

BANKING GUIDANCE NOTE (BGN 2.3)

Banking Returns

August 2007



Financial Supervision Commission Barrantee Oaseirys

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Appendix A – Audit report on verification of interim profits

Appendix 1 – Template Reporting Forms – Banks incorporated in the Isle of Man

Appendix 2 – Template Reporting Forms – Banks operating in or from the Isle of Man which are incorporated outside the Isle of Man (“branches”)

I. General Notes to Assist Completion of forms SR-1, SR-2A, SR-2B, SR-2C, SR-3A, SR-3B and SR-4 (“the reporting forms”)

Section I – Introduction

The Isle of Man reporting forms are primarily required for supervisory purposes although certain industry statistics may be collated from them.

Attention is drawn to Code 24 and Code 75 which requires that the external auditors of the bank select and verify one set of the reporting forms (other than a set that coincides with the bank’s year-end) which has been submitted to the Commission during the relevant accounting period, to the accounting books and records of the bank.

Section 2 – The reporting forms

Banks incorporated in the Isle of Man

Banks incorporated in the Isle of Man are normally required to complete:-

- (i) Form SR-1 – Assets, Liabilities and Off Balance Sheet items
- (ii) Form SR-2A – Capital, Current period’s profit and loss, Provisions and Non-performing assets
- (iii) Form SR-2B – Large Exposures Reporting
- (iv) Form SR-2C – Memorandum Items
- (v) Form SR-3A – Liquidity Risk
- (vi) Form SR-3B – Interest Rate Risk
- (vii) Form SR-4 – Foreign Exchange and OTC Derivatives

If insufficient space is provided within a particular section of the electronic reporting forms, an appendix should be submitted to the Commission in electronic or hard copy format.

Banks not incorporated in the Isle of Man (“branches”)

Branches are normally required to complete:-

- (i) Form SR-1 – Assets, Liabilities and Off Balance Sheet items
- (ii) Form SR-2A – Current period’s profit and loss, Provisions and Non-performing assets (i.e. excludes capital section)
- (iii) Form SR-2B – Large Exposures Reporting
- (iv) Form SR-2C – Memorandum Items
- (v) Form SR-3A – Liquidity Risk

If insufficient space is provided within a particular section of the electronic reporting forms, an appendix should be submitted to the Commission in electronic or hard copy format.

Section 3 – Submission and enquiries

Reporting forms should be prepared based on the information as at either the last working day, or the last calendar day, of March, June, September and December.

In addition, if the bank's financial year-end falls on a date other than one of the above days, a further set of reporting forms should be prepared as at the close of business on the last day in the financial year.

The reporting forms should be submitted in electronic format, being signed (electronically) by one of the "four-eyes". The reporting forms should be submitted within 21 business days of the reporting date to which they relate.

Banks are reminded of the importance of submitting all reporting forms within the prescribed time scales and of informing the Commission, in advance, of any difficulty they may have in meeting a deadline.

Incomplete, inaccurate, misleading, or late submission of reporting forms is often an indication of weak management information, or poor accounting systems. Thus, such occurrences could lead to the Commission requesting that Reporting Accountants be appointed to provide an explanation.

Enquiries regarding the completion of the reporting forms should be addressed to Banking Supervision at:

Financial Supervision Commission
P O Box 58
Finch Hill House
Bucks Road
Douglas
Isle of Man
IM99 1DT

Tel: +44 (0) 1624 689300
Fax: +44 (0) 1624 689398

Section 4 – General

4.1 *The bank*

This is normally the entity that has been issued with a banking licence under Section 6(1) of the Banking Act 1998, as amended. It includes branches in this context.

4.2 *Currency convention, rounding, and sign convention*

The forms must be completed in sterling. Sterling denominated business is separated from other currencies in some sections of the reporting forms. Other currency business must be reported as a sterling equivalent figure calculated using the middle market spot rate in the London market at the close of business on the reporting date, or as close to that time as a bank's system will allow. For transactions, the rate ruling at the time of the transaction should be used.

Banks that account in a currency other than sterling should convert to sterling.

Figures reported should be to the nearest thousand pounds sterling (but omitting the "£'000s" - e.g. £5,678,123 should be reported as 5678). Rounding should conform to the following convention: £1,001 to £1,499 round down to £1000 (i.e. report as 1), £1,500 to £1,999 round up to £2,000 (i.e. report as 2). Decimal points must not be used. The cells are formatted not to show decimal places and do not recognise decimal points.

Where a nil balance is recorded do not enter anything in the relevant cell.

The software automatically calculates the figures reported in some cells of the reporting forms. Generally, figures should be reported using a positive sign convention unless otherwise stated in the specific notes for completion of each form.

4.3 *Consolidated returns*

Consolidated returns will be required where the bank has provided substantial finance (other than share capital) for subsidiary companies or where it carries on a significant part of its business through subsidiary companies.

The requirements should be discussed and agreed with the Commission in advance.

4.4 *Transactions to be reported*

The reporting forms should relate to all transactions where the bank has acted as principal in a non-fiduciary capacity (i.e. where the transactions pass through,

and are recorded in, the accounting records of the bank). See also items 4.5 and 4.6 below.

4.5 *Fiduciary Deposits*

Where the bank acts in a fiduciary capacity (i.e. placing funds with another institution in its own name on behalf of a customer) it should not show the transaction in its balance sheet but in line 5 of Form SR-2C.

4.6 *Participations/Syndications*

Where the bank acts as the Manager (or co-Manager) of a loan financed by more than one institution, deposits received from other participating institutions (representing their contributions of the amount to be lent) should not be included in deposit liabilities, instead they should be separately identified under line 17.5 in Form SR-I. Similarly, the share of the risk of the participation/syndication being borne by other participating institutions should be listed under line 9.6 in Form SR-I. The bank's share of the risk of the participation/syndication should be shown within the relevant classification on the reporting forms.

4.7 *Relationship to audited financial statements*

The reporting forms sometimes require items to be treated in a way that differs from the bank's practice for preparing its financial statements.

4.8 *Netting*

Debit balances should not be set-off against credit balances except where specific reference to set-off arrangements is made in the specific notes for completion of each form.

4.9 *Risk weightings*

The risk weightings used on Form SR-I for banks incorporated in the Isle of Man are based on the principles outlined in the current Basel Capital Accord ("Basel I"). ***For branches the risk-weighting framework for capital adequacy does not apply.***

The risk-weighting framework is described in sections 11 and 12.

4.10 *Accounting standards*

The bank shall prepare the reporting forms based on UK GAAP or International Financial Reporting Standards ("IFRS"), unless otherwise agreed with the Commission. The forms take into account both standards but in places

regulatory requirements and descriptions differ from statutory accounting requirements and terminology, primarily in relation to forms SR-1 and SR-2A.

4.11 *Defined benefit occupational pension schemes*

The following definitions are used for the purposes of reporting the capital treatment for defined benefit occupational pension schemes:

Defined benefit occupational pension scheme

This is an occupational pension scheme that is not defined as being a *defined contribution occupational pension scheme*

Defined contribution occupational pension scheme

This is an occupational pension scheme into which the bank, as employer, pays regular fixed contributions and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit asset

This is the excess of the value of the assets in a *defined benefit occupational pension scheme* over the present value of the scheme liabilities, to the extent that the bank, as employer, in accordance with the accounting principles applicable to it, should recognise that excess as an asset in its balance sheet.

Defined benefit liability

This is the shortfall of the value of the assets in a *defined benefit occupational pension scheme* below the present value of the scheme liabilities, to the extent that the bank, as employer, in accordance with the accounting principles applicable to it, should recognise that shortfall as a liability in its balance sheet.

Deficit reduction amount

In respect of a *defined benefit occupational pension scheme* this is the sum, determined by the bank in conjunction with the scheme's actuaries or trustees (or both) of the additional funding (net of tax) that will be required to be paid into the scheme by the bank over the following 5 year period for the purpose of reducing the bank's *defined benefit liability*.

Section 5 – Parties connected to the bank

The definitions below of parties connected to the bank may not necessarily concur with those applied by the bank's auditors under current accounting standards. Disclosure in the annual audited financial statements should continue to be guided by current accounting standards. Reference to the Banking (General Practice) Regulatory Code 2005 (“the Code”) is provided where applicable.

5.1 *Subsidiary company (as defined in the Code)*

A subsidiary company is defined in the Code with reference to the Companies Act 1974.

5.2 *Associated company (as defined in the Code)*

An associated company is a company (not being a subsidiary of the bank) in which:

- (i) The bank holds more than 20% of the equity shares, or
- (ii) The bank is able to exercise a significant influence and the interest in the company is effectively that of a partner in a joint venture or consortium, or the bank has a long-term and substantial interest in the company.

Significant influence (this is not defined in the Code) over a company essentially involves participation in the financial and operating policy decisions of that company, (including dividend policy), but not necessarily control of those policies. Representation on the board of directors is indicative of such participation, but will neither necessarily give conclusive evidence of it nor be the only method by which the bank may participate in policy decisions.

Where the interest of the bank is not effectively that of a partner in a joint venture or consortium but nevertheless amounts to 20 per cent or more of the equity voting rights of a company, it will be presumed that the bank has the ability to exercise significant influence over that company unless it can clearly be demonstrated otherwise. For example, there may exist one or more other large shareholdings that prevent the exercise of such influence.

5.3 *Directors, controllers, managers and their associates (as defined in the Code)*

A director means any person who occupies the position of a director by whatever name called and anyone who appears to the Commission to hold a position analogous to that of a director.

A controller means -

- (i) A managing director of the bank or of another institution of which it is a subsidiary, or in the case of a partnership, a partner; or
- (ii) A chief executive of the bank or of another institution of which it is a subsidiary; or
- (iii) A person in accordance with whose directions or instructions the directors of the bank or of another institution of which it is a subsidiary, (or any of them), are accustomed to act; or
- (iv) A person who either alone or with any associate, or associates, is entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of the bank or of another institution of which it is a subsidiary.

A manager means – an individual employed by the bank who, under the immediate authority of a director or the chief executive of the bank, exercises managerial functions or is responsible for maintaining accounts or other records of the bank.

A chief executive means - a person who is employed by the bank and who either alone or jointly with others is or will be responsible under the immediate authority of the directors for the conduct of the business of the bank.

Associates (as defined in the Code): When determining exposures to directors, controllers and managers (each being referred to as an “individual”), any exposure to the persons or bodies described below should normally be aggregated with actual exposures to the individuals:

- (i) A spouse, child or stepchild of the relevant individual; or
- (ii) A business partner or employee of the individual; or
- (iii) A trust in respect of which the individual has a beneficial interest; or
- (iv) A company in which the individual is also a director; or
- (v) Any company in which the individual is a shareholder, and together with any other associates, holds 20% or more of the equity; or
- (vi) Any other person whose business or domestic relationship with the individual or his associate might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

5.4 *Non-group companies, trusts and other bodies*

Non-group companies with which directors and controllers are associated:

A director/controller (including an alternate director) of the bank is deemed to be associated with another company in the following circumstances:

- (i) He/she holds the office of a director (or alternate director) with that company, or
- (ii) As a result of a loan granted by, or financial interest taken by, the bank to, or in, that company, or
- (iii) By virtue of a professional interest unconnected with the bank, or
- (iv) He/she and/or his/her associates, as defined above, together hold 20% or more of the equity share capital of that company.

For the purposes of this item only, include as a director, an employee of the bank who is not a director of the bank but who is appointed by the bank to be a director of another company.

Trusts and other bodies in which a director or controller of the bank has a significant influence should be treated as a party connected to the bank. Where the bank is not sure as to whether or not its director or controller can exercise significant influence, the liability/exposure should not be reported as connected.

5.5 ***Group companies (in addition to the definition of "group" in the Code)***

A company is considered to be a group company if:-

- (i) It is a subsidiary of the bank, or of another group or associated company; or
- (ii) It is an associated company of the bank, or of another group company; or
- (iii) It is the ultimate parent company of the bank; or
- (iv) It is a company directly, or indirectly, owned by the ultimate parent company.

Section 6 - Closely related customers and counterparties (defined in the Code)

A group of closely related customers / counterparties exists where individual customers / counterparties are related in such a way that the financial soundness of any of them may affect the financial soundness of the other or others and as such they constitute a single risk (*as defined in the Code*).

The following is not defined in the Code and is additional guidance:

In such cases the exposure to these individuals should be aggregated and reported as a single exposure to "a group of closely related customers / counterparties". For these purposes, such a group also exists where the financial soundness of individual customers / counterparties may be adversely affected by the same event.

It is not possible to give a comprehensive list of the different types of relationship between individual customers / counterparties which it might be reasonable to consider as giving rise to a common risk and therefore which constitute for these purposes a

group of related customers / counterparties. The following list is therefore indicative and not comprehensive.:

- (i) Group companies, (as defined in 5.5 above but excluding the references to the bank);
- (ii) Companies whose ultimate owner (whether in whole or in significant part) is the same individual or individuals and which do not have a formal group structure;
- (iii) Counterparties linked by cross guarantees;
- (iv) Two individuals who have borrowed for a common purpose, (e.g. business partners) ;
- (v) An individual and a company controlled by that individual;
- (vi) Exposures secured by the same company or individual.

Where there is doubt in a particular case as to whether a number of individual persons constitute a group of related customers / counterparties or, notwithstanding that a relationship as identified above exists, it is considered that the customers / counterparties do not share a "common risk", the circumstances should be discussed with the Commission to determine how the exposure(s) should be reported. Exposures to a number of public sector bodies, or local authorities, are deemed not to constitute a single exposure to "a group of closely related customers / counterparties".

Section 7 – Large Exposures (as defined in the Code)

7.1 *Exposure (as defined in the Code)*

An exposure means a claim on an individual counterparty, or group of closely related counterparties.

An exposure should be calculated as the gross amount of risk from:

- (i) Claims including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities (revocable or irrevocable, conditional or unconditional) which the bank has committed itself to provide, and claims which the bank has committed itself to purchase or underwrite, or
- (ii) Contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional which the bank has committed itself to provide), or
- (iii) Assets, including assets which the bank has committed itself to purchase or underwrite, whose value depends wholly or mainly on a counterparty performing its obligations, or whose value otherwise depends on that

counterparty's financial soundness but which do not represent a claim on the counterparty.

7.2 *Customer / Counterparty (as defined in the Code)*

A customer or counterparty means any person on whom a bank has a claim, whether directly or indirectly.

7.3 *Large Exposures Capital Base ("LECB") (as defined in the Code)*

This means the adjusted capital base calculated annually based on the latest audited financial statements and agreed with the Commission. A pro-forma for the calculation of LECB is provided in the *Banking Guidance Note (BGN 4.0 or any subsequent revisions thereto)* on Large Exposures.

Adjusted capital base is calculated as described in form SR-2A and is also broadly defined in the Code.

Where there is an alteration to the LECB during the year, as a result of the payment of a dividend or some other event, or if a bank wants to include interim (audited) profits as part of the LECB, a revised pro forma calculation should be sent to the Commission for agreement.

Section 8 – Verification of interim profits by external auditors

Verification by the external auditors should, in normal circumstances, include at least the following:

- (i) The auditors should satisfy themselves that the figures forming the basis of the interim profits have been properly extracted from the underlying accounting records
- (ii) The auditors should review the accounting policies used in calculating the interim profits so as to obtain comfort that they are consistent with those normally adopted by the bank in drawing up its annual financial statements
- (iii) The auditors should perform analytical procedures on the results to date, including comparisons of the actual performance to date with budget and with the results of the prior period(s)
- (iv) The auditors should discuss with management the overall performance and financial position of the bank
- (v) The auditors should obtain adequate comfort that the implications of current and prospective litigation, all known claims and commitments, changes in business activities and provisioning for bad and doubtful debts have been properly taken into account in arriving at the interim profits, and
- (vi) The auditors should follow up problem areas of which they are already aware in the course of auditing the financial statements.

A full scope audit is not required. However, the auditors should indicate in their report where the scope of work differs materially from that set out above.

The auditors should submit an opinion to the bank on whether the interim profits are fairly stated. This should be submitted to the Commission.

A pro forma for use by auditors is attached in Appendix A.

Note: a bank should report its capital adequacy position as at the reporting date. Therefore, with regard to profits to be included in Tier I capital, profits may be included for which auditors' verification has been completed before the reporting date. In some cases verification of profit may be completed after the reporting date but before submission of the reporting forms. In these cases the capital position reported should also include the audited profit.

Section 9 – Credit institutions

A credit institution is another bank or building society.

For the purposes of determining whether a credit institution is in Zone A or Zone B (see *section 10* below), the place of incorporation is the relevant factor to be considered rather than the location of the branch.

Section 10 – Zone A and Zone B countries (as defined in the Code)

10.1 *Zone A countries (as defined in the Code)*

The term Zone A covers full members of the Organisation for Economic Co-operation and Development (OECD) and those countries which have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the IMF's General Agreement to Borrow, provided they have not rescheduled their external sovereign debt, to official or private sector creditors, in the previous five years.

This group of countries is extended automatically to include any new countries which join the OECD, provided they meet the rescheduling criterion, from the date of their submission.

The Isle of Man, Jersey, Guernsey, Gibraltar and Bermuda should also be regarded as being within Zone A.

10.2 *Zone B countries (as defined in the Code)*

This comprises all countries not in Zone A

10.3 *United Kingdom (UK) Regional Governments and Local Authorities (public sector entities)*

Examples of UK Regional Governments and Local Authorities that can be treated as public sector entities are as follows:

- (iii) London borough councils, county and district councils in England, Northern Ireland and Wales, and district and regional councils in Scotland, together with their departments
- (iv) Non commercial public corporations: The Audit Commission, UK Atomic Energy Agency and the Welsh Development Agency.

The state governments in the Isle of Man, Jersey and Guernsey are to be included in this category (i.e. Zone A public sector entities).

Gibraltar and Bermuda are included as territories within the UK's membership of OECD. Consequently, a claim on either government should be treated as a claim on a Zone A public sector entity, and a claim on a credit institution incorporated in the Isle of Man, Jersey, Guernsey, Gibraltar or Bermuda should be treated as a claim on a Zone A credit institution.

10.4 *Public sector entities – general*

Public sector entities are principally regional governments and local authorities bodies that carry out non-commercial functions on behalf of, and are responsible to, regional governments or local authorities may also be classified as public sector entities.

In addition, bodies owned by the central or regional government local authorities, which perform regulatory or other non-commercial functions, are classified as public sector entities. Commercial entities or companies (other than banks) owned by the public sector, including public utilities, are not treated as public sector entities for the purpose of the risk-weighting framework in *sections 11 and 12* below.

Section 11 – Risk weighting framework – on balance sheet

The framework gives types of asset a risk weighting depending on the counterparty and taking into account different country risks, by classifying countries in two zones as described in *section 10* above.

11.1 *Counterparty weights - overview*

The following sections (11.2 to 11.7) identify the counterparty weights, which reflect their relative risk. Generally, unless it can be shown that an exposure merits a reduced risk weighting under sections 11.2 to 11.5 below, it should receive a 100% weighting.

11.2 *Zero weighting*

The following types of asset may attract a zero weighting:

- (i) Cash and claims collateralised by cash deposits placed with the bank (lending institution) (or CDs and similar instruments issued by and lodged with the bank)
- (ii) Gold and other bullion held in vaults or on an allocated basis
- (iii) Claims on, other than holdings of bills and securities issued by, Zone A central governments and central banks
- (iv) Claims carrying the explicit guarantees of Zone A central governments and central banks
- (v) Claims on, other than holdings of bills and securities issued by, Zone B central governments and central banks denominated in local currency and funded by liabilities in the same currency
- (vi) Claims guaranteed by Zone B central governments or central banks, where denominated in local currency and funded in that currency.

11.3 *10% weighting*

Certain holdings of government securities should attract a 10% weighting as a proxy for market risk. The nature of the security (i.e. fixed rate or floating rate) and the residual maturity of the security should determine the risk weight. Examples include:

- (i) Holdings of, and claims explicitly collateralized by, Zone A central government and central bank fixed interest rate paper with a residual maturity of one year or less
- (ii) Holdings of, and claims explicitly collateralized by, Zone A central government and central bank floating rate or index linked paper of any maturity
- (iii) Holdings of Zone B central government and central bank paper with a residual maturity of 1 year or less (irrespective of whether such paper is fixed or floating rate), denominated in local currency and funded by liabilities in the same currency.

11.4 *20% weighting*

The following types of asset should attract a 20% weighting:

- (i) Claims on multilateral development banks and claims guaranteed by or collateralized by the securities issued by these institutions
- (ii) Claims on credit institutions incorporated in Zone A countries and claims guaranteed (or accepted or endorsed) by Zone A incorporated credit institutions and cash collateral placed in the form of deposits with a third party Zone A credit institution
- (iii) Claims on credit institutions incorporated in Zone B countries with a residual maturity of 1 year or less and claims of the same maturity guaranteed by Zone B credit institutions
- (iv) Cash items in the course of collection. The total amount of cheques, etc drawn on and in the course of collection on other banks, and debit items in transit between domestic offices of the bank in each country
- (v) Claims on Zone A public sector entities and claims guaranteed by such entities. In the United Kingdom, these comprise of local authorities and certain non-commercial public bodies (see section 10.3 and 10.4 above). This includes claims on, or guaranteed by, the state governments of the Isle of Man and Channel Islands
- (vi) Certain holdings of government securities should attract a 20% weighting as a proxy for market risk. The nature of the security (i.e. fixed rate or floating rate) and the residual maturity of the security should determine the risk weight. Examples include:
 - (i) Holdings of, and claims explicitly collateralized by, Zone A central government and central bank fixed interest rate paper with a remaining term to maturity of over one year
 - (ii) Holdings of Zone B central government and central bank paper with a residual maturity of over one year (irrespective of whether such paper is fixed or floating rate) denominated in the local currency and funded in the local currency.

11.5 ***50% weighting***

The following types of asset should attract a 50% weighting:

- (i) loans to individuals *fully secured* by a first priority charge on residential property that is (or is to be) occupied by the borrower or is rented.

“Fully secured” means the value of property should be greater than or equal to the value of the loan (i.e. maximum loan to value of 100%). There is no requirement to revalue properties on a regular basis, but where such a valuation has found that the loan to value ratio exceeds 100% such loans should be weighted at 100%. (However, if the shortfall in the security value is fully covered by a specific/individual provision, the net amount of the exposure may continue to be weighted at 50%.) Conversely, where revaluation indicates that the loan to value ratio has fallen to 100% the loan may be weighted at 50%.

- (ii) Loans to registered social landlords, registered with the Housing Corporation or Communities Scotland or the National Assembly for Wales, *fully secured* by a mortgage on residential property that is:
 - (a) already let; or
 - (b) under development and will be let, on condition that the development attracts Social Housing Grant (SHG) and/or other public subsidy on equivalent terms, of an amount equal to or greater than, 50% of the approved total scheme cost, the security for which is subordinated to the loan, where the funding body has legally committed itself to the full payment of the subsidy.
- (iii) Mortgage sub-participations, where the risk to the sub-participating bank is *fully* and specifically *secured* against residential mortgage loans which would themselves qualify for the 50% weighting as per 11.5 (i) above.

11.6 *100% weighting*

The following types of asset should attract a 100% weighting:

- (i) Claims on the non-bank private sector
- (ii) Claims on credit institutions incorporated in Zone B countries with a residual maturity of over 1 year
- (iii) Claims on Zone B central governments and central banks (unless denominated in the national currency and funded by liabilities in the same currency)
- (iv) Claims on Zone B regional governments or local authorities
- (v) Claims guaranteed by Zone B central governments or central banks, which are not denominated and funded in the national currency common to the guarantor and borrower
- (vi) Claims on commercial entities owned by the public sector
- (vii) Claims on Zone B public sector entities
- (viii) Premises, plant, equipment and other fixed assets
- (ix) Real estate, trade investments and other assets not otherwise specified.

11.7 *Variations from normal weighting*

There are a number of circumstances where a variation in treatment of assets for calculating risk-weighted assets is considered to be appropriate:

- (i) Loan transfers and securitisation

Assets which otherwise would normally be weighted may be removed from the supervisory balance sheet in circumstances to be agreed with the Commission in writing.

- (ii) Collateral and netting

The only acceptable collateral allowed for a reduced risk weighting to be applied to a claim is described in 11.2 to 11.4 above.

(iii) Deductions

Some on and off balance sheet assets should be deducted from total capital rather than being risk weighted, as described in the notes to assist completion for Forms SR-1 and SR-2A.

Section 12 – Risk weighting framework – off balance sheet

12.1 *Introduction*

In assessing the contribution of off balance sheet items to risk-weighted assets, a distinction is made between *OTC derivative contracts* and *other off-balance sheet items*.

For *OTC derivative contracts*, the risk lies in having to replace any positive cash flows following the failure of the counterparty (*pre-settlement counterparty risk*). Therefore, the amount at risk, which is less than the nominal exposure, should be measured by calculating the proportion of the nominal exposure to be considered at risk – known as the *credit equivalent amount*.

The off balance sheet credit risk in the case of the *other items* should be measured by multiplying the notional principal amounts by a *credit conversion factor* of 0%, 20%, 50% or 100% and weighting the resultant figure by the counterparty risk weight.

The *credit conversion factor* should be used to convert off balance sheet nominal exposures into a level that allows for comparison with on balance sheet exposures for risk weighting purposes.

Section 12.2 details the credit conversion factors for the *other off balance sheet items*, and **section 12.3** covers the broad principals of *OTC derivative contracts*.

12.2 *Credit conversion factors*

12.2.1 *General*

Credit conversion factors (CCFs) should be applied to the amount of the off balance sheet exposure multiplied by the weights applicable to the category of the counterparty for an on balance sheet transaction.

The calculation is: nominal principal x credit conversion factor x counterparty weighting. For example, if a bank extends a £300,000 ten-year revolving credit

to a company, the calculation is: £300,000 × 50% CCF × 100% credit risk weighting, which results in a risk-weighted amount of £150,000.

12.2.2 100% credit conversion factor

- (i) Direct credit substitutes, including general guarantees of indebtedness, standby letters of credit serving as financial guarantees, acceptances and endorsements;
- (ii) Sale and repurchase agreements and asset sales with recourse where the credit risk remains with the bank
 - a) Sale and repurchase agreements should be weighted according to the category of the issuer of the security (or the borrower in the underlying loan agreement) and not according to the counterparty with whom the transaction has been entered into.
 - b) The treatment of *reverse repos* (i.e. purchase and resale agreements where the bank is the receiver of the asset) should be different to that of repos. Reverse repos should be treated as collateralised loans, with the risk being measured as an exposure to the counterparty. Where the security temporarily acquired attracts a preferential risk weighting (e.g. a Zone A government security) this is recognised as collateral and the risk weighting of the loan may accordingly be reduced.
- (iii) Forward asset purchases, forward deposits placed and the unpaid part of partly-paid shares and securities, and any other commitments with a certain draw-down. For these instruments the risk of loss depends on the credit-worthiness of the counterparty.

12.2.3 50% credit conversion factor

- (i) Transaction-related contingent items not having the character of direct credit substitutes (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)
- (ii) Note issuance facilities and revolving underwriting facilities
- (iii) Other *commitments* (e.g. formal standby facilities and credit lines) with an original *maturity* of over 1 year.
 - a) These instruments are essentially guarantees that support particular non-financial obligations.
 - b) For an explanation of the *maturity* of commitments, see 12.2.6.

12.2.4 20% credit conversion factor

Short-term self liquidating trade-related contingent items (such as documentary credits collateralised by the underlying shipments).

12.2.5 0% credit conversion factor

- (i) Endorsements of bills (including per aval endorsements) that have previously been accepted by a bank

- (ii) Other *commitments* (e.g. formal standby facilities and credit lines) with an original maturity of up to 1 year, or which can be unconditionally cancelled at any time.

12.2.6 *Commitments*

The *maturity* of a *commitment* should be measured from the earlier of:

- (i) Thirty days or in the case of syndicated facilities, sixty days following the date of '*firm offer*'; and
- (ii) The date at which the facility becomes available to be drawn down.

a) The 'window' given in (i) above is intended to provide a reasonable period after the date of '*firm offer*' to allow the practicalities of arranging a facility to be completed. It also enables the borrower to organise funding more efficiently and look elsewhere if a request for a credit line is declined.

b) The date of '*firm offer*' is often earlier than the date of signature of the facility agreement. For example, an offer should be regarded as firm even if it is still subject to documentation and no material adverse change. However, an offer made prior to the credit assessment of the customer and/or where the bank reserves the right to withdraw the offer at its discretion, should not be regarded as firm.

In the case of a non-underwritten (or best efforts) syndicated facility, the date of firm offer is deemed to be that on which the arranger(s) confirms that the facility is fully subscribed.

Where a bank underwrites a facility that is subsequently to be syndicated, it should measure its commitment from the date of its firm offer. If the subsequent syndication is successful, the underwriter(s) may then measure its commitment afresh from the same date as the syndicate banks, i.e. the earlier of 60 days after the date on which the underwriter(s) confirms to the borrower the results of general syndication and the date at which the facility becomes available for draw-down. If the facility is unsuccessful and the underwriting bank is left with a commitment then the underwriting period should be added to the term of the facility. If this results in a commitment in excess of one year then a capital charge should result.

Even if the formal agreement to provide the facility indicates an original maturity of one year or under, a commitment should be regarded as having an original maturity of over one year if the bank assumes additional legal or moral obligations that imply a maturity of over one year. Banks should satisfy themselves that no such additional obligations exist.

Where the terms of a commitment have been renegotiated and/or the maturity of a commitment extended, the original maturity should be measured from the start of the initial commitment until the expiry date of the renegotiated/extended facility. The only exceptions should be where either:

- (i) The 'firm offer' to extend the commitment is given in the final thirty days (or sixty days in the case of syndicated facilities) of the initial commitment period, following a full credit assessment of the customer; or
- (ii) The renegotiation/extension involves a full credit assessment of the customer and the bank has the right, without notice, to withdraw the existing commitment at the time when the renegotiation/extension is requested and to refuse the request for the renegotiated/extended commitment. In these two cases, the extended/renegotiated facility may be reported as a new commitment.

Where a commitment provides for a customer to have a facility limit which varies during the commitment period, the amount of the commitment should at all times be taken as the maximum amount that can be drawn for the remaining period of the commitment.

A commitment to provide a loan (or purchase an asset) which has a maturity of over one year, but which must be drawn down within a year, should be treated as having a maturity of one year or under provided any undrawn portion of the facility is automatically cancelled at the end of the draw-down period.

A commitment to provide a loan (or purchase an asset) to be drawn down in a number of tranches, some where the availability of the commitment is one year or under, some where it is over one year, should be considered as having a maturity of over one year.

Where a bank enters a *forward commitment*, that is it provides a commitment to make a facility available at a future date, the original maturity of the commitment should be measured from the earlier of:

- (i) Thirty days following the date of 'firm offer'; or
- (ii) The date at which the facility is available to be drawn down.

A distinction is drawn between a commitment to provide an off balance sheet facility which may or may not be drawn by the customer, and a commitment to provide an off balance sheet instrument with certain draw-down.

a) For example, a commitment of over one year to provide a trade related contingent facility at a future date which may or may not be drawn down should be given a credit conversion factor of 50% (the CCF for long-term commitments) multiplied by 20% (the CCF for trade related contingents) giving an effective CCF of 10%.

A commitment (short-term or long-term) to provide a trade related contingent item where it is certain that the draw-down will occur at some date, or range of dates, in the future should be given a CCF of 20% (i.e. without multiplying by the relevant CCF for a commitment). Similarly, a commitment to issue a guarantee with certain draw-down at a particular date, or range of dates, in the future should receive a CCF of 100%.

When a bank enters into two or more commitments that are arranged simultaneously for the same or connected customer(s), they are said to be *linked*. Where a bank enters into one or more commitment(s) of over one year and one or more commitment(s) of one year and under, these should be treated as 'linked' (i.e. aggregated and reported according to the maturity of the longest of the commitments) where either:

- (i) The facilities cannot be drawn down, negotiated or cancelled separately; or
- (ii) The customer is seeking two or more commitment(s) for the same purpose and has no legitimate commercial reason for doing so.

Where a bank enters into 'linked' commitments that begin or mature at different dates, the maturity of the combined commitment should be measured from the commencement of the first commitment to the expiry date of the last commitment.

12.3 *OTC derivative contracts*

When entering into over the counter (OTC derivative) *interest rate, foreign exchange rate, equity, precious metals (excluding gold) and other commodities contracts*, banks are exposed to counterparty risk in the form of the potential cost of replacing any positive cash flows. The risk varies depending on the maturity of the contract and on the volatility of the underlying rate or price.

- (i) *Interest rate related contracts* include single-currency interest rate swaps, basis swaps, forward rate agreements and products with similar characteristics, interest rate options purchased (including caps, collars and floors purchased as stand alone contracts) and similar instruments. Contracts of a similar nature concerning bonds should also be included in this category.
- (ii) *Foreign exchange rate related contracts* include cross currency swaps, cross currency interest rate swaps, forward foreign exchange contracts, currency options purchased and similar instruments. Contracts of a similar nature concerning gold should also be included in this category.
- (iii) *Equity, precious metals (excluding gold) and commodities contracts* include equity options purchased, swaps and similar contracts, commodity options purchased, swaps and similar instruments involving commodities.

Exposures from OTC derivatives should be treated in the same broad framework as other off balance sheet contracts. The contract's credit equivalent amount (CEA) should

be multiplied by the risk weight appropriate to the counterparty to determine the risk-weighted amount for the contract. The difference with the treatment of other derivatives lies in the way that the CEA is calculated. The calculation for OTC derivatives is explained in the *Notes to Assist Completion for Form SR-4*.

2. Form SR-I – Assets, Liabilities and Off-Balance Sheet Items – Notes to Assist Completion

The general principles underlying these notes are outlined in the *General Notes to Assist Completion of the Reporting Forms*.

Form SR-I covers all the spot liabilities and assets of the bank, and total liabilities must equal total assets. Liabilities and assets should be shown gross and not netted off.

Items denominated in sterling and other currencies are reported in separate columns (columns 1 and 2). All balances must be reported in sterling. Please refer to the *General Notes to Assist Completion of the Reporting Forms, section 4.2*.

ASSETS

Interest receivable, but not yet received should be reported under the particular asset classification to which it relates.

Section 1 - Cash

1.1 *At Bank – notes and coins*

Report notes and coins held in tills and any cash which the bank has paid into another credit institution, but which has not yet been credited to the bank's account in the books of the other credit institution.

1.2 *Gold Bullion*

Report physical holdings of gold bullion and gold coins beneficially owned by the bank including that held on an allocated basis for other institutions. Gold held as custodian for others should not be reported. Short positions in gold should not be reported here, but as a liability under line 17.7.

Section 2 – Cash items in the course of collection

Report the total amount of cheques etc, drawn on, and in course of collection on other banks and debit items in transit between domestic offices of the bank in each country.

Report cheques that have been credited to customers' accounts but are held overnight before being presented or paid into the bank's account with another bank.

Do not report items that have been credited to your nostro accounts with other banks (see lines 3.1.1 and 3.1.2).

Section 3 – Money market assets

3.1 *Zone A credit institutions*

Report all money lent to, placed or deposited with, such credit institutions including correspondent balances (nostro accounts), i.e. settlement or clearing accounts to which items in course of collection may be temporarily credited by such a credit institution pending clearing, (see notes on line 2).

Overdrawn sight and correspondent accounts with other credit institutions should be included in line 13.1.1.

3.2 *Zone B credit institutions with a residual maturity of 1 year or less*

Report all money lent to, placed or deposited with such credit institutions with a residual maturity of one year or less, including correspondent balances (nostro accounts), i.e. settlement or clearing accounts to which items in course of collection may be temporarily credited by such a credit institution pending clearing, (see notes on line 2).

Overdrawn sight and correspondent accounts with other credit institutions should be included in line 13.1.1.

3.3 *Zone B credit institutions with a residual maturity of more than 1 year*

Report all money lent to, placed or deposited with such credit institutions with a residual maturity of over one year.

Overdrawn sight and correspondent accounts with other credit institutions should be included in line 13.1.1.

Section 4 – Certificates of Deposit, Bills and Other Short-term Paper

4.1 *Certificates of Deposit issued by:*

4.1.1 *Zone A credit institutions*

Report all holdings of certificates of deposit issued by such credit institutions irrespective of maturity, and include negotiable deposits made on terms identical to those on which a certificate of deposit would have been issued, but for which it has been mutually convenient not to have issued a certificate.

4.1.2 *Zone B credit institutions with a residual maturity of 1 year or less*

Report all holdings of certificates of deposit issued by such credit institutions with a residual maturity of one year or less, and include negotiable deposits made on terms identical to those on which a certificate of deposit would have been issued, but for which it has been mutually convenient not to have issued a certificate.

4.1.3 *Zone B credit institutions with a residual maturity of more than 1 year*

Report all holdings of certificates of deposit issued by such credit institutions with a residual maturity of over one year, and include negotiable deposits made on terms identical to those on which a certificate of deposit would have been issued, but for which it has been mutually convenient not to have issued a certificate.

4.2 ***Promissory Notes / Short-Term Paper issued by:***

4.2.1 *Zone A credit institutions*

Report holdings of short-dated promissory notes and other paper issued by such credit institutions. Do not include certificates of deposit (line 4.1.1) floating rate notes with a residual maturity less than one year (line 4.3.1), and fixed and variable rate securities (including floating rate notes) having an original maturity of one year or more (line 7.2.2).

4.2.2 *Zone B credit institutions with a residual maturity of 1 year or less*

Report holdings of short-dated promissory notes and other paper issued by such credit institutions, with a residual maturity of one year or less. Do not include certificates of deposit (line 4.1.2) floating rate notes with a residual maturity less than one year (line 4.3.2), and fixed and variable rate securities (including floating rate notes) having an original maturity of one year or more (line 7.2.3).

4.2.3 *Zone B credit institutions with a residual maturity of more than 1 year*

Report holdings of short-dated promissory notes and other paper issued by such credit institutions with a residual maturity of more than one year. Do not include certificates of deposit (line 4.1.3) and fixed and variable rate securities (including floating rate notes) having an original maturity of one year or more (line 7.2.3).

4.3 *Floating rate notes of residual maturity of 1 year or less, issued by:*

4.3.1 *Zone A credit institutions*

Report un-subordinated floating rate notes and similar types of non-capital debt instruments with an original maturity of less than one year issued by such credit institutions.

4.3.2 *Zone B credit institutions*

Report un-subordinated floating rate notes and similar types of non-capital debt instruments with an original maturity of less than one year issued by such credit institutions.

4.3.3 *Zone A and Zone B credit institutions – of a capital nature*

Report subordinated floating rate notes (and those convertible into equity) and similar types of capital debt instrument with an original maturity of less than one year.

4.4 *Other placings*

4.4.1 *Bank acceptances*

Report negotiable short-term (less than one year residual maturity) drafts drawn on and accepted by Zone A or Zone B credit institutions.

4.4.2 *Other*

Report any non-government, non-credit institution short-term (less than one year residual maturity) note or draft issued by a corporate entity.

Do not report quoted and unquoted securities (section 7.4).

4.5 *Treasury and local authority bills (residual maturity less than 1 year)*

4.5.1 *Zone A central governments and local authorities*

Report Zone A central government and local authority bills invested in and beneficially owned (not held as collateral) by the bank.

4.5.2 *Zone B central governments (local currency)*

Report Zone B central government bills invested in and beneficially owned (not held as collateral) by the bank that are denominated in the local currency and funded by liabilities in the same currency.

4.5.3 *Zone B central governments (non local currency)*

Report Zone B central government bills invested in and beneficially owned (not held as collateral) by the bank that are not denominated in the local currency and funded by liabilities in the same currency.

Section 5 – Loans and advances

General notes

Report all balances with, and funds lent to non-credit institution customers, (whether against collateral or not), not included elsewhere on Form SR-1.

This also includes:-

- (i) Loans made under conditional sale agreements and hire-purchase contracts, (even though legal ownership of the goods is retained by the credit grantor until final payment is made)
- (ii) The bank's own acceptances which it has also discounted, and is holding. Own acceptances discounted entered here should be shown as advances to the party who has asked for the acceptance credit to be opened
- (iii) All overdrafts outstanding: overdrafts include debit balances on accounts which, if in credit, would be classed as deposits
- (iv) Advances purchased by or assigned to the bank under a transferable loan facility, sale and repurchase agreement, or similar arrangement.

Report all loans and advances gross. Specific/individual bad debt provisions should be shown under line 16.1 on this form, while any general/collective provisions for bad and doubtful debts should be shown in line 2.1 of Form SR-2A and, if relevant, line 16.4 of this form.

Debit balances may not be offset against credit balances without the specific consent, in writing, of the Commission. Netting will only be considered by the Commission where specific legal agreements are in place and appropriate legal opinion is held.

Exclude:-

- (i) Lending to, or balances with, credit institutions: these should be entered under section 3

- (ii) Investments in the form of marketable or potentially marketable stocks and bonds, including floating rate notes, with an original maturity of one year or more, (or which are considered to be irredeemable): these should be entered under section 7
- (iii) Lending by way of discounting bills of exchange, (other than own acceptances, see above), promissory notes or other short term paper: these should be entered under section 4;
- (iv) Debit balances in a suspense account: these should be entered under line 8.

Where the bank participates in, (or acts as manager or co-manager of), a loan financed by more than one institution, include only the bank's participation for its own account, classifying the loan according to the ultimate borrower (*see General Notes to Assist Completion, section 4.6*). Include participations in syndicated loans, acceptances, bills, etc, which are negotiable but which in practice are not easily marketable.

Where the bank engages in factoring, any debts acquired should be risk weighted according to the customer/counterparty type from which the debts originated.

5.1 *Central governments and central banks*

5.1.1 *Zone A central governments and central banks*

Report all loans to, or explicitly guaranteed by, Zone A central governments and central banks made in the ordinary course of business.

5.1.2 *Zone B central governments and central banks (local currency)*

Report all loans to, or explicitly guaranteed by, Zone B central governments and central banks made in the ordinary course of business that are denominated in local currency and funded by liabilities in the same currency.

5.1.3 *Zone B central governments and central banks (non-local currency)*

Report all loans to, or explicitly guaranteed by, Zone B central governments and central banks made in the ordinary course of business that are not denominated in local currency and funded in the national currency common to the borrower and guarantor.

5.2 ***Public sector entities and equivalent***

5.2.1 *Zone A public sector entities*

Report all loans to, or explicitly guaranteed by, Zone A public sector entities made in the ordinary course of business. This includes claims on, or guaranteed by, the state governments of the Isle of Man and Channel Islands.

5.2.2 *Zone B public sector entities, regional governments and local authorities*

Report all loans to, or explicitly guaranteed by, Zone B public sector entities, regional governments or local authorities made in the ordinary course of business, irrespective of currency denomination.

5.2.3 *Commercial entities owned by the public sector*

Report all loans to commercial entities owned by public sector entities, irrespective of currency denomination or country.

5.3 ***Loans secured by conditional bond and security, or mortgages, on residential property***

Report here:-

- (i) Loans to individuals for house purchase and to approved housing associations for the sole purpose of residential occupation (by the borrower or otherwise), fully secured by a first equitable or legal charge on the property/properties in question.
- (ii) Holdings of securities issued by special purpose mortgage finance vehicles where the risk to the security holder is fully and specifically secured against residential mortgage loans which would themselves qualify under (i) above, or by assets which qualify for a risk weight of less than 50%.
- (iii) Mortgage sub-participations, where the risk to the sub-participating bank is fully and specifically secured against residential mortgage loans which would themselves qualify under (i) above.

Do not report:-

- (iv) Any secured lending, or guarantees, where the property is not used solely for residential occupation.

- (v) Lending secured by a second equitable or legal charge on the property/properties in question. This should be treated as a secured loan as per line 5.4.7.

5.4 ***Non-bank private sector (including loans guaranteed by credit institutions and cash backed loans)***

This category includes all loans and advances that do not fall within categories 5.1 to 5.3 above.

5.4.1 *100% secured by cash on deposit with the bank (legal right of set off)*

For a loan or advance to be reported here, the bank must have either legal title to the deposit or a legal right of set off against the deposit for sums due from the borrower. Normally the loan should be in the same currency as the deposit, otherwise an appropriate margin should be in place taking into account the volatility of the different currencies.

The margin should take into account the movements in the exchange rates between the currencies, the maturity of the exposure and the method by which the overall exposure is monitored and controlled. The associated deposit should be reported under line 13.1.4.

5.4.2 *100% secured by cash on deposit with a third party Zone A credit institution*

For a loan or advance to be reported here, the bank must have either legal title to the deposit or a legal right of set off against the deposit for sums due from the borrower. Normally the loan should be in the same currency as the deposit, otherwise an appropriate margin should be in place taking into account the volatility of the different currencies.

The margin should take into account the movements in the exchange rates between the currencies, the maturity of the exposure and the method by which the overall exposure is monitored and controlled.

5.4.3 *100% secured by Zone A central government fixed interest securities with a residual maturity of 1 year or less, or similar floating rate securities of any maturity*

For a loan or advance to be reported here, the security must be in the form of appropriate collateral placed with the bank.

5.4.4 *100% secured by Zone A central government fixed interest securities with a residual maturity of over 1 year*

For a loan or advance to be reported here, the security must be placed with the bank.

5.4.5 *100% secured by a guarantee from another Zone A credit institution*

For a loan or advance to be reported here, the bank must hold a guarantee issued by another Zone A credit institution. The loans should be explicitly, unconditionally and irrevocably guaranteed, and can be of any maturity.

5.4.6 *100% secured by a guarantee from another Zone B credit institution with a residual maturity of 1 year or less*

For a loan or advance to be reported here, the bank must hold a guarantee issued by another Zone B credit institution. The loans should be explicitly, unconditionally and irrevocably guaranteed. Only such loans that have a residual maturity of one year or less may be reported here. Other such guaranteed loans of more than one year's maturity must be reported under line 5.4.7 below.

5.4.7 *Other secured loans*

Report all other secured loans not included in lines 5.4.1 to 5.4.6 above.

5.4.8 *Unsecured personal loans*

Only report fixed term loans, (which may be a fixed or variable interest rates), which are unsecured and repayable in regular fixed instalments.

5.4.9 *Other unsecured loans*

Report all other unsecured loans if not shown in line 5.4.8 above.

5.4.10 *Hire purchase and instalment credit*

Report all such agreements. The gross amount due under such agreements must be shown here; (the unearned finance charges must be reported under line 16.3).

Do not report:-

- (i) Finance leases. These assets should be included under section 6

- (ii) Operating leases. These assets should be separately identified under line 9.8.

Section 6 – Assets leased out under finance leases

Report all plant and equipment beneficially owned by the bank which has been leased under finance lease agreements to non-government (and public sector) and non credit institutions, including any equipment leased to branches, subsidiaries or associates overseas.

For reporting purposes, a finance lease, (including full payout agreement), is defined as one in which an asset is leased for a single fixed contractual period during which its full cost is recovered by the lessor, (in this case the bank), even though the asset may subsequently continue in operation for an unspecified further period.

Where the bank participates directly, (not through an unconsolidated subsidiary), in a joint leasing venture or joint company, which administers but does not finance leasing operations, (i.e. the bank carries its share of each lease on its own books), such participations should be reported under this item. Where the bank participates in a syndicated leasing agreement, it should only include the value of its share in such an agreement.

Do not report assets leased, hired, or rented out under the following types of agreements:-

- (i) Conditional sale agreements. These assets should be included under line 5.4.10
- (ii) Hire-purchase agreements. These assets should be included under line 5.4.10
- (iii) Operating leases. This classification of asset should be separately identified under line 9.8.

Section 7 - Investments

General Notes

Report all securities beneficially owned by the bank. For the purposes of this return, securities are defined as marketable or potentially marketable income-yielding instruments of residual maturity of more than one year if issued by credit institutions, for example, equities, eurobonds and floating rate notes. All holdings of central government and central bank securities of any maturity should be entered here (except Treasury Bills – see section 4.5), as should all company debt and equity securities, apart from commercial paper.

Securities issued by credit institutions of residual maturity less than one year should be included in section 4.

Do not report:-

- (i) Certificates of Deposit, (section 4.1)
- (ii) Bills, promissory notes and other negotiable paper, (section 4.2)
- (iii) Assets leased out (line 6).

Investments should be classified as either sterling or other currency according to the currency in which they are denominated, irrespective of any option for principal to be repaid, or premiums to be paid, in another currency. Where a security is denominated in several currencies with the choice of currency in which dividends are paid or the capital money repaid at the option of the holder, include it in the other currencies column even if one of the currencies is sterling.

Interest indistinguishably forming part of the price may be included in the valuation of a security.

7.1 *Central governments and central banks*

7.1.1 *Zone A - floating rate notes of any maturity and fixed interest rate paper with a residual maturity of less than 1 year*

Report Zone A central government and central bank fixed interest rate securities with a residual maturity of one year or less and floating rate securities of any maturity. Treasury bills should be shown in line 4.5.1.

7.1.2 *Zone A – fixed interest rate paper with a term to maturity of over 1 year*

Report Zone A central government and central bank fixed interest rate securities with a residual maturity of over one year.

7.1.3 *Zone B – floating rate notes and fixed interest rate paper of residual maturity less than 1 year (local currency)*

Report Zone B central government and central bank fixed interest rate securities and floating rate securities with a residual maturity of one year or less, denominated in the local currency of the issuer and funded in the local currency.

7.1.4 *Zone B – floating rate notes and fixed interest rate paper of residual maturity of more than 1 year (local currency)*

Report Zone B central government and central bank fixed interest rate securities and floating rate securities with a residual maturity of over one year, denominated in the local currency of the issuer and funded in the local currency.

7.1.5 *Zone B – floating rate notes and fixed interest rate paper of any maturity (non local currency)*

Report Zone B central government and central bank fixed interest rate securities and floating rate securities of any maturity if not denominated in the local currency of the issuer and funded in the local currency.

7.2 *Investments in credit institutions (residual maturity over 1 year)*

Report all holdings of fixed and variable rate securities issued by other credit institutions with an original term to maturity of more than one year, except those issued by subsidiaries or associates of the bank (which should be included under line 7.3).

7.2.1 *Of a capital nature*

Report all investments in credit institutions, both Zone A and Zone B, which may be counted by those institutions as capital and which is used for calculating any regulatory or supervisory minimum capital requirements.

Holdings of equity and debt instruments should be included, together with holdings of subordinated and un-subordinated loan capital issued by bank holding companies, or financing vehicles within banking groups.

7.2.2 *Zone A – fixed, floating and variable rate securities with a residual maturity of over 1 year*

Report un-subordinated floating rate notes issued by Zone A credit institutions with an original maturity of over one year and similar types of fixed and variable rate non-capital debt instruments.

7.2.3 *Zone B – fixed, floating and variable rate securities with a residual maturity of over 1 year*

Report un-subordinated floating rate notes issued by Zone B credit institutions with an original maturity of over one year and similar types of fixed and variable rate non-capital debt instruments.

7.3 *Investments in subsidiary and associated companies*

Report investments made by the bank in the share and loan capital of subsidiaries and associates, which are not consolidated in the return.

Report any loans and advances, to such companies.

7.4 *Other investments (including private sector)*

Report all other investments, (except for investments made in subsidiary and associated companies).

7.4.1 *Company debt securities and equity securities – quoted (any maturity)*

Report debt securities or equity securities held for investment, issued by Zone A and Zone B incorporated companies. Investments to be reported here should be listed on a recognised stock exchange.

7.4.2 *Company debt securities and equity securities – unquoted (any maturity)*

Report debt securities or equity securities held for investment, issued by Zone A and Zone B incorporated companies. Investments to be reported here are those not listed on a recognised stock exchange.

7.4.3 *Of a capital nature*

Report investments in non-group companies, which are by nature capital.

Section 8 – Items in suspense

Suspense accounts should be set up for specific purpose, and items held in suspense should be investigated and reconciled regularly.

Report debit balances not in customers' names but relating to customers' funds, e.g. debit balances awaiting transfer to customers' accounts rather than the bank's own internal funds.

Report, for example:-

- (i) Funds of the bank lodged with applications for new issues, even if the funds are returnable;

- (ii) Amounts receivable in respect of transactions on behalf of customers that are not due until settlement date, where the bank reports its investments on a contract date basis.

Credit balances must not be offset against debit balances.

Do not report amounts receivable from brokers in respect of transactions where the bank acts as principal, (see line 9.6).

Section 9 – Other assets

9.1 *Premises owned and occupied by the bank*

Report the value in the bank's books (i.e. owned) of property occupied or being developed for occupation by the bank, or for the purpose of occupation by employees or partial occupation by tenants of the bank.

Do not report:-

- (i) Leasehold premises and leasehold improvements, (line 9.3)
- (ii) Premises owned by the bank, which are rented to tenants, (line 9.2).

9.2 *Other land and property owned by the bank*

Report the value of all other land and property beneficially owned by the bank that does not fall into the classification of line 9.1.

9.3 *Plant, equipment, leasehold premises, leasehold improvements, and motor vehicles*

Report only assets that are used by the bank in connection with its own business. Equipment leased out to customers under operating leases should be included under line 9.7. Equipment leased out under finance leases should be included in line 6. Conditional sale agreements and hire-purchase contracts should be included in line 5.4.10.

9.4 *Debtors and prepayments*

Report all debtors and prepayments of the bank to non-government and non-credit institutions (excluding those identified separately within Form SR-1).

Any debtor or prepayment that individually exceeds 10% of the bank's LECB should be excluded from line 9.4 and identified separately under line 9.8.

9.5 ***Settlement balances***

In completing this item the bank should have regard to line 17.2. Report all balances awaiting settlement in respect of sales of investments (line 17.2 for purchases of investments) on behalf of the bank.

Debit items must not be offset against credit items, unless there is an explicit legally binding and enforceable agreement in place between the bank and the counterparty.

9.6 ***Participations / Syndications***

Where the bank acts as the Manager (or co-Manager) of a loan the share of the risk of the participation/syndication being borne by other participating institutions should be reported here – associated deposits should be reported under line 17.5. The bank's share of the risk of the participation/syndication should be shown within the relevant classification on the reporting forms in section 5.

9.7 ***Operating leases***

Report equipment owned by the bank, which has been leased out under an operating lease.

9.8 ***Other assets greater than 10% of LECB, normally reportable under line 9.4 (does not apply to branches).***

If any assets reportable under line 9.4 individually exceed 10% of the bank's LECB they should be reported separately in this line.

9.9 ***Other assets resulting from the fair value of off balance sheet items***

For off balance sheet financial instruments assigned a fair value where the capital risk weighted asset figure is calculated in form SR-4, any resulting on balance sheet asset arising from the fair valuation should be reported here and be risk weighted at zero to avoid double counting for capital purposes.

9.10 ***Other assets not of a capital nature***

Report any other assets not classified elsewhere, weighted at 100%. This may include net long positions in physical commodities and precious metals held on the bank's balance sheet. Net short positions should be included under line 17.7.

9.11 *Other assets of a capital nature*

Report any other assets not classified elsewhere which would be of a capital nature.

Do not include goodwill and other intangible assets, which are deducted from capital and thus included in line 18 (via Form SR-2A, line 1.8).

Section 10 – Total Assets

This is the total of all entries under sections 1 to 9 and is system generated. The total assets in column 3 must equal the total liabilities in line 19, column 3.

Cross checks

The total assets reported in column 2, other currencies, should equal the total gross spot claims as reported in Form SR-4 section 1 column 1.

The total assets reported in column 3, should equal the total assets (total column) as reported in form SR-3A.

The total assets reported in column 1, sterling, should equal the assets sub total (total column) as reported in form SR-3B (sterling interest rate risk).

Section 11 – Risk weights applying to off-balance sheet items (this does not apply to branches)

This equals the figure appearing in line 31 and is system generated.

Section 12 – Total risk weighted assets (this does not apply to branches)

This is the aggregate of the figures appearing in column 6, (risk weighted assets), for sections 1 to 9 and line 11. It is system generated.

LIABILITIES

Section 13 – Deposit liabilities

Report:-

- (i) Credit balances on customers' accounts. Overdrawn accounts should be treated as loans, (see section 5)
- (ii) Deposits from other credit institutions (including other offices of the bank)
- (iii) Overdrawn accounts with other credit institutions (including overseas offices of the bank)
- (iv) Shareholders' deposits (but not equity capital or reserves) made by the bank's holding company.

Do not report:-

- (i) Customers' funds temporarily held in suspense accounts, (see line 14)
- (ii) Syndicated Loans - do not include deposits received from other banks in connection with syndicated loans where the bank is acting as manager, co-manager, or agent bank; these should be included in other liabilities line 17.5.

13.1 *Deposits due to:*

13.1.1 *Credit institutions*

Report deposit liabilities due to credit institutions.

13.1.2 *Central governments and public sector entities*

Report deposit liabilities due to Zone A and Zone B central governments, public sector entities and similar local authorities and regional governments.

13.1.3 *Other customers*

Report all other deposit liabilities other than those included elsewhere within section 13.

13.1.4 *Held as 100% security for exposures entered into on behalf of customers*

Report deposits held as security for exposures (whether on - or off - balance sheet) entered into by the bank. The deposit held by the bank should be at least equivalent to the exposure entered into by the bank and held under legally documented arrangements which restrict the depositor's right to withdraw the deposit during the term of the exposure.

13.2 ***Interest payable***

Report all interest accrued on deposit liabilities that has not yet been paid or credited to individual customer accounts.

13.3 ***Certificates of deposits issued***

Report all certificates of deposit issued by the bank, whether at fixed or floating interest rates, and still outstanding. Include negotiable deposits taken on terms in all respect identical to those on which a certificate of deposit would have been issued, but for which it was mutually convenient not to have issued certificates. If a bank holds certificates of deposit that it has itself issued, these should not be reported.

13.4 ***Promissory notes, bills and other short-term paper issued***

Report promissory notes, bills and other negotiable paper issued by the bank and still outstanding; bills drawn by the bank under an acceptance credit facility provided by another Zone A credit institution; and such instruments as silver and other commodity deposit receipts.

13.5 ***Ineligible term debt***

Report secured subordinated debt and un-subordinated loan stocks, of any maturity, and unsecured subordinated loan stocks of less than one year's original maturity. (Subordinated loan stocks with original maturity of more than one year should be reported in Form SR-2A lines 2.3, 2.8 or 3.3 depending on the nature of the loan stock).

Section 14 – Items in suspense

Suspense accounts should be set up for specific purpose, and items held in suspense should be investigated and reconciled regularly.

Report all credit balances not in customers' names (but relating to customers' funds) as opposed to the bank's own internal funds or its shareholders' funds.

Include, for example:-

- (i) Accounts holding funds awaiting transfer to customers, (but not accounts relating to interest accruing - see line 13.2)
- (ii) Returnable application monies for capital issues
- (iii) Customers' funds awaiting investment which have been transferred to an account not in the name of the customer

- (iv) Funds transferred from a customer's account to an account not in the name of the customer to meet acceptances, confirmed credits, etc
- (v) Funds placed on account to meet travellers cheques issued by the bank but not yet presented
- (vi) Amounts payable by customers in respect of transactions not due until a future settlement date where the bank reports its investments on a contract date basis.

Debit items must not be offset against credit items.

Section 15 – Credit items in course of transmission

Report standing orders and credit transfers debited to customer accounts. Also include other items for which the corresponding payment has not yet been made by the bank.

Include all credits in course of transmission, including those to group banking offices, whether passing through the credit clearing system or not, and cheques, bankers' payments etc drawn on the bank itself (or sight or correspondent accounts with other credit institutions) which have not yet been presented to the bank (or to those credit institutions) for payment.

Section 16 - Provisions

16.1 *Specific/individual provisions for bad and doubtful bad debts*

Report amounts specifically/individually provided for in the accounts against specific/individual debts that have been identified as bad or doubtful.

Do not report any general/collective provisions for bad and doubtful bad debts - see line 2.1 on Form SR-2A and line 16.4 of this form.

Include interest held in suspense charged against specific/individual bad debts.

16.2 *Current taxation*

Report only the tax that has been provided for in this current period's profit and loss account.

Note: A current tax asset and current tax liability should only be offset by a bank where it has a legally enforceable right to set off the amounts and it intends to settle them on a net basis. If the amounts are not settled on a net basis then they should be settled simultaneously. A current tax asset (whether or not arising from netting) may be reported in line 9.10 (which attracts a 100% risk weighting), or in the appropriate category for claims on government bodies in section 5 of SR-1.

16.3 ***Unearned finance charges, (on hire purchase and instalment credit agreements)***

Report unearned finance charges on assets that are leased, hired or rented out under the following types of agreement:-

- (i) Conditional sale agreements, (assets to be included under line 5.4.10)
- (ii) Hire-purchase agreements, (assets to be included under line 5.4.10)
- (iii) Operating leases, (assets to be included under line 9.7).

Exclude assets leased out under finance leases, see line 6.

16.4 ***General/collective provisions in excess of 1.25% of total risk weighted assets (limit not applicable for branches)***

Report the amount held on the general/collective provision account that exceeds 1.25% of the bank's total risk weighted assets. The amount of general/collective provision under this value should be reported as a capital item on Form SR-2A line 2.1.

16.5 ***Reserves arising on directors' revaluation of fixed assets***

Report reserves arising on a directors' revaluation of fixed assets owned by the bank (as opposed to Form SR-2A line 2.2).

16.6 ***Other provisions***

Report any other provisions not reported elsewhere in this form or SR-2A.

Section 17 – Other liabilities

17.1 ***Creditors and accruals***

Report all non-capital creditors and accruals of the bank, not reported elsewhere on this form.

Any creditor or accrual that individually exceeds 10% of the bank's LECB should be excluded from this line and identified separately under line 17.6 (not applicable for branches)

17.2 ***Settlement balances***

In completing this item the bank should have regard to line 9.5. Report all balances awaiting settlement in respect of purchases of investments (line 9.5 for sales of investments) on behalf of the bank.

Debit items must not be offset against credit items, unless there is an explicit legally binding and enforceable agreement in place between the bank and the counterparty.

17.3 *Taxation (excluding current taxation)*

Report all provisions, or liabilities, for taxation, (including deferred taxation) not provided in the current period's profit and loss account (which are reportable separately under line 16.2).

Note: With reference to 16.2, deferred tax assets and liabilities should similarly only be offset where the bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities have arisen on income taxes levied by the same taxation authority. In addition, the amounts should be in relation to the same taxable entity, or where they have arisen in respect of different taxable entities there should be the right to settle the amounts on a net basis or simultaneously. A deferred tax asset (whether or not arising from netting) may be reported in line 9.10 (which attracts a 100% risk weighting), or in the appropriate category for claims on government bodies in section 5 of SR-I.

17.4 *Dividends payable*

Report details of any dividends proposed/declared by the bank.

17.5 *Participations / Syndications – bank acting as manager or co-manager*

Where the bank acts as the Manager (or co-Manager) of a loan financed by more than one institution, deposits received from other participating institutions (representing their contributions of the amount to be lent) should not be included in deposit liabilities, instead they should be separately identified and reported here. Similarly, the share of the risk of the participation/syndication being borne by other participating institutions should be listed under line 9.6.

17.6 *Other liabilities greater than 10% of LECB normally reportable under line 17.1 (not applicable for branches)*

If any liabilities reportable under line 17.1 individually exceed 10% of the bank's LECB they should be reported separately in this line.

17.7 *Other liabilities*

Report any other liabilities not classified elsewhere. This may include net short positions in physical commodities and precious metals held on the bank's balance sheet. Net long positions should be included under line 9.10.

Also include any difference between a *defined benefit liability* and the bank's *deficit reduction amount* in respect of a *defined benefit occupational pension scheme*, and any *defined benefit asset* that has been removed from Form SR-2A line 1.3.

17.8 *Other liabilities resulting from the fair value of off balance sheet items*

For off balance sheet financial instruments assigned a fair value where the capital risk weighted asset figure is calculated in form SR-4, any resulting on balance sheet liability arising from the fair valuation should be reported here.

Section 18 – Total capital and reserves

This includes all eligible Tier 1 and Tier 2 capital, plus other items of a capital nature that cannot be included in a bank's adjusted capital base for the purposes of the risk asset ratio calculation.

The aggregate of the sterling currency and other currencies columns must be the equivalent of the figure reported under line 3.4 on Form SR-2A.

Section 19 – Total liabilities

This is the total of all entries under sections 13 to 18 and is system generated. The total liabilities in column 3 must equal the total assets in line 10, column 3.

Cross checks

The total liabilities reported in column 2, other currencies, should equal the total gross spot liabilities as reported in Form SR-4 section 1 column 2.

The total liabilities reported in column 3, should equal the total liabilities (total column) as reported in form SR-3A.

The total liabilities reported in column 1, sterling, should equal the liabilities sub total (total column) as reported in form SR-3B (sterling interest rate risk).

OFF-BALANCE SHEET ITEMS

For an explanation of the principles behind the approach for applying credit conversion factors and risk weightings to off-balance sheet items refer to *section 12 of the General Notes to Assist Completion*.

Section 20 – Guarantees and direct credit substitutes

This section should be used to report guarantees given by the bank, including acceptances, risk participations, standby letters of credit and other irrevocable obligations serving as guarantees.

20.1 *100% cash secured by a deposit with the bank*

Report any such guarantees and facilities given, which are fully secured by cash on deposit with the bank. The bank must have either legal title to the deposit or a legal right of set off against the deposit for sums due from the borrower. The deposit should be shown under line 13.1.4.

20.2 *Other – at 10% risk weighting*

Report any such guarantees and facilities given for which the equivalent on-balance sheet counterparty risk weighting would be 10%.

20.3 *Credit institutions, including parental guarantees*

Report any guarantees given by the bank covered by a parental guarantee, and any guarantees given by the bank to other credit institutions. Also include any guarantees given which are 100% secured by cash on deposit with a third party Zone A credit institution.

20.4 *Property*

Report any such guarantees given fully secured against residential property, for which the equivalent on-balance sheet counterparty risk weighting of 50% would apply.

20.5 *Other – at 100% risk weighting*

Report any such guarantees and facilities given for which the equivalent on-balance sheet counterparty risk weighting would be 100%.

20.6 *Other - of a capital nature*

Report any such guarantees and facilities given, which are of a capital nature.

Section 21 – Sales, purchases and other items

A number of items should be reported in this section, as follows:

(i) Sale and Repurchase agreements

Report sale and repurchase agreements (repos) where the bank is the seller of the asset where the asset sold is not reported on the balance sheet. The weighting category to be used is determined by the issuer of the security (or borrower if a loan) and not according to the counterparty with whom the transaction had been entered into, and should be reported under lines 21.1 to 21.5 accordingly.

(ii) Asset sales with recourse

Report asset sales with recourse where the credit risk remains with the bank. The weighting category to be used is determined by the asset and not according to the counterparty with which the transaction has been entered into, and should be reported under lines 21.1 to 21.5 accordingly.

(iii) Forward asset purchases

Report all such purchases with the exception of foreign currency spot deposits with value date one or two working days after trade date. The weighting category is determined by the asset to be purchased, not according to the counterparty with which the contract has been entered into, and should be reported under lines 21.1 to 21.5 accordingly.

(iv) Forward deposits placed

Report all such deposits placed. These are agreements between two parties whereby one will pay, and the other will receive an agreed interest rate on, a deposit to be placed by one with the other at a predetermined date in the future. Exclude foreign currency spot deposits with value dates one or two working days after trade date. The weighting category should be determined according to the counterparty with which the deposit will be placed, and be reported under lines 21.1 to 21.5 accordingly.

(v) Uncalled partly paid shares and securities

Report these if there is a specific date for the call on the unpaid part of the shares and securities held. If there is no specific date, the unpaid part should be treated as

a long-term commitment. The weighting category should be determined according to the counterparty, and be reported under lines 21.1 to 21.5 accordingly.

Section 22 – Transaction related contingents

Transaction related contingent items relate to the ongoing trading activities of a counterparty where the risk of loss to the bank depends on the likelihood of a future event which is independent of the credit-worthiness of the counterparty. These are essentially guarantees that support particular obligations rather than supporting customers' general financial obligations.

Examples include performance bonds, bid bonds, warranties and standby letters of credit, which should be included in this section.

Such transactions should be reported under lines 22.1 to 22.5 depending on the nature of the counterparty, with risk weights applying as for on-balance sheet exposures.

Section 23 – Note issuance facilities and revolving underwriting facilities

Note issuance facilities and revolving underwriting facilities should include the total amounts of a bank's underwriting obligations of any maturity. Where the facility has been drawn down by the borrower, and the notes are held by anyone other than the bank, the underwriting obligation should continue to be reported at the full nominal amount.

Such transactions should be reported under lines 23.1 to 23.5 depending on the nature of the counterparty, with risk weights applying as for on-balance sheet exposures.

Section 24 – Credit lines and commitments over one year

Report all other un-drawn credit lines and commitments not reported under sections 21 to 23 of over one year maturity.

The bank is regarded as having a commitment regardless of whether it is revocable or irrevocable, conditional or unconditional and, in particular, whether or not it contains a "material adverse change" clause.

Such transactions should be reported under lines 24.1 to 24.5 depending on the nature of the counterparty, with risk weights applying as for on-balance sheet exposures.

Section 25 – Trade related contingents

Report short-term (under 1 year) self-liquidating trade related contingent items such as documentary letters of credit issued by the bank collateralised by the underlying shipment.

Such transactions should be reported under lines 25.1 to 25.5 depending on the nature of the counterparty on whose behalf the credit has been issued, with risk weights applying as for on-balance sheet exposures.

Section 26 – Other commitments less than one year

Report all other un-drawn credit lines and commitments not reported elsewhere of less than one year maturity.

The bank is regarded as having a commitment regardless of whether it is revocable or irrevocable, conditional or unconditional and, in particular, whether or not it contains a “material adverse change” clause.

Facilities that are unconditionally cancellable at any time should be treated as being under one year.

Section 27 – Endorsements of bills

Report endorsements of bills (including per aval endorsements) at full nominal amount less any amount for bills that the bank now holds but had previously endorsed.

Section 28 – Interest rate risk capital calculation (this does not apply to branches)

Report in column 6 the weighted figure obtained from the summary schedule in Form SR-3B “total amount at risk” line. This figure must be entered as a positive. It is already risk weighted and is thus included in full. The figure is automatically populated in this form from SR-3B.

Section 29 – Foreign exchange exposure; aggregate of net short open positions (this does not apply to branches)

Report in column 6 the “aggregate of net short open positions” obtained from Form SR-4, Section I at the bottom of column 10. This figure must be entered as a positive. It is 100% risk weighted and thus included in full. The figure is automatically populated in this form from SR-4.

Section 30 – OTC derivatives (this does not apply to branches)

All items reportable in 30.1 to 30.5 below have already been risk weighted on Form SR-4. Form SR-1 is automatically populated from Form SR-4.

30.1 *Interest rate related contracts (including bonds)*

Report in column 6 the figure obtained from Form SR-4, Section 2 (Interest Rate related contracts including bonds) at the bottom of column 7 (total). This must be entered as a positive figure in form SR-1. The figure is automatically populated in this form from SR-4.

30.2 *Foreign exchange related contracts (including gold)*

Report in column 6 the figure obtained from Form SR-4, Section 2 (Foreign exchange including gold) at the bottom of column 7 (total). This must be entered as a positive figure in form SR-1. The figure is automatically populated in this form from SR-4.

30.3 *Equity contracts*

Report in column 6 the figure obtained from Form SR-4, Section 2 (Equities) at the bottom of column 7 (total). This must be entered as a positive figure in form SR-1. The figure is automatically populated in this form from SR-4.

30.4 *Precious metal contracts (except gold)*

Report in column 6 the figure obtained from Form SR-4, Section 2 (Precious Metals except gold) at the bottom of column 7 (total). This must be entered as a positive figure in form SR-1. The figure is automatically populated in this form from SR-4.

30.5 *Commodity contracts*

Report in column 6 the figure obtained from Form SR-4, Section 2 (Commodities) at the bottom of column 7 (total). This must be entered as a positive figure in form SR-1. The figure is automatically populated in this form from SR-4.

Section 31 – Total risk weights applying to off-balance sheet items (this does not apply to branches)

This is the sum of lines 20 to 25, and 28 to 30 and is system generated. It is carried over to line 11.

3. Form SR-2A – Capital, Current Period's Profit and Loss, Provisions and Non-performing assets – Notes to Assist Completion

The general principles underlying these notes are outlined in the *General Notes to Assist Completion of the Reporting Forms*.

Branches **do not** have to complete sections 1 to 4 of this form.

Section 1 – Tier 1 Capital

1.1 *Ordinary shares, amount paid up (net of holdings of own shares)*

Report the nominal value of all ordinary shares that have been issued and paid up in full. If ordinary shares have been issued but are not fully paid up, (whether for the reason that they are only partially called up or that calls made remain outstanding), enter only the amount paid up. Do not report the unpaid element of partly paid shares, or authorised but un-issued share capital.

This should be net of any own shares held.

Where shares have been issued at a premium, the premium should be included in general reserves as reported under line 1.3.

1.2 *Perpetual non-cumulative preference shares*

Report perpetual non-cumulative preference shares, including such shares redeemable at the option of the issuer but with the Commission's prior consent; and such shares convertible into ordinary shares.

Do not include any other kind of preference share here; e.g. perpetual cumulative preference shares should be included in line 2.4, and dated (term) preference shares should be included in line 2.7.

1.3 *General reserves (including Tier 1 share premia)*

Report accumulated profits retained by the bank after the payment of all dividends and tax, and other reserves created by appropriations of Tier 1 share premia and other surpluses. Dividends should be deducted from reserves as soon as they are declared.

Do not report the following:-

- (i) Current period's profit. If verified by the bank's external auditor this is reported under line 1.4. Current period's loss should be reported under line 1.7

- (iii) Un-audited current period's profit (see line 3.2)
- (iv) Specific/individual bad and doubtful debt provisions, (see Form SR-I line 16.1)
- (iv) General/collective provisions (see line 2.1)
- (v) Provisions for taxation, (see Form SR-I line 16.2), and dividends (see Form SR-I, line 17.4)
- (vi) Reserves arising on a revaluation of fixed assets owned by the bank including unrealised gains on equities held in the available-for-sale financial assets category (see line 2.2)
- (vii) Any items relating to unrealised gains or losses on cash flow hedges of financial instruments measured at cost or amortised cost (these are not eligible for regulatory capital and should be reported under line 3.3)
- (viii) Any unrealised gains or losses on debt instruments held in the available-for-sale category (these are not eligible for regulatory capital and should be reported under line 3.3)
- (ix) Any unrealised gains or losses, which are not attributable to changes in a benchmark interest rate, arising when a bank, upon initial recognition, designates its financial liabilities as at fair value through the profit and loss account (these are not eligible for regulatory capital and should be reported under line 3.3).

Adjustments in respect of a *defined benefit occupational pension scheme* are to be applied as follows:

- (a) Any *defined benefit asset* included in reserves must be deducted from item 1.3 and be reported under Form SR-I line 17.7 together with any part of (b) below, as it is not eligible for capital
- (b) A bank may substitute for its *defined benefit liability* included in reserves its *deficit reduction amount*. Any difference between the *defined benefit liability* and the *deficit reduction amount* should be reported under Form SR-I line 17.7 together with any part of (a) above, as it is not eligible for capital.

Definitions of the terms in italics are provided in the General Notes to Assist Completion section 4.11.

1.4 ***Current period's profits (if verified by the bank's external auditor)***

Report only current period's earnings (net of taxation and declared dividends) where the bank's external auditors have verified them.

Interim retained earnings of subsidiaries within banking groups that have been verified by a bank's external auditors may also be reported even if they are not separately disclosed. Current period's profit that has not been verified

should be reported in line 3.2. Current period's loss should be reported in line 1.7.

For a definition of "verified by the bank's external auditor" refer to section 8 of the General Notes to Assist Completion.

1.5 *Minority interests (in tier 1 capital)*

Where the bank reports on a solo consolidated or consolidated basis, report the claim by outside interests in Tier 1 capital items of any partly owned subsidiary company or minority-owned company which is included in this particular return.

Note: Minority interests arise when a bank has a subsidiary that it does not wholly own. The bank's consolidated accounts usually include all of the assets of the subsidiary so it would be misleading to include only that part of its share capital and reserves that is owned by the bank. The capital subscribed by the minority shareholders is therefore included in the consolidated capital base.

1.6 *Tier 1 capital sub-total*

This represents the aggregate of the figures reported in lines 1.1 to 1.5 and is system generated.

Deductions

1.7 *Current period's losses (if appropriate)*

Report the loss (as a positive) reported in line 5.13 (if that is a negative figure) irrespective of whether it has been verified by the bank's external auditor.

Current period's profits should be entered under line 1.4 or line 3.2 depending on whether they have been verified by the bank's external auditor.

1.8 *Goodwill and other intangible assets*

Report these items in accordance with applicable accounting convention.

1.9 *Net unrealised losses on equities held in the available-for-sale financial assets category*

Report here any such losses. Rather than netting these against similar unrealised gains in section 2.2, such losses must be included in this line such that Tier 1 capital is reduced (rather than reducing Tier 2 capital).

1.10 ***Deductions sub total***

This is the aggregate of the figures reported in lines 1.7 and 1.9 and is system generated.

1.11 ***Total tier 1 capital***

This is line 1.6 less 1.10 and is system generated.

Section 2 – Tier 2 Capital (must not exceed Tier 1 capital)

2.1 ***General/collective provisions***

Report all general/collective provisions, including those for loan losses. General/collective provisions should not exceed 1.25% of total risk weighted assets (i.e. 1.25% of Form SR-I line 12). Any agreed provisions exceeding this amount should be reported in Form SR-I line 16.4 as a liability and are not treated as being eligible for capital purposes.

Do not report specific/individual bad and doubtful debt provisions, which must be reported on Form SR-I line 16.1. They are also analysed in section 6 of this form.

2.2 ***Fixed asset revaluation reserve***

Report any reserves arising on the revaluation of fixed assets (tangible fixed assets and fixed assets investments) owned by the bank. Also report any net unrealised gains on equities held in the available-for-sale financial assets category.

Any reserve arising on a directors' revaluation of fixed assets owned by the bank must not be included in here, but included on Form SR-I line 16.5 as a liability.

2.3 ***Unsecured convertible undated (perpetual) subordinated debt***

Report such debt only if it is unsecured, fully subordinated to the interests of all other creditors, free of negative pledge and other restrictive clauses (unless expressly agreed beforehand in writing by the Commission) and redeemable by conversion into ordinary shares if required by the Commission, or otherwise with the prior consent in writing of the Commission.

Do not report any subordinated debt that does not fulfil the above criteria (see line 2.8).

2.4 ***Perpetual cumulative preference shares***

Report perpetual cumulative preference shares, including such shares redeemable at the option of the issuer with the prior consent of the Commission, and such shares convertible into ordinary shares. The shares should not be included within Tier 1 capital until the conversion has taken place. These shares are included in Tier 2 capital because they are cumulative. Non-cumulative perpetual preference shares may be included in Tier 1 capital as described in line 1.2.

2.5 ***Minority interests (in tier 2 capital)***

Where the bank reports on a solo consolidated or consolidated basis, report the claim by outside interests in Tier 2 capital items of any partly owned subsidiary company or minority-owned company which is included in this particular return.

Note: Minority interests arise when a bank has a subsidiary that it does not wholly own. The bank's consolidated accounts usually include all of the assets of the subsidiary so it would be misleading to include only that part of its share capital and reserves that is owned by the bank. The capital subscribed by the minority shareholders is therefore included in the consolidated capital base.

2.6 ***Upper Tier 2 capital***

This represents the aggregate of the figures reported in lines 2.1 to 2.5 and is system generated.

2.7 ***Dated (term) preference shares***

Report dated cumulative preference shares.

2.8 ***Unsecured dated (term) subordinated loan stock***

Report such debt only if it is unsecured, fully subordinated to the interests of all other creditors, free of negative pledge and other restrictive clauses (unless expressly agreed beforehand in writing by the Commission) and has a first optional redemption date, or a final maturity date, more than 5 years and one day from the date on which it was issued.

The amounts of unsecured dated (term) subordinated debt in its final four years to maturity should not count in full as part of the bank's Tier 2 capital, but should be amortised on a straight line basis by 20% per annum. Therefore, the debt should be included in Tier 2 capital according to the following schedule:

<u>Years to maturity</u>	<u>Amortised amount</u>
4 years or more	100% of nominal value
3 years but less than 4 years	80% of nominal value
2 years but less than 3 years	60% of nominal value
1 year but less than 2 years	40% of nominal value
Less than one year to maturity	20% of nominal value

Excess debt arising from the difference between the nominal value and the amortised amount (i.e. not eligible for inclusion in Tier 2 capital) must be reported under line 3.3.

Further, the total such debt must not exceed 50% of Tier 1 capital – any excess is disallowed and must be reported under line 3.3.

Do not report:-

- (i) Loan stock that fulfils all the above criteria but has a first optional redemption date, or a final maturity date of less than 5 years but more than 1 year. Such debt is not allowable as Tier 2 capital and must be reported under line 3.3
- (ii) Unsecured convertible undated (perpetual) subordinated debt, (see line 2.3)
- (iii) Secured subordinated debt, un-subordinated debt and unsecured subordinated debt of original maturity less than 1 year – these items must be treated as a liabilities and reported under Form SRI line 13.5.

2.9 ***Lower tier 2 capital***

This represents the aggregate of the figures reported in lines 2.7 to 2.8 and is system generated.

2.10 ***Total tier 2 capital***

This is line 2.6 plus 2.9 and is system generated. This must not exceed the Total Tier 1 capital as reported under line 1.11. Any excess must be reported under line 3.3.

Section 3 – total capital and reserves

3.1 *Total tier 1 and tier 2 capital*

This represents line 1.11 plus 2.10 and is system generated.

3.2 *Un-audited current period's profits*

Report profits (net of tax and declared dividends) for the current period which are utilised for management accounting purposes but which are not eligible for inclusion in line 1.4 as the profits have not been verified by the bank's external auditor.

3.3 *Other Ineligible capital*

Report capital that is not eligible for inclusion in Tier 1 or Tier 2 capital but is of a capital nature, as described below:-

- (i) Total Tier 2 capital (line 2.10) should not exceed Total Tier 1 capital (line 1.11). Any excess must be included here
- (ii) Tier 2 unsecured dated (term) subordinated debt (line 2.8) should not exceed 50% of Total Tier 1 capital (line 1.11). Any excess must be included here
- (iii) Unsecured dated (term) subordinated debt (line 2.8) that has been amortised over the last four years (i.e. the difference between the nominal amount and the amortised amount)
- (iv) Other unsecured dated (term) subordinated debt of original maturity, or first optional redemption date of between 1 and 5 years
- (v) Unrealised gains or losses on cash flow hedges of financial instruments measured at cost or amortised cost that have been removed from line 1.3
- (vi) Unrealised gains or losses on debt instruments held in the available-for-sale category that have been removed from line 1.3
- (vii) Unrealised gains or losses, which are not attributable to changes in a benchmark interest rate, arising when a bank, upon initial recognition, designates its financial liabilities as at fair value through the profit and loss account that have been removed from line 1.3.

3.4 *Total capital and reserves*

This is the aggregate of lines 3.1 to 3.3 and is system generated. It should equal the figure reported in Form SR-I line 18, total column.

Section 4 – Adjusted Capital Base

4.1 *Eligible capital*

This is the Total Tier 1 and Tier 2 capital as reported in line 3.1 and is system generated. Any ineligible capital items should be reported in lines 3.2 and 3.3 as defined above.

4.2 *Investments in subsidiary and associated companies*

The figure reported here should correspond to that reported in Form SR-I line 7.3.

4.3 *Investments in the capital of other credit institutions*

The figure reported here should correspond to the sum of those reported in Form SR-I lines 4.3.3 and 7.2.1.

4.4 *Other deductions*

Any sums reported here will be made after discussion with the Financial Supervision Commission. An asset or off-balance sheet item that is identified as "deduct" in the risk-weight column on Form SR-I would be included here, if not already included in lines 4.2 or 4.3 above.

Also include exposures to parties connected to the bank, of a capital nature (excluding those that would be reported under lines 4.2 or 4.3). Any items included here should be excluded from total risk weighted assets in Form SR-I line 12.

Refer to the General Notes to Assist Completion for the definition of parties connected to the bank.

4.5 *Total deductions*

This represents the aggregate of the figures reported in lines 4.2 to 4.4 and is system generated.

4.6 *Adjusted Capital Base*

This is equivalent to the figure in line 4.1 less line 4.5 and is system generated.

This is the bank's Adjusted Capital Base for the purposes of calculating the Risk Asset Ratio.

Section 5 – Current period's profit and loss

The number of months and the date to which the reporting form is being made up should be reported here. The profit and loss account should cover the period from the end of the previous financial year-end to the date of the return.

5.1 *Income from banking*

5.1.1 *Interest received and receivable*

Report all interest received and receivable by the bank. Receipts and income accrued through discounts against the nominal value of an asset, (e.g., Treasury Bills), should be reported here. Interest receivable but not yet received reported here should also be added to the asset to which it relates and be reported in that asset classification on Form SR-1.

5.1.2 *Interest paid and payable*

The same principles as stated in 5.1.1 apply. Do not include interest paid and/or payable on unsecured subordinated debt, which has been entered in lines 2.3 or 2.8 (such interest should be reported in line 5.7.6). All interest payable that has not yet fallen due for payment or been added to the principal due to the depositor/lender, must be reported in Form SR-1 line 13.2. Dividends interest paid/payable on preference and/or ordinary shares must not be reported here, but instead under line 5.1.1.

5.1.3 *Net interest income*

This is line 5.1.1 less line 5.1.2 and is system generated.

5.1.4 *Loss / profit on foreign exchange dealing and currency positions*

Report revaluations of foreign exchange positions and, if identifiable, fees and commissions on foreign exchange business under this heading. If it is not possible to identify fees and commissions from this activity separately, they should be included with other fees and commissions in line 5.1.6.

Losses and profits must be reported as positive figures in the relevant columns on this form.

5.1.5 *Loss / profit on investments held for dealing*

This section only applies where the bank maintains a dealing book of investments. Report all profits or losses, (including revaluation profits and losses), reflected in the accounting records of the bank other than those arising from the sale of investments in subsidiary or associated companies, or

trade investments. Such profits should be reported in line 5.4 (other income) and losses reported in line 5.7.8 (other expenses).

Losses and profits must be reported as positive figures in the relevant columns on this form.

5.1.6 *Income from banking fees, charges and commissions*

Report charges made for services provided by the bank e.g., for the provision of current account facilities, guarantees, indemnities, and underwriting commitments. Do not include fees and commissions received from customers for the provision of foreign exchange services (see line 5.1.4), unless they cannot be separately identified.

5.1.7 *Decrease / increase in book value of investments*

Where the bank revalues its investments and incorporates the decrease or increase in value into its accounting records, then the resulting decrease or increase should be reported here. Do not include interest accruals (see line 5.1.1), or profits and losses arising from dealing (see line 5.1.5). A profit realised on the sale of an investment, (not held for dealing), should be reported under line 5.4 (other income), with similar losses reported under 5.7.8 (other expenses).

Decreases (losses) and increases (profits) must be reported as positive figures in the relevant columns on this form.

5.1.8 *Total banking income*

This is the aggregate of lines 5.1.3 to 5.1.7 and is system generated.

5.2 *Fee and other income from non-banking services related to customers / clients*

5.2.1 *Investment management fees*

Report all fees/commissions received by the bank for portfolio management services (both for discretionary and non-discretionary portfolios).

5.2.2 *Trust and company administration fees*

Report all fees received by the bank from trust and company administration.

5.2.3 *Trustee / Custodian Fees*

Report all fees received by the bank for acting as a Trustee and/or Custodian.

5.2.4 *Fund management fees*

Report fees received by the bank for collective investment fund management services or paid to the bank as an expense or inter-group charge by a (fund management) group company.

5.2.5 *Investment dealing profits and commissions*

Report all commissions and profits received/earned in investment transactions with, or on behalf of, clients. Include commission/profits from investment dealing transactions undertaken by the bank where it acts as principal but buys/sells on a matched (or virtually matched) basis to clients. (For example, where the bank purchases a block of shares/investments from a broker and then sells these on to its own investment clients).

5.2.6 *Other*

Report any fees and other income from non-banking services related to customers/clients that have not already been reported in lines 5.2.1 to 5.2.5 (Refer also to line 5.4).

5.2.7 *Total non-banking" income from services related to customers/clients*

This is the aggregate of lines 5.2.1 to 5.2.6 and is system generated.

5.3 *Dividends / share of profits (or losses) from subsidiaries and associated companies*

Banks reporting on an unconsolidated basis should include only the dividends received from other group companies. Those reporting on a consolidated basis should include the share of profits (or losses) from associated companies according to the relevant accounting conventions.

Any share of an associate company's loss must be reported as a negative figure.

5.4 *Other income*

Report other income that does not fall into any of the categories detailed in lines 5.1 to 5.3. Examples include rents received/receivable, profit realised on sale of subsidiary, profit on sale of fixed assets, and profit on the sale of an investment not held for dealing.

5.5 ***Total other income***

This is the aggregate of lines 5.3 and 5.4 and is system generated.

5.6 ***Total income***

This is the aggregate of lines 5.1.8, 5.2.7 and 5.5 and is system generated.

5.7 ***Expenses***

5.7.1 ***Operations - Staff***

Report all salary costs, including employer's national insurance contributions, staff bonuses, contributions to pension scheme, private medical insurance, luncheon vouchers and any other staff benefits paid on a per employee basis.

5.7.2 ***Operations - Occupancy***

Report rents, rates, insurance of building, heat and light, property maintenance costs and depreciation.

5.7.3 ***Operations - Other***

Report all other operational expenditure not otherwise provided for in items 5.7.1, 5.7.2 and 5.7.4

5.7.4 ***Group management / administration charge***

Report all intra-group charges made to the bank for services provided to it.

5.7.5 ***Total operations expense***

This is the aggregate of lines 5.7.1 to 5.7.4 and is system generated.

5.7.6 ***Interest paid and payable on unsecured subordinated debt***

Report only interest on loan stock which qualifies for inclusion as Tier 2 capital (items 2.3 and 2.8); all other debt interest must be included in the figure reported in line 5.1.2, (as it relates to assets reported on Form SR-I, line 13.5) or ineligible capital as reported on line 3.3.

See line 5.11 for dividends payable on preference and ordinary shares.

5.7.7 *Net charge / (credit) for specific/individual and general/collective bad debt provisions:-*

Report the net current loan provisions of the bank including provisions for both capital and interest. A net credit balance must be reported as a negative figure. This should equal the sum of the figures reported in line 6.2.

5.7.8 *Other expenses*

Report all other expenses not reported in lines 5.7.5, 5.7.6 or 5.7.7. This may include losses realised on sale of subsidiaries, losses on sale of fixed assets, and losses on the sale of an investment not held for dealing.

5.7.9 *Sub-total*

This is the aggregate of lines 5.7.6 to 5.7.8 and is system generated.

5.7.10 *Total Expenses*

This is line 5.7.5 plus 5.7.9 and is system generated.

5.8 *Total profit / (loss) before taxation, extraordinary items and dividends*

This is line 5.6 less 5.7.10 and is system generated.

5.9 *Current taxation provision*

Report the provision for taxation based on the bank's results detailed in the current period's profit and loss account, plus any adjustments arising from any under/over provision for taxation arising from previous periods.

If adjustments from any under/over provision result in a net tax credit for the period, this should be shown as a negative figure.

5.10 *Extraordinary items*

Any extraordinary profits or losses should be reported here. Profits should be reported as a negative figure.

5.11 *Dividends paid and payable*

Any dividend payment accrued, or paid, out of the current year's profit should be reported here.

Where the bank is intending to pay a dividend at a future date (on ordinary shares), out of this period's current earnings, an accrual should be included

here for a proportion of that intended future dividend payment relative to the expired portion of the current year's accounting period, subject to accounting rules in force.

This applies to dividends on both preference and ordinary shares.

5.12 ***Sub-total***

This is the aggregate of lines 5.9 to 5.11 and is system generated.

5.13 ***Total profit / (loss) after taxation, extraordinary items and dividends***

This represents line 5.8 less 5.12 and is system generated.

Section 6 – provisions against bad and doubtful debts

6.1 ***Previous balance***

- (i) Report the date at which the previous balance was reached in the format DD/MM/YYYY.
- (ii) Report the balance standing to the credit of the specific/individual, (in column 1), and general/collective, (in column 2), provisions for bad and doubtful debt accounts at the end of the previous financial year, and enter that date as per (i) above.

6.2 ***Charge/(release) to the profit and loss account***

Report the net charge/(release) to the profit and loss account that has occurred since the beginning of the financial period for specific/individual and general/collective provision accounts. Releases must be entered as negative figures. The aggregate of the figures reported in columns 1 and 2 should equal the figure reported in 5.7.7 in the profit and loss account.

6.3 ***Amounts written off***

Report amounts written off in the current accounting period. Where a debt has been identified as bad in the current accounting period and wholly, or partially, written off, the amount written off will be included here and a similar amount must be included in column (1) of line 6.2.

Where a debt has been identified as bad and a specific/individual provision has been made prior to the beginning of the current accounting period, and the debt has been written off in this current accounting period, the amount written off will be included here and no entry will be necessary in column (1)

of line 6.2 unless the amount written off is greater than the provision made in respect of that exposure in the previous accounting period.

6.4 *Recoveries of amounts previously written off*

Report all amounts recovered from loans previously written off. When the amount is released to the profit and loss account, it will be a credit within the total reported in line 6.2.

6.5 *Current balance*

This is the aggregate of lines 6.1(b) to 6.4 for each column. The total reported in column (1) should correspond to the total figure reported in Form SR-1 item 16.1. The total reported in column (2) should correspond to the figure reported in line 2.1 of this form, assuming it is below 1.25% of total risk weighted assets (not applicable for branches).

6.6 *Gross value of loans against which specific/individual provisions have been made*

Report the total gross value, before the deductions of provisions, of loans against which specific/individual provisions have been made.

6.7 *Analysis of provisions, (included in line 6.5, columns (1) and (2)), made other than against loans*

Report, in column (1), any provisions made in respect of, for example, litigation claims against the bank.

The only occasion in which a figure will be entered in column (2) is where the bank effectively has an undisclosed reserve.

Three lines (6.7.1 to 6.7.3) are provided to segregate out the analysis.

Section 7 – non-performing assets and loans

Note: this item is not concerned with recoverability of those loans and assets – just whether interest is overdue or outstanding on those loans/assets after the elapse of the time period.

7.1 *Loans and other assets – 60 days past due date*

Report the value of loans and other assets (e.g. bonds and securities) on which the interest due has not been received at the reporting date. Report

those loans/assets overdue for more than 60 days up to those overdue for 89 days.

7.2 *Loans and other assets – 90 days past due date*

Report the value of loans and other assets (e.g. bonds and securities) on which the interest due has not been received at the reporting date. Report those loans/assets overdue for more than 90 days.

4. Form SR-2B – Large Exposures Reporting – Notes to Assist Completion

General

These notes generally set out the minimum information to be reported in respect of a bank's large exposures to customers / counterparties.

Exposures to the following categories of customers / counterparties should be reported separately:-

- (i) Non-credit institutions
- (ii) Credit institutions

Reference should be made to the *General Notes to Assist Completion* and *Banking Guidance Note (BGN 4.0 or any subsequent revisions thereto)* on Large Exposures for the following definitions:-

- (i) Exposure
- (ii) Customers / Counterparties (including those related to each other and those connected to the bank)
- (iii) Large Exposures Capital Base (“LECB”)

The Commission may, however, require additional information to be provided by the bank either regularly or in respect of certain reporting dates only. Such additional information will be agreed with the Commission, in writing, with the bank concerned.

Exposures should be reported in descending order of size.

Exposures at the reporting date should be reported. Where the maximum exposure to the same customer / counterparty during the period since the previous reporting date has exceeded that at the reporting date the former should also be reported, unless it is the result of converting an exposure denominated, wholly or partly, in foreign currency into sterling (at a different exchange rate from that applied at the reporting date), arises from valuing a marketable security at a higher price, or unless otherwise agreed by the Commission.

An exposure which is less than 10% of the bank's LECB at the reporting date but which has exceeded 10% of the bank's LECB since the previous reporting date should also be reported, unless otherwise agreed, in writing, by the Commission.

Exposures are defined gross of specific/individual provisions made for bad and doubtful debts. Such provisions should however be reported in column 4.

Section I – analysis of all exposures to non-credit institutions of 10% or above of large exposures capital base (“LECB”)

Banks incorporated in the Isle of Man

Report all exposures that exceed 10% (unless the Financial Supervision Commission has determined a lower percentage) of the bank's LECB. The latest agreed LECB figure should be entered in the appropriate box on the form.

Branches

Report the ten largest exposures only.

General

Exposures to a group of closely related customers / counterparties should be reported as one exposure for the purpose of this form.

1. ***Customer / Counterparty Name***

Report the name of the customer / counterparty.

2. ***State if customer / counterparty is connected to the bank***

If the borrower is connected to the bank then report Y. If not, report N.

3. ***Exposure as at reporting date***

Report the amount of the facility being utilised (whether drawn down or guaranteed), as at the reporting date.

4. ***Specific/individual bad debt provision (if any)***

Report the amount of any such provisions made specifically/individually against each exposure.

5. ***Maturity date(s)***

Report the maturity date in the format DD/MM/YYYY or “various” (see below).

A security with optional redemption dates, which are exercisable by the holder, should be classified according to the first optional redemption date. Where there are several maturity dates due to (for example) a number of individual exposures making up the total closely related exposure; "various" may be inserted here.

6. ***Currency***

Report the currency in which the exposure is denominated. Where the exposure, or group of closely related exposures, is denominated in more than one currency, "various" may be inserted here.

7. ***Reported on Form SR-I under item(s)***

Report the relevant item number(s) on Form SR-I under which the exposure(s) is/are included.

8. ***Facility limit***

Report the amount of the aggregated facility limit.

9. ***Maximum exposure in the quarter***

Report the maximum amount of the exposure since the last supervisory return was submitted if larger than the figure in column 8.

10. ***Nature of security***

Report the type of security taken against the loan (e.g. cash, securities, property, guarantee from parent bank etc). If no security is taken then enter "none".

11. ***Date large exposure card submitted (this does not apply to branches)***

Report the date that the most recently updated large exposure card was submitted to the Financial Supervision Commission, in the format DD/MM/YYYY.

Banks are asked to note that a large exposure card must be provided for each exposure listed in section I and that these large exposure cards must be updated as necessary and in any event at least annually.

Section 2 – analysis of exposures to credit institutions

Banks incorporated in the Isle of Man

Report all exposures that exceed 10% (unless the Financial Supervision Commission has determined a lower percentage) of the bank's LECB. The latest agreed LECB figure should be entered in the appropriate box on the form.

Branches

Report the ten largest exposures only.

General

Exposures in the form of investment, (including those in the form of equities or subordinated loans stocks), in another credit institution should be reported here regardless of the maturity of the security.

Exposures to groups of closely related counterparties should be reported as one exposure. Exposures to individual counterparties within the bank's group should be separately identified only if they are equal to or greater than 2% of total assets.

1. ***Name of credit institution***

Report the name of the credit institution counterparty.

2. ***Reported on Form SR-I under item(s)***

Report the relevant item number(s) on Form SR-I under which the exposure(s) is/are included.

3. ***Maturity date(s)***

Report the maturity date in the format DD/MM/YYYY or "various" (see below).

A security with optional redemption dates, which are exercisable by the holder, should be classified according to the first optional redemption date. Where there are several maturity dates due to (for example) a number of individual exposures making up the total closely related exposure; "various" may be inserted here.

4. ***Limit***

Report the maximum amount that may be put at risk with the particular credit institution, by the bank.

5. ***Current amount***

Report the amount at risk as at the reporting date.

5. Form SR-2C – Memorandum Items – Notes to Assist Completion

Reference should be made to the *General Notes to Assist Completion* and *Banking Guidance Note (BGN 4.0)* on Large Exposures for the definitions of parties connected to the bank.

1. *Amounts due to parties connected to the bank*

Report all liabilities, not merely deposit liabilities, due to parties connected to the bank in the four categories provided in the form.

Amounts due to individual directors, controllers and their associates need not be reported here provided the amount does not exceed £50,000.

For the definition of parties connected to the bank refer to *section 5 of the General Notes to Assist Completion*.

2. *Amounts due from parties connected to the bank*

Report all such exposures due from parties connected to the bank in the four categories provided in the form.

Amounts due from individual directors, controllers and their associates need not be reported here provided the amount does not exceed £50,000.

For the definition of parties connected to the bank refer to *section 5 of the General Notes to Assist Completion*.

3. *Aggregate value of investments (as reported under Form SR-1 item 7.4)*

Report the value of all investments reported under Form SR-1 line 7.4.

3.1 *Quoted investments: Market valuation*

Report the value of all investments listed under a Recognised Stock Exchange included within Form SR-1 line 7.4.1.

3.2 *Unquoted investments: Directors' valuation*

Report the value of all other investments included within Form SR-1 line 7.4.2. A revaluation by directors of such investments is not required on each reporting date, but it must be undertaken at least once a year. The latest valuation for statutory or management accounting purposes should be shown unless substantial impairment of that value is known to have occurred.

4. ***Encumbered assets***

Report the total of any assets not freely available to meet the claims of the generality of creditors in a liquidation of the bank because they are subject to charge, pledge or other restriction. This will include items given as security in connection with the bank's participation in a payments/settlements system (such as Euroclear). Assets pledged in excess of the actual liability to individual systems at the reporting date should not be reported. This line will also include assets given as security for the bank's other liabilities (e.g. property which has been mortgaged and hire purchase agreements pledged as collateral). Assets reported should exclude any element of unearned finance charges.

5. ***Fiduciary deposits***

Report the total of deposits received by the bank that are placed or relent at the depositor's risk or under arrangements by which they are not regarded as liabilities of the bank.

Reference should also be made to section 4.5 of the General Notes to Assist Completion.

6. ***Number of staff employed***

If the date for which these figures are available is not the reporting date enter the date to which the figures do relate, in the format DD/MM/YYYY.

Report the number of staff employed by the bank, taking into account the following:

- (i) An employee is regarded as full time if the hours he/she works for the bank, in an average week, are thirty or more, (excluding overtime). Such staff should thus be reported in the full time column. All other employees should be considered to be part time for the purposes of this return and reported in the part time column.
- (ii) Employee includes a director of the bank where that director is an executive, (rather than non-executive), director.

7. ***Number of accounts as at reporting date***

Report only deposit accounts with a credit balance when completing this section (i.e. do not include overdrawn accounts).

8. ***Deposits/loans received from other Isle of Man credit institutions***

Report all deposits/loans made to the bank by Isle of Man offices of other institutions holding a licence issued under section 6(1) of the Banking Act 1998.

Also include deposits/loans made to the bank by Isle of Man offices of building societies holding an authorisation issued pursuant to sections 2 and 4A of the Building Societies Act 1986, as amended.

9. ***Risk Asset Ratio (not applicable for branches)***

The Risk Asset Ratio is defined as being the Adjusted Capital Base of the bank as reported under Form SR-2A line 4.6, divided by the total risk weighted assets of the bank as reported under Form SR-1 line 12. It is expressed as a percentage and is system generated.

6. Form SR-3A - Liquidity Risk - Notes to Assist Completion

General

The purpose of this return is to assess a bank's liquidity profile, taking into account liquid assets, products containing embedded and prepayment options, and behavioural adjustments to the retail deposit base.

Assets and deposit liabilities should be reported on a residual maturity basis throughout the return, but the bank may, at its option, also report interest due to be paid and received and additional cash flows such as dividend payments, large plant purchases etc on a cash-flow basis. All foreign exchange flows should be separately reported in the FX cash inflows and outflows columns (see notes 13 and 27).

Assets and liabilities are recorded on a maturity ladder and, where appropriate, behavioural adjustments are applied prior to the final mismatch position being calculated.

A "worst-case" basis is used to determine the timing of flows from assets and liabilities, with assets being recorded at the latest maturity and liabilities at the earliest. This approach allows a bank's liquidity to be assessed in the circumstances of depositors withdrawing their funds and lenders being unwilling to renew their facilities. However, the Commission recognises that some banks may maintain liquidity through holding highly liquid instruments such as government securities, certificates of deposit, floating rate notes, and bills of exchange. It is also recognised that the cash flows produced by some liabilities may bear little resemblance to their contractual maturity. For example, customer demand deposits are not normally withdrawn the next day and can remain with the same institution for several years. Banks may therefore apply to the Commission for agreement to apply behavioural adjustments to such deposit liabilities.

In general, banks are required to maintain appropriate levels of liquidity in each individual currency. It is recognised that the liquidity of the forward foreign exchange market is such that banks should experience little difficulty in executing foreign exchange swap deals to fund assets in a currency where the bank is short of liquidity from liabilities in a currency where the bank has an excess of liquidity. The Commission will therefore allow banks to report all currencies on a net basis but would not expect interest arbitrage to form a major part of their liquidity strategy. The Commission may therefore require the bank to report in specified individual currencies.

For the purposes of this report "sight less than eight days" means the 1st to 7th day inclusive of the month following the reporting date. "8 days less than month" means the 8th day of the month following the reporting date up to and including the last day of the same month. Beyond this, references to "month or months" mean calendar month or months.

All monetary balances should be reported in sterling, for the sterling and other currency liquidity return.

Completion notes – liquidity risk

Assets

1. Report deposits placed with, and CDs issued by, group entities according to contractual maturity date. CDs issued by group institutions do not qualify for behavioural adjustment unless the instruments are highly liquid and able to be independently sold in the secondary. Banks must obtain the agreement of the Commission if it is intended to apply behavioural adjustments to such assets.
2. Report deposits with credit institutions on either a notice or fixed term basis. Do not include certificates of deposit, floating rate notes or deposits or other instruments that incorporate embedded options.
3. Report deposits with, or other instruments issued by, credit institutions (including group) that incorporate embedded derivatives or early repayment options. Assets should be reported by contractual maturity. In order to qualify for behavioural adjustment, the bank must clearly show that it has the sole right to exercise an option for repayment prior to final maturity. The prior agreement of the Commission must be sought before making such adjustments.
4. Report certificates of deposit, bills of exchange and floating rate notes by contractual maturity. Bills of exchange should be included at book value. These instruments qualify for behavioural adjustment to the sight to less than 8 days maturity band subject to the following discounts:

Under 1 year to maturity:	5%
1 to 5 years to maturity or floating rate:	10%

5. Report bonds issued by credit institutions (including group) that incorporate embedded derivatives or early repayment options according to final maturity. To qualify for any behavioural adjustment, the bank must have the sole right to exercise an option for repayment prior to final maturity, or that there is a liquid secondary market for the instrument. The prior agreement of the Commission must be sought before making such adjustments.
6. Report bonds issued by United Kingdom and other “Zone A” governments, Isle of Man, Jersey, and Guernsey, according to contractual maturity. Such bonds may be subject to a behavioural adjustment to the sight to less than 8 days maturity band subject to the following discounts:

Under 1 year to maturity or floating rate	3%
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1 to 5 years to maturity	7%
Over 5 years to maturity	16%

7. Report bonds issued by “Zone B” governments according to contractual maturity.
8. Report all other investments according to contractual maturity date. Equities and other undated marketable assets should be included in the over 1, less than 3 month maturity band. Behavioural adjustments may be appropriate in respect of main index equities. Commercial paper should be entered according to contractual maturity, but behavioural adjustments may be appropriate. The prior agreement of the Commission must be sought for such adjustments.
9. Loans should be reported according to final contractual maturity date. Overdrafts should be entered in the over 1, less than 3 month maturity band.
10. Mortgages should be reported according to final maturity date.
11. Report all other on balance sheet assets according to their maturity date. The treatment of undated assets of material value should be agreed with the Commission.
12. For each maturity band, this is the sum of the figures reported under notes 1 to 11 above. It is system generated. The total of this line (i.e. total assets) should equal the figure in column 3, line 10 of Form SR-1.
13. Report foreign exchange purchases according to settlement date.
14. Report any undrawn committed standby facilities granted to the bank by [third party Zone A credit institutions](#). [Facilities granted by group should not be included without prior discussion and agreement with the Commission](#). Such facilities should be unconditional unless otherwise agreed with the Commission.
15. ***Completion of this row is optional.*** Report known inflows.
16. Report all behavioural adjustments that have been agreed with the Commission. Behavioural adjustments out of the reported maturity band should be shown as a negative entry, and the corresponding adjustment should be shown as a positive entry in the appropriate maturity band. The sum of the entries of each of these rows should therefore amount to zero.

Use a separate row for each adjustment.

The prior agreement of the Commission must be sought for behavioural adjustments on any assets other than those specified in the notes above.

17. For each maturity band this is the sum of the figures reported under notes 12 to 16. It is system generated.

Liabilities

18. Report all retail call or notice deposits. Do not include deposits from credit institutions, or any deposit accepted via a professional person or body that has a fiduciary responsibility for the funds (e.g. international life companies or trust companies).
19. Report all other call or notice deposits.
20. Report all retail fixed term deposits. Do not include deposits from credit institutions, or any deposit accepted via a professional person or body that has a fiduciary responsibility for the funds (e.g. international life companies or trust companies), or deposits or deposit bonds issued by the bank that incorporate embedded derivatives or offer the client an early repayment facility.
21. Report all other fixed term deposits other than deposits or deposit bonds issued that incorporate embedded derivatives or offer the client an early repayment facility.
22. Report all **structured deposits**, deposits or deposit bonds issued that incorporate embedded options or offer the customer the option to obtain repayment in part or in full prior to final maturity. **For the latter**, report on a “worst case” basis (i.e. the earliest date upon which the client can obtain repayment). If the bank sells a five year product that allows clients to withdraw 20% on the principal annually on 1st March, the 31st March return would show 20% of the deposit under 6 to 12 months, 40% under 1 to 3 years and 40% under 3 – 5 years.
23. For each maturity band this is the sum of the figures reported in lines 18 to 22. It is system generated.
24. Report total capital and reserves as reported in Form SR-I, line 18, as over 5 years. Subordinated loans and other eligible debt should be entered under contractual maturity. The total for sterling denominated capital should equal the figure in column 1, line 18 of Form SRI. The total for other currency denominated capital should equal the figure in column 2, line 18 of Form SR-I.
25. Report all other on balance sheet liabilities according to maturity date.
26. For each maturity band this is the sum of the figures reported in lines 23 to 25. It is system generated. The total of this line (i.e. total liabilities) should equal the figure in column 3, line 19 of Form SR-I.
27. Report foreign exchange sales according to settlement date.

28. Where the bank is aware that committed lending facilities to customers are to be drawn down, classify these facilities according to draw down date. Where the date of draw down is unknown, include 35% of the total amount in the sight < 8 days maturity band. The balance may be omitted.
29. *Completion of this row is optional.* Report known future outflows.
30. Report behavioural adjustments on liabilities that have been previously agreed with the Commission. If for example, the Commission has agreed that a bank may factor a certain percentage of its retail sight < 8 days deposits to the over 1 month to less than 3 month maturity band, the adjustment should appear as a negative figure in the sight < eight days column, and a positive in the over 1 month to less than 3 months column. The total of each of these rows should therefore amount to zero.
31. For each maturity band this is the sum of the figures reported in lines 26 to 30. It is system generated.
32. For each maturity band this is the total adjusted assets calculated under line 17, less the total adjusted liabilities calculated under line 31. It is system generated.
33. For each maturity band this is the mismatch position calculated from line 32 on a cumulative basis (i.e. from sight). It is system generated.
34. For each maturity band this is line 33 compared to the total of line 23. It is system generated.

Completion notes – Analysis of the ten largest depositors

The ten largest deposits should be reported, aggregating multiple deposits from one customer.

Customer / counterparty name – state the name of the customer / counterparty

Amount – report the total amount of the deposit

Maturity Date(s) – report the maturity date of the deposit in the format DD/MM/YYYY. If there is more than one deposit state “various”.

Currency – state the currency that the deposit is denominated in. If there is more than one currency state “various”.

Completion notes – Analysis of non-credit institution deposits

In completing this section the residence of a deposit with, or loans to, the bank should be classified according to the address to which the bank corresponds if no better classification is available. The geographical classifications in the form are not tight and it will be necessary for the bank to exercise its own judgement as to which category a particular deposit should be classified in.

The heading “Isle of Man” has been sub divided into two sections as follows:

Individuals – report deposits with, or loans to, the bank from individuals, including trustees, partnerships and unincorporated associations.

Other – report deposits with, or loans to, the bank from all companies.

7. Form SR-3B - Interest Rate Risk - Notes to Assist Completion (this form does not apply to branches)

General

The purpose of this return is to enable the Commission to determine the degree of interest rate risk assumed by the bank, and to calculate the amount of capital required to support the risk.

All banks are required to report interest rate mismatch positions classified in specific maturity bands according to their residual maturity.

Maturity dates and interest rate repricing dates should be determined on a worst case basis, with assets being recorded at their latest maturity and deposit liabilities at their earliest. Due regard should also be taken of products that allow the customer to withdraw all, or a proportion of, their deposit prior to final maturity.

For the purpose of measuring interest rate risk, long positions in one currency cannot be offset against short positions in another currency. A separate return should be made for each currency that represents in excess of 25% of the bank's deposit liabilities. Other currencies should be calculated individually and aggregated. The total should be entered under "other currencies" (see note 19). Currencies that constitute less than 5% of total deposit liabilities may be ignored. The Commission reserves the right to request reports for individual foreign currencies at its discretion.

Where derivatives are used to hedge interest rate risk, they should be regarded as synthetic assets or liabilities for reporting purposes. Thus, in a case where the bank has hedged a one year fixed rate asset against one month floating rate, it should report the hedging transaction as a liability in the 6-12 month band, and an asset in the up to 1 month band in the lines entitled "other interest rate contracts".

For the purposes of this report references to "month or months" mean calendar month or months. Further guidance is provided in *Banking Guidance Note (BGN 7.0)*.

Completion Notes

Assets

Interest accrued on assets as at the reporting date should be reported in the sight < 1 month maturity band. The interest accrued should be reported in the appropriate asset category of the form.

Similarly, in the absence of a separate column, non-interest bearing assets should be reported in the sight < 1 month maturity band in the appropriate asset category of the form, which attracts a zero capital charge.

1. Report deposits with other credit institutions according to contractual maturity date.
2. Report according to the earliest date that the bank has the ability to obtain repayment of the asset. Where early repayment is at the option of the borrower, or relates to a specific market event (eg. FTSE 100 closing higher than a specified level), the asset should be reported according to contractual maturity date.
3. Report all liquid assets (e.g. CDs, FRNs, and bills of exchange purchased) according to the next interest re-determination date or contractual maturity date.
4. Report bonds and other instruments according to the earliest date that, under the terms and conditions of the issue, the bank has the ability to obtain repayment of the asset.
5. Report all other investments by contractual maturity or next interest rate re-determination date.
6. Overdrafts should be reported in the sight < one month maturity band. Loans should be reported by the earliest date at which the bank has the ability to obtain repayment or vary the interest rate.
7. Variable mortgages should be reported in the sight < one month maturity band. Floating rate mortgages should be reported according to the next interest rate re-determination date.
8. Fixed rate mortgages should be reported according to contractual maturity.
9. Report all other assets according to contractual maturity or interest rate re-determination date. The treatment of undated assets of material value should be agreed with the Commission.
10. For each maturity band this is the sum of the figures reported in lines 1 to 9. It is system generated. The total "sub total" for sterling assets should equal the figure in column 1, line 10 of Form SR-1.
11. Report forward foreign exchange purchases according to settlement date.
12. Report all notional amounts receivable under interest rate related contracts.

13. For each maturity band this is the sum of the figures reported in lines 10 to 12. It is system generated.

Liabilities

Interest accrued on liabilities as at the reporting date should be reported in the sight < 1 month maturity band. The interest accrued should be reported in the appropriate liability category of the form.

Similarly, non-interest bearing liabilities should be reported in the sight < 1 month maturity band in the appropriate liability category of the form, which attracts a zero capital charge.

14. Report total demand and notice accounts according to the maturity band in which the interest rate payable on the deposit can be changed or varied by the bank. Current accounts should be reported in the sight < one month band, one-month notice accounts in the 1 < 3 month band etc. (NB: if the bank's procedure is to vary interest rates without giving notice to the customer, and the rate change takes immediate effect, the deposit should be reported as a sight liability). Where a product allows a proportion of the deposit to be withdrawn without penalty prior to the notice period, this proportion should be reported in the sight < one month maturity band. This may give rise to one deposit being split and reported over two or more maturity bands.
15. Report fixed term deposits according to contractual maturity.
16. Report all deposit bonds issued by the bank according to contractual maturity. Do not include bonds issued that incorporate embedded derivatives, or bonds that grant the customer the right to withdraw funds prior to final maturity.
17. Report any structured deposits, deposits and deposit bonds issued that incorporate embedded derivatives, or bonds that grant the customer the right to withdraw funds prior to final maturity, in the maturity band that represents the earliest date the customer can obtain repayment. This may give rise to one deposit being split and reported over two or more maturity bands.
18. Report all other liabilities. For capital and reserves, shareholder's equity should be entered in the sight < one month maturity band. Variable and floating rate debt should be entered by next interest rate re-determination date.

19. For each maturity band this is the sum of the figures reported in lines 14 to 18. It is system generated. The total "sub total" for sterling liabilities should equal the figure in column I, line 19 of Form SR-I.
20. Report forward foreign exchange sales by settlement date.
21. Report all other notional amounts payable under interest rate related contracts.
22. For each maturity band this is the sum of the figures reported in lines 19 to 21. It is system generated.
23. For each maturity band this is the total assets (line 13) less the total liabilities (line 22). It is system generated.
24. These percentages are pre-set.
25. For each maturity band this is the figure in line 23 multiplied by the percentage in line 24. It is system generated.
26. The amount at risk is the sum of the weighted positions and is system generated for sterling and specified currencies. It is the aggregate for all other currencies that are reported.
27. Bring forward the amount at risk from the sterling report.
28. Bring forward the amount at risk from each specified currency report.
29. Report the aggregate of all other currencies that constitute in excess of 5% of total deposit liabilities.
30. This is a system generated line, being the sum of the amounts at risk as reported under lines 27 to 29. The derived amount is carried forward to line 28 of Form SR-I, which is automatically populated.

8. Form SR-4 – Foreign Exchange and OTC Derivatives – Notes to Assist Completion (this form does not apply to branches)

Section 1 of this return is aimed at establishing the exposure to the risk of loss arising from adverse movements in foreign exchange rates on positions a bank has assumed. These risks not only include positions taken by a bank by proprietary trading and client driven transactions, but also other, less obvious risks such as known profit flows in foreign currency and provisions for bad debts denominated in foreign currency. The total open position is calculated, and is carried to Form SR-I to be included in the risk weighting calculation.

Section 2 examines the implied credit risk that may arise from the failure of a counterparty to honour a contract. The replacement cost of OTC derivative contracts, including those implied or embedded within structured products, is calculated to arrive at a credit equivalent amount, which is then carried to Form SR-I to be included in the risk weighting calculation. Exchange traded contracts subject to daily margining are not to be reported here, as all cash margins should be reported on Form SR-I.

Section I- Foreign Currency Exposure

Composite currencies

Composite currencies should be reported as individual currencies. However, banks with assets and/or liabilities in composite currencies that hedge market risk through the component currencies should seek approval from the Commission prior to reporting the disaggregated amounts here.

Currencies not printed on form

Report in the rows denominated “(b)” individual currencies in which the bank has gross spot claims or liabilities equivalent to £1million or more. If there are more than 6 individual currencies equivalent to £1m or more then report the top 5 separately and aggregate the remainder in the final row denominated “b”.

Currencies with smaller gross spot balances than the equivalent of £1million should be aggregated and separated into “long” and “short” positions and reported in the row “Foreign currencies not separately specified”. For example, if a bank has gross spot claims of £500,000 AUD and £300,000 CAD, and gross spot liabilities of £400,000 AUD and £250,000 CAD, the spot claims would be aggregated to £800,000, and the liabilities to £650,000, and be reported in the row titled “long”. If spot liabilities in CAD were £350,000, the AUD claims and liabilities would be reported as “long”, with the CAD claims and liabilities reported separately as “short”.

Column 1 – Gross spot claims

Report all spot claims (gross of all provisions for bad and doubtful debts) in foreign currencies and gold bullion and coin. The sum of the entries in column 1 (i.e. total) should correspond with the figure in column 2, line 10 of Form SR-1. All entries should be positive.

Unsettled spot deals should not be entered here but must be entered in column 4.

Column 2 – Gross spot liabilities

Report all spot liabilities, including internal accounts in foreign currencies and gold bullion and coin. (Internal accounts should not include spot position accounts used to ensure that currency books balance). Entries in this column should not be in brackets (negative) unless net spot assets have only arisen from the inclusion of internal accounts.

Report under translation/revaluation adjustment any change in the sterling equivalent value of foreign currency assets and liabilities, caused by exchange rate movements, that has been included, or, in principle, would be included, as part of the figure reported in column 2, line 18 of Form SR-1. If the figure included within the Form SR-1 entry is negative then the entry in this cell should be in brackets.

Unsettled spot deals should not be entered here but must be entered in column 4.

The sum of the entries in column 2 (i.e. total) should correspond to the figure in column 2, line 19 of Form SR-1.

Column 3 – Net spot claims / (liabilities)

This is obtained by deducting column 2 from column 1. It is system generated.

Column 4 – Net forward purchases / (sales)

Report all net forward purchases (sales) of foreign currencies and gold bullion and coin. Do not include the sterling component of any trade or any foreign currency or gold futures contracts. Do include unsettled spot trades and the forward exchange element of cross currency interest rate swaps. Purchases should be reported as positive figures and sales as negative figures.

The net forward position for each currency should be translated into sterling at prevailing spot exchange rates.

Column 5 – Known net future income / (expense) not already included in column 3

Report the net flow of interest payable and receivable on “synthetic” deposits and loans arising from swap arbitrage transactions (i.e. a spot against forward swap transaction

that creates a synthetic loan in the source currency and a synthetic deposit in the derived currency). All such flows should be recorded, even if fully hedged against foreign exchange risk. Income should be reported as a positive figure and expense as a negative figure.

Column 6 – Net purchases / (sales) of currency and gold futures contracts

Report the net positions of exchange traded currency and gold futures contracts. Contracts should be reported on the basis of the nominal value translated at the closing mid market spot rate. Only include contracts where the bank has a commitment to buy or sell a foreign currency at a future date, even if the final settlement date is subject to an option. Do not include contracts that give the bank an option to allow the contract to lapse. Purchases should be reported as positive figures and sales as negative figures.

Column 7 – Adjustments for profit and loss and specific provisions

Report any profit or loss denominated in foreign currency not already included in column 3, and any specific provisions in currencies other than sterling.

Column 8 – Net overall long / short position

This is the aggregate of the figures in columns 3 to 7 for each line. It is system generated.

Column 9 – Adjustment for structural assets / (liabilities)

Report any item that the Commission has agreed is structural. A separate schedule must be attached to the Form SR-4 detailing individual items, their currency amounts and the Sterling equivalents.

Prior agreement of the Commission is required before any item may be regarded as structural, other than the following:

- Premises
- Fixtures and fittings (including plant and equipment)
- Investments in subsidiaries
- Investments in associates

Assets should be reported as positive figures and liabilities as negative figures.

Column 10 – Net reportable long (short) position

This is the aggregate of the figures reported in column 8 and 9 for each line. It is system generated.

The aggregate of the net short open positions is translated as a positive figure to Form SR-I line 29. SR-I is automatically populated from this form.

Section 2 – OTC Derivatives

Banks should report in this section the nominal and mark to market amounts of all OTC derivative contracts in the appropriate category provided. This includes any OTC derivatives implicit or embedded within structured products.

Do not report contracts traded on recognised exchanges that are subject to daily margining requirements, OTC contracts cleared by a clearing house where the latter acts as the legal counterparty and all participants collateralise on a daily basis, or for OTC foreign exchange contracts (except contracts concerning gold) with an original maturity of 14 calendar days or less.

Banks should use the replacement cost method to calculate the derived credit equivalent amounts of instruments, and should mark to market in accordance with best market practice.

For the purpose of measuring the counterparty risk inherent in such contracts, a risk weighting of 50% should be applied in respect of counterparties that would attract a weight of 100% elsewhere. Further guidance is provided in *Banking Guidance Note (BGN 8.0)*.

Column 1- Notional principal amount

Report the Sterling equivalent (£'000) of principal and notional principal amounts of all outstanding contracts except those contracts defined above.

Single currency interest rate basis swaps produce no material future credit exposure, and are therefore treated identically with interest rate contracts of under 1 year.

Amortising swaps should be reported as the amount outstanding at the reporting date. Other swaps based on a fluctuating level of principal should be entered as the maximum notional principal outstanding over the remaining life of the swap.

Exchange rate contracts should be reported as the amount of the underlying currency being received.

Contracts for equities, precious metals and commodities should be reported as the nominal amount (converted into Sterling at the closing mid market spot rate where appropriate).

Column 2 – Mark to market profit

Report only contracts with a positive mark to market value. Enter profit amounts for each applicable weighting category as Sterling equivalents (£'000).

All further columns are system calculated

Weighted amounts – translation to Form SR-1

The reporting of OTC derivatives is split into 5 categories. For each category the total weighted amount is translated to Form SR-1 to be included in the total risk weighted assets. The system automatically populates Form SR-1 from SR-4. The following total weighted amounts are translated:

- Interest rate related contracts – to line 30.1 of Form SR-1
- Foreign exchange (including gold) – to line 30.2 of Form SR-1
- Equities – to line 30.3 of Form SR-1
- Precious metals (except gold) – to line 30.4 of Form SR-1
- Commodities – to line 30.5 of Form SR-1.

APPENDIX A – AUDIT REPORT ON VERIFICATION OF INTERIM PROFITS

The Board of Directors

[name and address of bank]

[date]

Dear Sirs

[name of bank] – Report on interim profits for inclusion in tier I capital

In accordance with your letter of instruction dated [date], a copy of which is attached, we have reviewed [name of bank's] current year interim profits, for the period [date to date] as reported on form SR-2A dated [date], a copy of which is attached for identification. Our review, which did not constitute an audit, has been carried out having regard to the conditions set out in part 1 section 8, and part 3 of Banking Guidance Note BGN2.0 [or as amended by subsequent reissues of this guidance note].

On the basis of the results of our review, nothing came to our attention to indicate that:

- (a) the interim profits as reported on form SR-2A have not been calculated on the basis of accounting policies adopted by the bank in preparing its latest statutory accounts for the year to [date] except for [list changes arising from accounting standards – there is no need to quantify their impact];
- (b) the accounting policies adopted by the bank differ in any material respects from those required by the Commission under Code 23(1) of the Banking (General Practice) Regulatory Code 2005, as amended;
- (c) the interim profits amounting to £[amount] as so reported are not reasonably stated.

Yours faithfully

[name of firm]