changes to any of the quantitative disclosures in points (n) to (q) since the last reporting period;
- (n) separately for the trading and the non-trading book, the following information broken down by exposure type:
  - (i) the total amount of outstanding exposures securitised by the credit institution, separately for traditional and synthetic securitisations and securitisations for which the credit institution acts only as sponsor;
  - (ii) the aggregate amount of on-balance sheet securitisation positions retained or purchased and off-balance sheet securitisation exposures;
  - (iii) the aggregate amount of assets awaiting securitisation;
  - (iv) for securitised facilities subject to the early amortisation treatment, the aggregate drawn exposures attributed to the originator's and investors' interests respectively, the aggregate capital requirements incurred by the credit institution against the originator's interest and the aggregate capital requirements incurred by the credit institution against the investor's shares of drawn balances and undrawn lines;
  - (v) the amount of securitisation positions that are deducted from own funds or risk-weighted at 1 250 %;
  - (vi) a summary of the securitisation activity of the current period, including the amount of exposures securitised and recognised gain or loss on sale;
- (o) separately for the trading and the non-trading book, the following information:
  - (i) the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further broken down into a meaningful number of risk-weight or capital requirement bands, for each capital requirements approach used;
  - (ii) the aggregate amount of re-securitisation exposures retained or purchased broken down according to the exposure before and after hedging/insurance and the exposure to financial guarantors, broken down according to guarantor credit worthiness categories or guarantor name;
- (p) for the non-trading book and regarding exposures securitised by the credit institution, the amount of impaired/past due assets securitised and the losses recognised by the credit institution during the current period, both broken down by exposure type; and



- (q) for the trading book, the total outstanding exposures securitised by the credit institution and subject to a capital requirement for market risk, broken down into traditional/synthetic and by exposure type.

**DISCLOSURES: REMUNERATION POLICY AND PRACTICES**

- 15. The following information, including regular, at least annual, updates, shall be disclosed to the public regarding the remuneration policy and practices of the credit institution for those categories of staff whose professional activities have a material impact on its risk profile:
  - (a) information concerning the decision-making process used for determining the remuneration policy, including if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;
  - (b) information on link between pay and performance;
  - (c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;
  - (d) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;
  - (e) the main parameters and rationale for any variable component scheme and any other non-cash benefits;
  - (f) aggregate quantitative information on remuneration, broken down by business area;
  - (g) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the credit institution, indicating the following:
    - (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
    - (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;
    - (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;

- (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;
- (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; and
- (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

For credit institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information referred to in this point shall also be made available to the public at the level of persons who effectively direct the business of the credit institutions within the meaning of Article 7(1)(b) of the Act.

Credit institutions shall comply with the requirements set out in this point in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the Data Protection Act (Cap. 440).

### Part 3 - Qualifying requirements for the use of particular instruments or methodologies

#### DISCLOSURES: CREDIT INSTITUTIONS USING THE IRB APPROACH

1. The credit institutions calculating the risk-weighted exposure amounts in accordance with the IRB Approach as specified in Section II.1 to II.5 of Appendix 2 of Banking Rule BR/04 shall disclose the following information:
  - (a) the authority's acceptance of approach or approved transition;
  - (b) an explanation and review of:
    - (i) the structure of internal rating systems and relation between internal and external ratings,
    - (ii) the use of internal estimates other than for calculating risk-weighted exposure amounts in accordance with IRB Approach as detailed in Section II.1 to II.5 of Appendix 2 of Banking Rule BR/04,
    - (iii) the process for managing and recognising credit risk mitigation, and
    - (iv) the control mechanisms for rating systems including a description of independence, accountability, and rating systems review;
  - (c) a description of the internal ratings process, provided separately for the following IRB exposure classes:
    - (i) central governments and central banks,
    - (ii) institutions,
    - (iii) corporate, including SMEs, specialised lending and purchased corporate receivables,
    - (iv) retail, for each of the categories of exposures to which the different correlations in paragraphs 1.3.1 to 1.3.4 of Section II.2 of Appendix 2 of Banking Rule BR/04 correspond to, and
    - (v) equities;
  - (d) the exposure values for each of the IRB exposure classes specified in paragraph 18.0 to 26.0 of Section II.1 of Appendix 2 of Banking Rule BR/04. Exposures to central governments and central banks, institutions and corporates where credit institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts shall be disclosed separately from exposures for which the credit institutions do not use such estimates;
  - (e) for each of the IRB exposure classes central governments and central banks, institutions, corporate and equity, and across a sufficient

number of obligor grades (including default) to allow for a meaningful differentiation of credit risk, credit institutions shall disclose:

- (i) the total exposures (for the exposure classes central governments and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; for equities, the outstanding amount),
  - (ii) for the credit institutions using own LGD estimates for the calculation of risk-weighted exposure amounts, the exposure-weighted average LGD in percentage,
  - (iii) the exposure-weighted average risk weight, and
  - (iv) for the credit institutions using own estimates of conversion factors for the calculation of risk-weighted exposure amounts, the amount of undrawn commitments and exposure-weighted average exposure values for each IRB exposure class;
- (f) for the retail exposure class and for each of the categories as defined under (c) (iv) above, either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);
- (g) the actual value adjustments in the preceding period for each IRB exposure class (for retail, for each of the categories as defined under (c) (iv) above) and how they differ from past experience;
- (h) a description of the factors that impacted on the loss experience in the preceding period (for example, has the credit institution experienced higher than average default rates, or higher than average LGDs and conversion factors); and
- (i) the credit institution's estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each IRB exposure class (for retail, for each of the categories as defined under (c) (iv) above) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each IRB exposure class (for retail for each of the categories as defined under (c) (iv) above). Where appropriate, the credit institutions shall provide additional analysis of PD and, for the credit institutions using own estimates of LGDs and/or conversion factors, LGD and conversion factor outcomes against estimates provided in the quantitative risk assessment disclosures above.

For the purposes of (c) above, the description shall include the types of exposure included in the IRB exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables,

and the descriptions of material deviations from the definition of default as set out in paragraph 2.1.0 of Section II.5 of Appendix 2 of Banking Rule BR/04, including the broad segments affected by such deviations.

**DISCLOSURE: CREDIT RISK MITIGATION**

2. The credit institutions applying credit risk mitigation techniques shall disclose the following information:
  - (a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;
  - (b) the policies and processes for collateral valuation and management;
  - (c) a description of the main types of collateral taken by the credit institution;
  - (d) the main types of guarantor and credit derivative counterparty and their creditworthiness;
  - (e) information about market or credit risk concentrations within the credit mitigation taken;
  - (f) for credit institutions calculating risk-weighted exposure amounts in accordance with the Standardised Approach as found in Section I.1 to I.4 in Appendix 2 of Banking Rule BR/04 or the IRB Approach as found in Section II.1 to II.5 in Appendix 2 of Banking Rule BR/04, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered – after the application of volatility adjustments – by eligible financial collateral, and other eligible collateral; and
  - (g) for credit institutions calculating risk-weighted exposure amounts in accordance with the Standardised Approach as found in Section I.1 to I.4 in Appendix 2 of Banking Rule BR/04 or the IRB Approach as found in Section II.1 to II.5 in Appendix 2 of Banking Rule BR/04, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in paragraph 1.4.0. of Section II.2 of Appendix 2 of Banking Rule BR/04.

**DISCLOSURE: INSURANCES AND OTHER RISK TRANSFER MECHANISMS FOR THE PURPOSE OF MITIGATING OPERATIONAL RISK**

3. The credit institutions using the Advanced Measurement Approach laid down in paragraph 7.0 of Section I.1 of Appendix 4 of Banking Rule BR/04 for the

calculation of their own funds requirements for operational risk shall disclose a description of the use of insurances and other risk transfer mechanisms for the purpose of mitigation of this risk.

## MALTA FINANCIAL SERVICES AUTHORITY

### PUBLICATION OF ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS OF CREDIT INSTITUTIONS AUTHORISED UNDER THE BANKING ACT 1994

*This Declaration Form is to be used in meeting the requirements of paragraph 7.*

Reporting institution \_\_\_\_\_

Reporting date

/	/
---	---

(end of financial year)

/	/
---	---

\_\_\_\_\_  
Signature/s of authorised official/s of reporting institution

Date

In the event of query the Malta Financial Services Authority may contact (block letters):

Mr/Ms \_\_\_\_\_ Tel No \_\_\_\_\_ Ext \_\_\_\_\_

### **Declaration**

Attached is a copy of the bank's audited financial statements as well as all statements under Paragraphs 9 to 10, as at the above mentioned reporting date as required by Paragraph 7 of the Banking Rule.

It is hereby declared that the attached statements comply with all the requirements of the Banking Act 1994 and the Banking Rule BR/07.

These statements comply with the listing requirements of the Financial Markets Act, Cap. 345  
(*only applies if the institution is listed on the Malta Stock Exchange*)

*This declaration must be forwarded to the Authority by not later than four months from the closing of the financial year of the Credit Institution or any other time as may be authorised in writing by the Authority. It should be submitted to:-*

**The Director  
Banking Supervision Unit**