

Own funds part

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1 Application and definitions

1.1 This Part applies to a JIB.

1.2 In this Part, the following definitions shall apply:

Additional Tier 1 Capital

Items eligible for inclusion within Tier 1 Capital (other than CET1 capital) as defined in section 3.

AT1 capital

Additional Tier 1 capital

AT1 Instrument

An instrument that meets the criteria for inclusion in AT1 Capital

Banking Code

Code of Practice for Deposit-taking Business, published by the JFSC and available at:

<https://www.jerseyfsc.org/industry/codes-of-practice/deposit-taking-business-code-of-practice-2/>

Basel II

'International Convergence of Capital Measurement and Capital Standards, A Revised Framework, Comprehensive Version', issued by the Basel Committee in June 2006 and available at:

<https://www.bis.org/publ/bcbs128.pdf>

Basel Committee

Basel Committee on Banking Supervision

Capital Ratios

The three ratios for which minima are established, being the CET1 Capital Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio.

Common Equity Tier 1 Capital

As defined in Section 2.

CET1 Capital

Common Equity Tier 1 capital.

CET1 Capital Ratio

The ratio of CET1 Capital to total RWAs.

CET1 Instrument

An instrument that meets the criteria for inclusion in CET1 Capital.

DTAs

Deferred tax assets

DTLs

Deferred tax liabilities

DVA

Debit valuation adjustment

JRDCA

Jersey Resolution and Depositors Compensation Authority, the authority responsible for resolution matters under the Bank (Recovery, Resolution and Depositors' Compensation) (Jersey) Law 2017

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RWAs

Risk Weighted Assets

Tier 1 Capital

As defined in Section 3.

Tier 1 Capital Ratio

The ratio of Tier 1 Capital to total RWAs

Tier 1 Instrument

An instrument that is eligible for inclusion in Tier 1 capital

Tier 2 Capital

As defined in Section 4.

Total Capital

Defined in Section 4 as the total of Tier 1 Capital and Tier 2 Capital

Total Capital Ratio

The ratio of Total Capital to Total RWAs

2 CET1 Capital – items, deductions and total

2.1 Item 1: Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus

2.1.1 The total of all common share capital plus related share premium that meet the following qualifying criteria:

- (1) Represents the most subordinated claim in liquidation of the JIB.
- (2) Entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim).
- (3) Principal is perpetual and never repaid outside of liquidation (setting aside discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under relevant law).
- (4) The JIB does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.
- (5) Distributions are paid out of distributable items (retained earnings included). The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap (except to the extent that a JIB is unable to pay distributions that exceed the level of distributable items).
- (6) There are no circumstances under which the distributions are obligatory. Non-payment is therefore not an event of default.
- (7) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.
- (8) It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari-passu with all the others.
- (9) The paid in amount is recognised as equity capital (i.e. not recognised as a liability) for determining balance sheet insolvency.
- (10) The paid in amount is classified as equity under the relevant accounting standards.
- (11) It is directly issued and paid-in and the JIB has not directly or indirectly funded the purchase of the instrument unless the holding company is itself registered as a bank. This has the following effect:

if the equity is held by a non-bank holding company, any lending to the holding company by the JIB (directly or indirectly) will result in an amount equal to that lending becoming ineligible.

- (12) The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity or subject to any other arrangement that legally or economically enhances the seniority of the claim.
- (13) It is only issued with the approval of the owners of the issuing JIB, either given:
 - › directly by the owners or, if permitted by applicable law,
 - › given by the Board of Directors or by other persons duly authorised by the owners.
- (14) It is clearly and separately disclosed on the JIB's balance sheet.

2.2 **Item 2: Retained earnings**

2.2.1 The total of all retained earnings from prior years, net of any current year losses but only including profits where:

- (1) the JIB has taken a formal decision confirming the final profit or loss of the JIB for the year; or
- (2) those profits have been verified by persons independent of the JIB that are responsible for the auditing of the accounts of that JIB.

2.3 **Item 3: Accumulated other comprehensive income (and other reserves)**

2.3.1 The total of all other reserves that meet the CET1 qualifying criteria set out for Item 1: Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus, net of any reduction in the current year but only including increases that are auditor certified.

2.4 **Item 5: Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)**

- 2.4.1 Only relevant where a JIB has one or more subsidiaries that have issued common share capital that is held by third parties, and only then in the case of prudential reporting submitted on a consolidated basis.
- 2.4.2 The amount allowed is limited to the amount required to meet regulatory requirements in respect of CET1 Capital.

2.5 **Item 6: Common equity tier 1 capital before regulatory adjustments**

2.5.1 Must be calculated as the sum of:

- (1) Item 1: Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus
- (2) Item 2: Retained earnings
- (3) Item 3: Accumulated other comprehensive income (and other reserves)
- (4) Item 5: Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)

2.6 **Item 7: Prudential valuation adjustments**

- 2.6.1 Relevant where the JIB holds any assets at fair value that are illiquid. JIBs should consider the guidance contained in section VIII, "Treatment for illiquid positions", of the Basel Committee paper titled "Revisions to the Basel II market risk framework", issued July 2009 (available at <https://www.bis.org/publ/bcbs158.htm>)

2.7 **Item 8: Goodwill (net of related tax liability)**

- 2.7.1 The amount of goodwill held, net of any related deferred tax liability. Must be calculated as:

(1) Item 80: Goodwill

minus

(2) Item 80a Goodwill: related deferred tax liability

2.8 **Item 9: Other intangibles, other than mortgage-servicing rights (net of related tax liability)**

- 2.8.1 The amount of other intangible assets held (except mortgage servicing rights (MSRs): see Item 20: Mortgage servicing rights (amount above 10% threshold) for the treatment of these), net of any related deferred tax liability.

- 2.8.2 Must be calculated as:

(1) Item 81: Other intangibles, other than mortgage-servicing rights

minus

(2) Item 81a Other intangibles, other than mortgage-servicing rights:
related deferred tax liability

2.9 **Item 10: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)**

- 2.9.1 All deferred tax assets (DTAs) that rely on future profitability of the bank. For this purpose, DTAs may be netted with associated deferred tax liabilities (DTLs) but only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by that taxation authority. (See Item 21 for the treatment of DTAs that relate to temporary differences).

- 2.9.2 Must be calculated as:

(1) Item 82a Deferred tax assets that rely on future profitability
excluding those arising from temporary differences

minus

(2) Item 82b: Deferred tax assets that rely on future profitability
excluding those arising from temporary differences: related
deferred tax liability

2.10 **Item 11: Cash-flow hedge reserve**

- 2.10.1 All adjustments to the amount of the cash flow hedge reserve that relate to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) and hence derecognised in the calculation of CET1 Capital. This means that positive amounts should be deducted and negative amounts should be added back.

2.11 **Item 12: Shortfall of provisions to expected losses**

- 2.11.1 Only applicable for JIBs using an IRB Approach. The amount (if any) that expected losses, as calculated under the relevant IRB approach, exceed the stock of provisions. No adjustment can be made for any tax effects that could be expected to occur if provisions were to rise to the level of expected losses.
- 2.12 **Item 13: Securitisation gain on sale**
 - 2.12.1 Only applicable for JIBs that issue securitised debt instruments. Report any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income.
- 2.13 **Item 14: Gains and losses due to changes in own credit risk on fair valued liabilities**
 - 2.13.1 All gains or losses resulting from revaluation of own fair valued liabilities that arise due to own-credit related factors. Gains will be deducted and losses will be added back. This must include the part of a derivative valuation that relates to own-credit risk (referred to as a “debit valuation adjustment, or DVA), including any DVA that arises on origination.
- 2.14 **Item 15: Defined-benefit pension fund net assets**
 - 2.14.1 Applicable only for JIBs that have a defined benefit asset on their balance sheets. For each defined benefit pension fund that is an asset on the balance sheet, this is defined as that asset, net of any associated deferred tax liability which would be extinguished if the asset should become impaired or derecognised under the relevant accounting standards.
- 2.15 **Item 16: Investments in own shares**
 - 2.15.1 Applicable only for JIBs that hold treasury shares and only to the extent that the JIB’s accounting treatment does not require such holdings to be deducted from common equity.
- 2.16 **Item 17: Reciprocal cross-holdings in common equity**
 - 2.16.1 The total of reciprocal cross holdings in common equity issued by banking, financial and insurance entities.
- 2.17 **Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)**
 - 2.17.1 Used as the basis for determining the threshold for certain deductions from capital (Items 18 to 21, 39 and 54).
 - 2.17.2 Must be calculated as 10% of:
 - (1) Item 6: Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)
less the sum of:
 - (2) Item 7: Prudential valuation adjustments.
 - (3) Item 8: Goodwill (net of related tax liability)
 - (4) Item 9: Other intangibles, other than mortgage-servicing rights (net of related tax liability)
 - (5) Item 10: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)

- (6) Item 11: Cash-flow hedge reserve
- (7) Item 12: Shortfall of provisions to expected losses
- (8) Item 13: Securitisation gain on sale
- (9) Item 14: Gains and losses due to changes in own credit risk on fair valued liabilities
- (10) Item 15: Defined-benefit pension fund net assets
- (11) Item 16: Investments in own shares
- (12) Item 17: Reciprocal cross-holdings in common equity

2.17.3 A floor of zero applies in the case that the sum calculated is negative.

2.18 Item 17b: 15% of (Total CET1 capital less deductions for Items 7 to 17)

2.18.1 Used as the basis for determining the threshold for Item 22 Amount exceeding the 15% threshold.

2.18.2 Must be calculated as 15% of Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17).

2.18.3 A floor of zero applies in the case that the sum calculated is negative.

2.19 Item 18: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)

2.19.1 Applicable for JIBs that have multiple non-significant (below 10% of the issuing entity's issued share capital) holdings of capital instruments issued by banking, financial and insurance entities. Include here the total amount by which the total of all such holdings exceeds Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17).

2.19.2 Where the holding is partly or wholly comprised of Tier 2 or AT1 instruments (those eligible for inclusion in the relevant category of capital), divide the amount by which total holdings exceed Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17) in the same proportions as the relevant holdings and include here only the proportion that is comprised of CET1 Instruments – those eligible for inclusion in CET1 Capital.

2.19.3 Holdings that are part of the obligor's capital but do not fall within the definitions of AT1 Capital or Tier 2 Capital should be treated as holdings in CET1 capital.

2.19.4 Must be calculated as:

- (1) Item 72
minus (subject to a minimum of zero)
Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17) multiplied by
- (2) Item 72a
divided by
- (3) Item 72

2.20 Item 19: Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)

2.20.1 Applicable where either:

- (1) a holding (CET1 Capital, AT1 Capital or Tier 2 Capital combined in the case of banks) is significant - above 10% of the issuing entity's issued share capital; or
- (2) a holding is in an entity that is an associate, which includes all subsidiaries of the bank.

2.20.2 Must be calculated as:

- (1) Item 73b: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is CET1 capital
minus (subject to a minimum of zero)
- (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)

2.21 Item 20: Mortgage servicing rights (amount above 10% threshold)

2.21.1 Only applicable where an intangible asset is held that arose in connection with providing mortgage servicing, typically in connection with the mortgage assets transferred to a securitisation vehicle.

2.21.2 Must be calculated as:

- (1) Item 74: Mortgage servicing rights
minus (subject to a minimum of zero)
- (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)

2.22 Item 21: Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)

2.22.1 Applicable where deferred tax assets do not rely on future profitability (and see Item 10: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)).

2.22.2 Must be calculated as:

- (1) Item 75a: Deferred tax assets arising from temporary differences (net of related tax liability)
minus (subject to a minimum of zero)
- (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)

2.23 Item 22: Amount exceeding the 15% threshold

- 2.23.1 With respect to items 19, 20 and 21: Calculated as the aggregate of the underlying items(i.e. items 73b, 74 and 75a), after adjusting for any corresponding deduction (i.e. items 19, 20 and 21), less an allowance of 15% of CET1 Capital.
- 2.23.2 Must be calculated as the sum of
- (1) A + B + C (each defined below)
minus (subject to a minimum of zero)
 - (2) Item 17b: 15% of (Total CET1 capital less deductions for Items 7 to 17)
- 2.23.3 Where A equals the lower of:
- (1) Item 73b: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is CET1 capital
 - (2) Item 17a : 10% of (Total CET1 capital less deductions for Items 7 to 17)
- 2.23.4 Where B equals the lower of:
- (1) Item 74: Mortgage servicing rights
 - (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)
- 2.23.5 C equals the lower of:
- (1) Item 75a: Deferred tax assets arising from temporary differences (net of related tax liability)
 - (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)
- 2.23.6 All exposures to items 73b, 74 and 75a that are not deducted (here or in Items 19, 20 and 21) must be risk weighted at 250% (see Item 83).
- 2.24 **Item 26: National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital**
- 2.24.1 Any deductions required by the JFSC, including as a result of the Pillar 2 process (In accordance with the Banking Code and relevant Guidance Notes published by the JFSC).
- 2.25 **Item 27: Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions**
- 2.25.1 Must equal Item 43a: Total regulatory adjustments to Additional Tier 1 capital of which: excess AT1 deductions
- 2.25.2 This corresponds to the amount of any deductions that would ordinarily be eligible to be deducted from lower quality capital (AT1 or Tier 2 capital) but could not be, due to the deduction exceeding the amount of such capital.
- 2.26 **Item 28: Total regulatory adjustments to Common Equity Tier 1**
- 2.26.1 Equal to the sum of the following items:
- (1) Item 7: Prudential valuation adjustments

- (2) Item 8: Goodwill (net of related tax liability)
- (3) Item 9: Other intangibles, other than mortgage-servicing rights (net of related tax liability)
- (4) Item 10: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)
- (5) Item 11: Cash-flow hedge reserve
- (6) Item 12: Shortfall of provisions to expected losses
- (7) Item 13: Securitisation gain on sale
- (8) Item 14: Gains and losses due to changes in own credit risk on fair valued liabilities
- (9) Item 15: Defined-benefit pension fund net assets
- (10) Item 16: Investments in own shares
- (11) Item 17: Reciprocal cross-holdings in common equity
- (12) Item 18: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)
- (13) Item 19: Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)
- (14) Item 20: Mortgage servicing rights (amount above 10% threshold)
- (15) Item 21: Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)
- (16) Item 22: Amount exceeding the 15% threshold
- (17) Item 26: National specific regulatory adjustments, including Pillar 2 deductions applied to CET1 capital
- (18) Item 27: Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions

2.27 Item 29: Common Equity Tier 1 Capital

2.27.1 Must be calculated as:

Item 6: Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) minus (subject to a minimum of zero)

- (19) Item 28: Total regulatory adjustments to Common Equity Tier 1

3 Tier 1 capital – AT1 items, deductions and total

3.1 Item 30: Directly issued qualifying Additional Tier 1 Instruments plus related stock surplus

- 3.1.1 All amounts of eligible instruments that had been issued by the JIB itself.
- 3.1.2 The eligibility requirements for AT1 capital are:
- (1) Issued and paid-in.
 - (2) Subordinated to depositors, general creditors and subordinated debt of the JIB.
 - (3) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis JIB creditors.
 - (4) Is perpetual, i.e. there is no maturity date and there are no step-ups or other incentives to redeem.
 - (5) May be callable at the initiative of the JIB, but only after a minimum of five years, provided:
 - › to exercise a call option, the JIB must receive prior JFSC approval;
 - › a JIB must not do anything which creates an expectation that the call will be exercised; and
 - › JIBs must not exercise a call unless:
 - › They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the JIB; or
 - › The JIB demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
 - (6) Any repayment of principal (e.g. through repurchase or redemption) must be with prior approval from the JFSC and JIBs should not assume or create market expectations that approval will be given.
 - (7) Dividend/coupon discretion:
 - › the JIB must have full discretion at all times to cancel distributions/payments;
 - › cancellation of discretionary payments must not be an event of default;
 - › JIBs must have full access to cancelled payments to meet obligations as they fall due; and
 - › cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to common stockholders.
 - (8) Dividends/coupons must be paid out of distributable items.
 - (9) The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.

- (10) The instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.
- (11) Instruments classified as liabilities for accounting purposes must have principal loss absorption through either (i) conversion to common shares at an objective pre-specified trigger point or (ii) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down must have the following effects:
- › reduce the claim of the instrument in liquidation;
 - › reduce the amount re-paid when a call is exercised; and
 - › partially or fully reduce coupon/dividend payments on the instrument.
- In addition:
- › the trigger level for write-down/conversion of loss absorbing instruments classified as liabilities must be at least the minimum for CET1 capital (4.5% of total RWAs);
 - › the write-down/conversion must generate CET1 capital under the relevant accounting standards and the instrument will only receive recognition in AT1 capital up to the minimum level of CET1 capital generated by a full write-down/conversion of the instrument; and
 - › the aggregate amount to be written-down/converted for all such instruments on breaching the trigger level must be at least the amount needed to immediately return the JIB's CET1 capital ratio to the minimum ratio required or, if this is not possible, the full principal value of the instrument.
- (12) The terms and conditions must have a provision that enables such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of a trigger event, where:
- › any compensation paid to the instrument holders as a result of the write-off must be paid immediately in the form of common stock (or its equivalent in the case of non-joint stock companies);
 - › the prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur; and
 - › the trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority.
- (13) Neither the JIB nor a related party over which it exercises control or significant influence can have purchased the instrument, nor can it directly or indirectly have funded the purchase of the instrument. For example, if the instrument is held by a holding company, any lending to the holding company by the JIB (directly or indirectly) will result in an amount equal to that lending becoming ineligible

(except where the holding company is itself registered as a bank).

(14) The instrument cannot have any features that hinder recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

(15) If the instrument is not issued by the JIB itself, proceeds must be immediately available without limitation to the JIB in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.

3.2 Item 34: Additional Tier 1 instruments (and CET1 instruments not included in Item 5) issued by subsidiaries and held by third parties (amount allowed in AT1)

3.2.1 Only relevant in the case of consolidated assessment and then only where a JIB owns a subsidiary that is itself a regulated bank that has issued:

- (1) AT1 instruments that are held by third parties; or
- (2) Common share capital that is held by third parties but exceeds the amount eligible in Item 5 (i.e. the amount needed to meet regulatory requirements in respect of CET1 Capital).

3.2.2 The amount allowed is limited to the amount required to meet the subsidiary's regulatory requirements in respect of Tier 1 Capital.

3.3 Item 36: Additional Tier 1 capital before regulatory adjustments

3.3.1 Must be calculated as the sum of:

- (1) Item 30: Directly issued qualifying Additional Tier 1 Instruments plus related stock surplus
- (2) Item 34: Additional Tier 1 instruments (and CET1 instruments not included in Item 5) issued by subsidiaries and held by third parties (amount allowed in AT1)

3.4 Item 37: Investments in own Additional Tier 1 instruments

3.4.1 Any holdings of instruments issued by the JIB, including any held through consolidated subsidiaries.

3.5 Item 38: Reciprocal cross-holdings in Additional Tier 1 instruments

3.5.1 The total of any reciprocal cross holdings in AT1 instruments issued by banking, financial and insurance entities.

3.6 Item 39: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)

3.6.1 Relevant for JIBs that have holdings of AT1 instruments issued by banking, financial and insurance entities.

3.6.2 Non-significant holdings (those below 10% of the issuing entity's issued share capital) that in total are in excess of an allowance equal to Item 17a: 10% of Total CET1 capital less deductions for Items 7 to 17 should be included in the calculation, net of the allowance.

- 3.6.3 If the investments are a mix of CET1, AT1 and Tier 2 instruments, divide the amount that is in excess of 10% of Item 17a: Total CET1 capital less deductions for Items 7 to 17 in the same proportions as the relevant holdings and include here only the proportion that is comprised of AT1 instruments.
- 3.6.4 Must be calculated as:
- (1) Item 72: Non-significant investments in the capital of other financial institution
minus (subject to a minimum of zero)
 - (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)
multiplied by
 - (3) Item 72b: of which, the amount of the holdings that is AT1 capital
divided by
 - (4) Item 72: Non-significant investments in the capital of other financial institution
- 3.7 **Item 40: Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)**
- 3.7.1 The total of any AT1 holdings where:
- (1) an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entities issued share capital; or
 - (2) the issuing entity is an associate, which includes all subsidiaries of the JIB.
- 3.7.2 Equal to Item 73c: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is AT1 capital
- 3.8 **Item 41: National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital**
- 3.8.1 Any deductions required by the JFSC, including as a result of the Pillar 2 process.
- 3.9 **Item 42: Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deduction.**
- 3.9.1 Equal to the sum calculated for Item 57a - of which: excess Tier 2 deductions.
- 3.9.2 This corresponds to the amount of any deductions that would ordinarily be eligible to be deducted from lower quality capital but could not be, due to the deduction exceeding the amount of such capital.
- 3.10 **Item 43: Total regulatory adjustments to Additional Tier 1 capital**
- 3.10.1 Must be calculated as the sum of the following items:
- (3) Item 37: Investments in own Additional Tier 1 instruments
 - (4) Item 38: Reciprocal cross-holdings in Additional Tier 1 instruments

- (5) Item 39: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)
- (6) Item 40: Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)
- (7) Item 41: National specific regulatory adjustments, including Pillar 2 deductions applied to Additional Tier 1 capital
- (8) Item 42: Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions

3.11 Item 43a: Total regulatory adjustments to Additional Tier 1 capital of which: excess AT1 deductions

3.11.1 Must be calculated as:

- (1) Item 43: Total regulatory adjustments to Additional Tier 1 capital minus (subject to a minimum of zero)
- (2) Item 36: Additional Tier 1 capital before regulatory adjustments

3.12 Item 44: Additional Tier 1 Capital (AT1)

3.12.1 Must be calculated as:

- (1) Item 36: Additional Tier 1 capital before regulatory adjustments minus (subject to a minimum of zero)
- (2) Item 43: Total regulatory adjustments to Additional Tier 1 capital

3.13 Item 45: Tier 1 Capital

3.13.1 Must be calculated as the sum of:

- (1) Item 29: Common Equity Tier 1 Capital
- (2) Item 44: Additional Tier 1 capital

4 Total capital – Tier 2 items, deductions and total

4.1 Item 46: Directly issued qualifying Tier 2 instruments plus related stock surplus

4.1.1 The amount of eligible instruments that had been issued by the JIB itself.

4.1.2 The eligibility requirements for issued Tier 2 capital are:

- (1) Issued and paid-in.
- (2) Subordinated to depositors and general creditors of the JIB.
- (3) Neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors.
- (4) Maturity:
 - › minimum original maturity of at least five years;
 - › recognition in regulatory capital in the remaining five years before maturity will be amortised on a straight line basis; and
 - › there are no step-ups or other incentives to redeem.

Where an instrument's maturity date is less than five years away, the adjusted value of the instrument is the value multiplied by the remaining residual maturity (in years) divided by five.

- (5) May be callable at the initiative of the issuer only after a minimum of five years, provided that:
 - › To exercise a call option a bank must receive prior approval from the JFSC;
 - › A JIB must not do anything that creates an expectation that the call will be exercised; and
 - › The JFSC will not approve the exercise of a call unless:
 - › The JIB replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the JIB; or
 - › The JIB demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- (6) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.
- (7) The instrument cannot have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.
- (8) Neither the JIB nor a related party over which it exercises control or significant influence can have purchased the instrument, nor can it directly or indirectly have funded the purchase of the instrument. For example, if the instrument is held by a holding company, any

lending to the holding company by the JIB (directly or indirectly) will result in an amount equal to that lending becoming ineligible (except where the holding company is itself registered as a bank).

- (9) If the instrument is not issued by the JIB itself, proceeds must be immediately available without limitation to the bank in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 Capital.
- (10) The terms and conditions must have a provision that enables such instruments, at the option of the JRDCA, to either be written off or converted into common equity upon the occurrence of a trigger event, where:
 - › Any compensation paid to the instrument holders as a result of the write-off must be paid immediately in the form of common stock (or its equivalent in the case of non-joint stock companies).
 - › The prior authorisation necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur.

For this purpose, a trigger event is the earlier of:

- › a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority
- › the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority
- › minimum CET1 capital is significantly below the level required in order to continue to operate, which for these purposes is defined as 50% of the minimum level required (2.25% of Total RWAs).

4.2 **Item 48: Tier 2 instruments (and CET1 and AT1 instruments not included in Items 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)**

4.2.1 Applies to JIBs that monitor capital adequacy on a consolidated basis and own subsidiaries that have issued:

- (1) Tier 2 instruments that are held by third parties

or

- (2) Common share capital or AT1 instruments that are held by third parties but exceed the amount eligible in Item 5 or 34 (i.e. the amount needed to meet regulatory requirements in respect of CET1 capital/AT1 capital)

4.2.2 The sum of all such amounts, subject to a limit of the amount required to meet those subsidiaries' regulatory requirements in respect of total capital.

4.3 **Item 50: Provisions**

4.3.1 The amount of provisions allowed, according to the following rules:

4.3.2 For JIBs using the Standardised Approach for credit risk:

- (1) Provisions or loan-loss reserves held against future, presently unidentified losses, are freely available to meet losses which

subsequently materialise qualify for inclusion within Tier 2.

Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded. Furthermore, general provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital will be limited to a maximum of 1.25 percentage points of credit risk-weighted risk assets (Item 60c) calculated under the standardised approach.

Must be calculated as:

- › If:
 - › Item 76: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)
 - › is less than or equal to
 - › Item 77: Cap on inclusion of provisions in Tier 2 under standardised approach
 - › then value equals Item 76: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)
 - › otherwise, value equals Item 77: Cap on inclusion of provisions in Tier 2 under standardised approach

4.3.3 For JIBs using an Internal Ratings Based (IRB) Approach:

- (1) Where the total expected loss amount is less than total eligible provisions, JIBs may recognise the difference in Tier 2 capital up to a maximum of 0.6% of credit risk-weighted assets calculated under the IRB Approach. Must be calculated as:
 - › If:
 - › Item 78: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)
 - › is less than or equal to
 - › Item 79: Cap for inclusion of provisions in Tier 2 under internal ratings-based approach
 - › then value equals Item 78: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)
 - › otherwise, value equals Item 79: Cap for inclusion of provisions in Tier 2 under internal ratings-based approach

4.4 Item 51: Tier 2 capital before regulatory adjustments

- 4.4.1 Calculated as the sum of:
- (1) Item 46: Directly issued qualifying Tier 2 instruments plus related stock surplus
 - (2) Item 48: Tier 2 instruments (and CET1 and AT1 instruments not included in Items 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)
 - (3) Item 50: Provisions
- 4.5 **Item 52: Investments in own Tier 2 instruments**
- 4.5.1 Holdings of instruments issued, including any held through consolidated subsidiaries.
- 4.6 **Item 53: Reciprocal cross-holdings in Tier 2 instruments**
- 4.6.1 Cross holdings in Tier 2 instruments issued by banking, financial and insurance entities.
- 4.7 **Item 54: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)**
- 4.7.1 Only applicable to JIBs that have holdings of Tier 2 capital issued by banking, financial and insurance entities.
- 4.7.2 Less significant holdings (those below 10% of the issuing entity's issued share capital) that total in excess of an allowance equal to Item 17a – 10% of (Total CET1 capital less deductions for Items 7 to 17) should be included here, net of the allowance. If the investments are a mix of CET1, AT1 and Tier 2 instruments, the amount included here should be the excess of total holdings above the allowance, divided in the same proportions as the holdings.
- 4.7.3 Calculated as:
- (1) Item 72: Non-significant investments in the capital of other financial institution
minus (subject to a minimum of zero)
 - (2) Item 17a: 10% of (Total CET1 capital less deductions for Items 7 to 17)
multiplied by
 - (3) Item 72c: of which, the amount of the holdings that is CET1 capital
divided by
 - (4) Item 72: Non-significant investments in the capital of other financial institution
- 4.8 **Item 55: Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)**
- 4.8.1 Holdings where:
- (1) an individual holding (CET1, AT1 and Tier 2 combined in the case of banks) is significant - above 10% of the issuing entities issued share

capital; or

- (2) the issuing entity is an associate, which includes all subsidiaries of the JIB.

4.8.2 Equal to Item 73d: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is Tier 2 capital.

4.9 Item 56: National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital

4.9.1 Any deductions required by the JFSC, including as a result of the ICAAP/SREP process.

4.10 Item 57: Total regulatory adjustments to Tier 2 capital

4.10.1 Must be calculated as the sum of:

- (1) Item 52: Investments in own Tier 2 instruments
- (2) Item 53: Reciprocal cross-holdings in Tier 2 instruments
- (3) Item 54: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)
- (4) Item 55: Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)
- (5) Item 56: National specific regulatory adjustments, including Pillar 2 deductions applied to Tier 2 capital

4.11 Item 57a of which: excess Tier 2 deductions

4.11.1 Must be calculated as:

- (1) Item 57: Total regulatory adjustments to Tier 2 capital
minus (subject to a minimum of zero)
- (2) Item 51: Tier 2 capital before regulatory adjustments

4.12 Item 58: Tier 2 Capital

4.12.1 Must be calculated as:

- (1) Item 51: Tier 2 capital before regulatory adjustments
minus (subject to a minimum of zero)
- (2) Item 57: Total regulatory adjustments to Tier 2 capital

4.13 Item 59: Total capital (T1 + T2)

4.13.1 Must be calculated as the sum of:

- (1) Item 45: Tier 1 Capital
- (2) Item 58: Tier 2 Capital

5 Items with a capital treatment

- 5.1 Items that are relevant to the calculation of own funds or to the calculation of requirements determined in this part.
- 5.2 **Item 72: Non-significant investments in the capital of other financial institutions**
 - 5.2.1 The total amounts of all such investments, as relevant to Items 18, 40 and 54. Must be calculated as the sum of:
 - (1) Item 72a: of which, the amount of the holdings that is CET1 capital
 - (2) Item 72b: of which, the amount of the holdings that is AT1 capital
 - (3) Item 72c: of which, the amount of the holdings that is Tier 2 capital
- 5.3 **Item 72a: Non-significant investments in the capital of other financial institutions of which, the amount of the holdings that is CET1 capital.**
 - 5.3.1 Of the amount falling within Item 72, the total holdings of CET1 capital. Holdings that are part of the obligor's capital but do not fall within the definitions of AT1 capital or Tier 2 capital should be treated as holdings in CET1 capital.
- 5.4 **Item 72b: Non-significant investments in the capital of other financial institutions of which, the amount of the holdings that is AT1 capital.**
 - 5.4.1 Of the amount falling within Item 72, the total holdings of AT1 capital.
- 5.5 **Item 72c: Non-significant investments in the capital of other financial institutions of which, the amount of the holdings that is Tier 2 capital.**
 - 5.5.1 Of the amount falling within Item 72, the total holdings of Tier 2 capital.
- 5.6 **Item 73: Significant investments in the common stock of financials**
 - 5.6.1 Used in the computation of Items 19 and 22.
 - 5.6.2 Applicable where either:
 - (1) an individual holding (CET1 capital, AT1 capital and Tier 2 capital combined in the case of banks) is significant - above 10% of the issuing entity's issued share capital; or
 - (2) the holding is in the entity that is an associate, which includes all subsidiaries of the JIB.
- 5.7 **Item 73a: Significant investments in the common stock of financials, net of relevant eligible short positions. Used in the computation of Items 19 and 22**
 - 5.7.1 The amount falling within Item 73, less relevant eligible short positions.
- 5.8 **Item 73b: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is CET1 capital**
 - 5.8.1 Must be calculated as:
 - (1) Item 73a: Significant investments in the common stock of financials, net of relevant eligible short positions

less the sum of:

- (2) Item 73c: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is AT1 capital
- and
- (3) Item 73d: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is Tier 2 capital

5.9 Item 73c: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is AT1 capital

5.9.1 Relevant holdings of AT1 capital net of eligible short positions.

5.10 Item 73d: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is Tier 2 capital

5.10.1 Relevant holdings of Tier 2 capital net of eligible short positions.

5.11 Item 74: Mortgage servicing rights

5.11.1 Applicable where an intangible asset arose in connection with providing mortgage servicing, typically in connection with the mortgage assets transferred to a securitisation vehicle.

5.12 Item 75: Deferred tax assets arising from temporary differences

5.12.1 The full amount of DTAs arising from temporary differences.

5.13 Item 75a: Deferred tax assets arising from temporary differences (net of related tax liability)

5.13.1 The amount net of any related tax liability, which is used in the computation of Items 21 and 22.

5.14 Item 76: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)

5.14.1 For JIBs applying the standardised approach only: total eligible provisions, before applying the applicable maximum for inclusion (as relevant to Item 50).

5.15 Item 77: Cap on inclusion of provisions in Tier 2 under standardised approach

5.15.1 Equal to 1.25% of Item 60c.

5.16 Item 78: Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)

5.16.1 For JIBs applying an IRB Approach only: total eligible provisions less total expected losses (as relevant to Item 50).

5.17 Item 79: Cap for inclusion of provisions in Tier 2 under internal ratings-based approach

5.17.1 Equal to 0.6% of Item 60c.

5.18 Item 80: Goodwill

5.18.1 The amount of goodwill held, as calculated for accounting purposes.

5.19 Item 80a: Goodwill: related deferred tax liability

5.19.1 Any deferred tax liability related to the assets in Item 80.

5.20 Item 81: Other intangibles, other than mortgage-servicing rights

5.20.1 The amount of other intangibles held, other than mortgage-servicing rights, as calculated for accounting purposes.

5.21 Item 81a: Other intangibles, other than mortgage-servicing rights: related deferred tax liability

5.21.1 Any deferred tax liability related to the assets in Item 81.

5.22 Item 82: Deferred tax assets

5.22.1 The amount of deferred tax assets, as calculated for accounting purposes.

5.23 Item 82a: Deferred tax assets that rely on future profitability excluding those arising from temporary differences

5.23.1 Must be calculated as:

- (1) Item 82: Deferred tax assets
- (2) minus
- (3) Item 75: Deferred tax assets arising from temporary differences

5.24 Item 82b: Deferred tax assets that rely on future profitability excluding those arising from temporary differences: related deferred tax liability

5.24.1 Any deferred tax liability related to the assets in Item 82a.

6 Risk weighted assets

6.1 Items that where RWAs must be calculated in accordance with this part.

6.2 Item 83: 250% risk weighted items

6.2.1 The sum of the items relevant to items 19 to 21 less the amounts deducted from CET1 capital.

6.2.2 Must be calculated as the sum of the relevant items:

- (1) Item 73b: Significant investments in the common stock of financials, net of relevant eligible short positions, of which, the amount of the holdings that is CET1 capital
- (2) Item 74: Mortgage servicing rights
- (3) Item 75a: Deferred tax assets arising from temporary differences (net of related tax liability)

minus the amounts deducted from CET1 capital:

- (1) Item 19: Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)
- (2) Item 20: Mortgage servicing rights (amount above 10% threshold)
- (3) Item 21: Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)

(4) Item 22: Amount exceeding the 15% threshold

6.2.3 This has the effect that all exposures of these natures that are not deducted in one of items 19, 20, 21 or 22 must be risk weighted at 250%.

6.3 Item 84a: 1250% risk weighted items: securitisations – equity tranches

6.3.1 Excepting only any amount that is deducted from CET1 capital due to it falling within Item 13: Securitisation gain on sale (as set out in paragraph 562 of Basel II), any other increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income resulting in a gain-on-sale that is recognised in regulatory capital.

6.4 Item 84b: 1250% risk weighted items: IRB – deductions required

6.4.1 Relevant to JIBS that using IRB approaches only. The total of all deductions from capital required, excepting only any amount that is deducted from capital due to it falling within Item 12: Shortfall of provisions to expected losses.

6.5 Item 84d: 1250% risk weighted items: significant investments (non-financial)

6.5.1 Materiality levels are:

- (1) 15% of the JIB's total capital for individual investments in commercial entities; and
- (2) 60% of the JIB's total capital for the aggregate of such investments, where the amount subject to this reporting will be that portion of the investment(s) that exceeds the materiality level.

6.5.2 In the event that both the above apply, compute both excess amounts and only reflect the higher.

6.5.3 Example 1: if a JIB held three investments each representing 25% of its capital (total 75%), it would determine the excess as being the higher of:

$$3 \times (25\% - 15\%) = 3 \times 10\% = 30\%$$

$$(3 \times 25\%) - 60\% = 75\% - 60\% = 15\%$$

and hence the relevant amount would be 30% of capital.

6.5.4 Example 2: If it had six such investments, the results would be:

$$6 \times (25\% - 15\%) = 6 \times 10\% = 60\%$$

$$(6 \times 25\%) - 60\% = 150\% - 60\% = 90\%$$

and hence the relevant amount would be 90% of capital.