Reporting Forms ARF 110.0.1 and ARF 110.0.2

Capital Adequacy

Instruction Guide

This instruction guide is designed to assist in the completion of the Capital Adequacy forms:

(a) *Form ARF 110.0.1 Capital Adequacy (Level 1)*; and

(b) *Form ARF 110.0.2 Capital Adequacy (Level 2)*.

These forms set out the calculation of regulatory capital and associated capital ratios for an authorised deposit-taking institution (**ADI**) at Level 1 and Level 2.[1] In completing these forms, ADIs should refer to *Prudential Standard APS 110 Capital Adequacy* (**APS 110**) and *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (**APS 111**).

General directions and notes

Reporting entity

The forms are to be completed at Level 1 and Level 2 by all ADIs other than branches of a foreign bank and providers of purchased payment facilities.

If an ADI is a subsidiary of an authorised non-operating holding company (**NOHC**), the report at Level 2 is to be provided by the ADI's immediate parent NOHC.[2]

Securitisation deconsolidation principle

Except as otherwise specified in these instructions, the following applies:

1. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that meets APRA's operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation* (**APS 120**):

   (a) special purpose vehicles (**SPVs**) holding securitised assets may be treated as non-consolidated independent third parties for regulatory reporting purposes, irrespective of whether the SPVs (or their assets) are consolidated for accounting purposes;

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1 Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 001 Definitions*.

2 Refer to paragraph 5 of *Reporting Standard ARS 110.0 Capital Adequacy*.

(b) the assets, liabilities, revenues and expenses of the relevant SPVs may be excluded from the ADI's reported amounts in APRA's regulatory reporting returns; and

(c) the underlying exposures (i.e. the pool) under such a securitisation may be excluded from the calculation of regulatory capital (refer to APS 120). However, the ADI must still hold regulatory capital for the **securitisation exposures**[3] that it retains or acquires and such exposures are to be reported in *Form ARF 120.0 Standardised – Securitisation* (**ARF 120.0**) or *Forms ARF 120.1A* to *ARF 120.1C IRB – Securitisation* (**ARF 120.1A**, **ARF 120.1B** and **ARF 120.1C**) (as appropriate). The risk-weighted assets (**RWA**) relating to such securitisation exposures must also be reported in *Form ARF 110.0 Capital Adequacy*.

2. Where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation that does not meet APRA's operational requirements for regulatory capital relief under APS 120, or the ADI elects to treat the securitised assets as on-balance sheet assets under *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**) or *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (**APS 113**), such exposures are to be reported as on-balance sheet assets in APRA's regulatory reporting returns. In addition, these exposures must also be reported as a part of the ADI's total securitised assets within *Form ARF 120.2 Securitisation – Supplementary Items* (**ARF 120.2**).

Capital treatment of joint arrangements

For capital adequacy purposes, ADIs must apply equity accounting for all joint arrangements, including joint ventures and joint operations.

Reporting period and timeframes for lodgement

The forms are to be completed as at the last day of the stated reporting period (i.e. the relevant quarter). The following table specifies the number of business days after the end of the relevant reporting period within which each class of ADI must submit data to APRA.

Class of ADI	**Number of business days**
Bank – Advanced or Applicant Advanced	30
Bank – Standardised	20
Building Society	15
Credit Union	15
Specialist Credit Card Institution (SCCI)	15
Other ADI[4]	20

[3] Securitisation exposures are defined in accordance with APS 120.

[4] Cairns Penny Savings and Loans Limited is to be treated in accordance with the reporting period requirements applicable to credit unions. 'Other ADI' does not include branches of foreign banks or providers of purchased payment facilities.

An immediate parent NOHC must submit data to APRA within the same timeframe as its subsidiary ADI.

Where both "Bank – Standardised" and "Bank – Advanced or Applicant Advanced" reporting requirements and timeframes apply to an ADI

In the following cases an Australian-owned bank or a foreign subsidiary bank must meet reporting requirements and timeframes applicable to both a "Bank – Advanced or Applicant Advanced" and a "Bank – Standardised":

(a) where the ADI is operating under the standardised approaches to credit and operational risk, but has applied for IRB and AMA approval, in which case the ADI will be both a "Bank – Advanced or Applicant Advanced" and a "Bank – Standardised"; and

(b) where the ADI has received IRB and/or AMA approval in respect of most (but not all) of its operations, and has approval for partial use of the standardised approaches to credit and/or operational risk for the remainder of its operations.

Such an ADI must report under the ARF 110.0.1 and ARF 110.0.2 (the **forms**) as follows:

Description of ADI	**Reporting requirement**	**Timeframes for lodgement**
ADI is operating under Basel II standardised approaches to credit and operational risk, but has applied to adopt IRB and AMA approaches for <u>all</u> its operations	Report under the forms (for purposes of calculating regulatory capital on the basis of the standardised approaches only)	"Bank – Standardised" timeframe (within 20 business days)
	Separately report under the forms as if IRB/AMA approval given (for purposes of assessing prospective regulatory capital calculation after IRB/AMA approval (i.e. "parallel run" of data))	"Bank – Advanced or Applicant Advanced" timeframe (within 30 business days)
ADI is operating under Basel II standardised approaches to credit and operational risk, but has applied to adopt the IRB and AMA approach for <u>most (but not all)</u> of its operations (or APRA has indicated that it does not propose to grant IRB and/or AMA approval in respect of all of the ADI's operations)	Report under the forms (for purposes of calculating regulatory capital on the basis of the standardised approaches only)	"Bank – Standardised" timeframe (within 20 business days)

Description of ADI	Reporting requirement	Timeframes for lodgement
	Separately report under the forms as if approval given for IRB/AMA with partial use (for purposes of assessing prospective regulatory capital calculation after IRB/AMA approval (i.e. "parallel run" of data)). (This report must cover both operations that will be under IRB/AMA approaches and operations that will remain under standardised approaches.)	"Bank – Advanced or Applicant Advanced" timeframe (within 30 business days)
ADI has IRB and/or AMA approval, but some operations remain under a Basel II standardised approach	Report under the forms in respect of all operations using the relevant approaches (for purposes of calculating regulatory capital)	"Bank – Advanced or Applicant Advanced" timeframe (within 30 business days)

Unit of measurement

This form must be completed in Australian dollars (**AUD**) in accordance with the units set out for each class of ADI in the following table.

Class of ADI	Units
Bank – Advanced or Applicant Advanced	Millions of dollars rounded to one decimal place
Bank – Standardised	Millions of dollars rounded to one decimal place
Building Society	Whole dollars with no decimal place
Credit Union	Whole dollars with no decimal place
Specialist Credit Card Institution (SCCI)	Whole dollars with no decimal place
Other ADI	Whole dollars with no decimal place

An immediate parent NOHC, as applicable, must complete this form for Level 2 purposes in AUD in accordance with the same units as its subsidiary ADI.

Amounts denominated in foreign currency are to be converted to AUD in accordance with *AASB 121 The Effects of Changes in Foreign Exchange Rates* (**AASB 121**).

Specific instructions

The following instructions are applicable at Level 1 and (where relevant) Level 2.

SECTION A: LEVEL 1/LEVEL 2 REGULATORY CAPITAL

1. Tier 1 Capital

1.1 Common Equity Tier 1 Capital

1.1.1 Paid-up ordinary share capital and other qualifying instruments

This is the value, as at the relevant date, of:

(a) paid-up ordinary share capital; or

(b) instruments with the characteristics of ordinary shares instruments issued by the reporting entity that satisfy - as determined by APRA - the eligibility criteria of Attachment B of APS 111.

For the purposes of this item, only include proceeds of issues that have been received by the issuer. Any partly paid issue is reported only to the extent that it has been paid-up.

1.1.2 Retained earnings

This is the value, as at the relevant date, of retained earnings. For the purposes of this item, exclude the value of all current year earnings.

1.1.3 Current year earnings

This is the value, as at the relevant date, of current year profits (or losses), as determined in accordance with APS 111. Current year earnings must take into account:

(a) negative goodwill;

(b) the unwinding of any discount on credit loss provisions (refer AGN220.1);

(c) the proceeds from any dividend reinvestment plan pending the issuance of ordinary shares, as agreed with APRA;

(d) expected tax expenses; and

(e) dividends when declared in accordance with Australian Accounting Standards.

1.1.3.1 Upfront fee income

Current year earnings also include the full value of upfront fee income (e.g. application and loan fees) provided that:

(a) the fee income has either been received in cash or has been debited to a customer's account or otherwise forms part of the upfront fees owed by a customer;

(b) outstanding amounts of fee income debited to customer accounts must be able to be claimed in full in the event of default by the customer, or capable of being sold as part of outstanding debts to a third party;

(c) the provider of the income has no recourse for repayment in part or full of any prepaid income;

(d) the customer is not able to cancel any fees debited to the customer's account for which they were otherwise obliged to pay upfront; and

(e) there is no requirement for the provision of continuing additional services or products associated with the fee income concerned.

1.1.4 Accumulated other comprehensive income (and other reserves), of which:

1.1.4.1 Unrealised gains and losses on available-for-sale items

This is the value, at the relevant date, of the reserve in relation to assets classified as available-for-sale, consistent with the classification and measurement basis used by ADIs in accordance with Australian Accounting Standards.

1.1.4.2 Gains and losses on derivatives held as cash flow hedges

This is the value, at the relevant date, of the reserve in relation to the effective portion of the gain or loss on the cash flow hedging instrument as determined in accordance with Australian Accounting Standards.

1.1.4.3 Foreign currency translation reserve

This is the value, as at the relevant date, of the reserve relating to exchange rate differences arising on translation of assets and liabilities to the presentation currency in accordance with Australian Accounting Standards.

1.1.4.4 Unrealised gains and losses from a foreign currency hedge of a net investment in a foreign operation

This is the value, as at the relevant date, of the unrealised fair value gain or loss of a hedging instrument that is determined to be an effective hedge of the net investment in a foreign operation, in accordance with Australian Accounting Standards.

1.1.4.5 Property revaluation reserve

This is the value, at the relevant date, of the balance of the reserve relating to the revaluation of property in accordance with paragraph 25 of APS 111.

1.1.4.6 General reserve

General reserves are created from the appropriation of profits by an ADI (or the group it heads) after the payment of all dividends and tax. Exclude General Reserves for Credit Losses from this item.

1.1.4.7 Reserves from equity-settled share-based payments

This is the value of reserves associated with equity-settled share-based payments granted to employees as part of their remuneration package. Only reserves relating to the issue of new shares may be included in this item. Reserves associated with equity-settled share-based payments to employees involving the purchase of existing shares must be excluded from this item and from other components of capital reported in this form.

1.1.4.8 All other reserves specified by APRA

This is the value, at the relevant date, of other reserves specified by APRA.

1.1.5 Minority interests arising from issue of ordinary equity by fully consolidated ADIs or overseas equivalent held by third parties (Level 2 only)

This is as defined in paragraph 19(e) of APS 111 and calculated in accordance with paragraph 5 of Attachment C, APS 111. This item only applies at Level 2.

2. Regulatory Adjustments to Common Equity Tier 1 Capital

These items must be deducted in calculating Common Equity Tier 1 Capital in accordance with APS 111.

2.1 Deferred tax assets in excess of deferred tax liabilities

This is the value, as at the relevant date, of deferred tax assets (**DTA**) excluding any deferred tax liabilities (**DTL**) that have already been netted off elsewhere in accordance with APS 111. These include DTL associated with:

(a) goodwill and other intangibles;

(b) any surplus in a defined benefit fund, of which an ADI is an employer-sponsor, unless otherwise approved in writing by APRA.

The reporting entity must net these items on a consistent basis in accordance with the requirements set out in the relevant prudential standards.

For the purposes of this item, where the amount of DTL exceeds the amount of DTA, report zero.

DTA and DTL amounts are to be determined in accordance with relevant Australian Accounting Standards.

2.2 Net adjustments for ineligible unrealised fair value gains (losses)

Report below this line item the net amount of any fair value gains and losses in the banking book and trading book, where the values do not meet the requirements for use of fair values specified in APS 111 (including Attachment A). A net gain must be reported as a positive figure (which will be deducted from Common Equity Tier 1 Capital) and a net loss as a negative figure (which will be added back to Common Equity Tier 1 Capital).

This is a derived item on the reporting form.

2.2.1 Banking book

This is the net value, as at the relevant date, of any fair value gains and losses in the banking book that do not meet the requirements for use of fair values specified in APS 111. This excludes fair value adjustments reported in 2.3.

2.2.2 Trading book

This is the net value, as at the relevant date, of any fair value gains and losses in the trading book (as defined in Attachment A of APS 116) where the values do not meet the requirements for use of fair values specified in APS 111. This excludes fair value adjustments reported in 2.3.

2.3 Net other fair value adjustments

Report below this line item the net amount of other required adjustments specified by APRA in accordance with paragraph 4 of Attachment A of APS 111 for unrealised fair value gains and losses. A net gain must be reported as a positive figure where the values do not meet the requirements for use of fair values specified in APS 111 (including Attachment A). A net gain must be reported as a positive figure (which will be deducted from Common Equity Tier 1 Capital) and a net loss as a negative figure (which will be added back to Common Equity Tier 1 Capital).

This is a derived item on the reporting form.

2.3.1 Net unrealised fair value gains (losses) on effective cash flow hedges

This is the value, as at the relevant date, of the cash flow hedge reserve that relates to the hedging of items that are not recorded at fair value on the accounting balance sheet (including projected cash flows). Any gains on hedges are to be reported as a positive figure and any losses on hedges reported as a negative figure.

2.3.2 Net unrealised fair value gains (losses) from changes in the ADI's own creditworthiness

This is the value, as at the relevant date, of any net unrealised fair value gains and losses arising from changes in the reporting entity's creditworthiness. A gain may arise, for example, from a reduction in fair value of the reporting entity's outstanding debt due to a change in credit rating.

2.4 Goodwill

This is the value, at the relevant date, of goodwill arising from an acquisition, net of adjustments to profit or loss reflecting any changes arising from 'impairment' of goodwill. The amount of goodwill to be deducted is net of any associated DTL that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

2.5 Intangible component of investments in subsidiaries and other entities

This is the value, as at the relevant date, of the intangible component of investments in non-consolidated subsidiaries arising on acquisition, net of amortisation and impairment.

Intangible assets are defined in accordance with the Australian Accounting Standards, but also include any other assets designated as intangible under APS 111. These include capitalised expenses (see line items 2.6 and 2.6.1 to 2.6.6 below) and mortgage servicing rights.

2.6 Capitalised expenses

This is the value, at the relevant date, of total capitalised expenses, in accordance with Attachment J and paragraph 26(i) of APS 111 and the Australian Accounting Standards.

2.6.1 Loan and lease origination fees and commissions paid to mortgage originators and brokers

This is the value, as at the relevant date, of capitalised loan and lease origination fees and commissions paid to mortgage originators and brokers.

Loan/lease origination/broker fees and commissions that are capitalised as an asset are to be set off against the balance of upfront loan/lease fees associated with the lending portfolios that are treated as deferred income and recognised as a liability.

Where the net amount for loan/ lease origination fees and commissions has a:

(a) positive balance, this item must be reported as a positive figure;

(b) negative balance, provided the deferred income satisfies the criteria set out in APS 111, this item may be reported as a negative figure. Where the criteria are not satisfied, this item must be reported as zero.

2.6.2 Costs associated with debt raisings

This is the value, as at the relevant date, of costs associated with debt raisings and other similar transaction-related costs that are capitalised as an asset.

2.6.3 Costs associated with issuing capital instruments

This is the value, as at the relevant date, of capitalised costs associated with issuing capital instruments if not already charged to profit and loss.

2.6.4 Information technology software costs

This is the value, as at the relevant date, of information technology software costs, capitalised in accordance with Australian Accounting Standards.

2.6.5 Securitisation start-up costs

This is the value, as at the relevant date, of capitalised securitisation start-up costs.

The balance of any securitisation start-up costs and other establishment costs that are capitalised and deferred as an asset must be netted off against the balance of any deferred fee income relating to securitisation schemes deferred as a liability.

Any positive net balance of capitalised securitisation start-up costs must be reported as a positive figure. Any surplus of up-front fee income received over deferred costs may be reported as a negative figure provided the up-front fee income received satisfies the criteria set under APS 111. Otherwise, report this item as zero.

Where APRA has permitted an ADI with approval to use the internal-ratings based approach to credit risk (IRB approval) partial use of the standardised approach to credit risk for certain asset classes or business lines (refer to APS 113), the ADI must sum the amounts for deductions from Common Equity Tier 1 Capital relating to securitisation start-up costs from both ARF 120.0 and ARF 120.1B, and report the total under this item.

2.6.6 Other capitalised expenses

This is a derived item on the reporting form.

2.7 Any other intangible assets not included above

This is the value, as at the relevant date, of other intangible assets, as required to be deducted under APS 111. This item consists of intangible assets other than those included in items above (i.e. items 2.4 to 2.6 above).

2.8 Covered bonds – excess assets in cover pool

This is the value, as at the relevant date, of assets in cover pools that do not qualify for treatment as assets of the ADI in accordance with section 31D of the *Banking Act 1959* (refer to *Prudential Standard APS 121 Covered Bonds* (**APS 121**)).

2.9 Holdings of own Common Equity Tier 1 Capital instruments and any unused trading limit agreed with APRA

This is the value, as at the relevant date, of the reporting entity's holdings of its own Common Equity Tier 1 Capital instruments, unless exempted by APRA or eliminated through the application of Australian Accounting Standards. Include any unused trading limit on these instruments where agreed with APRA and own Common Equity Tier 1 Capital instruments that the ADI could be contractually obliged to purchase, regardless of whether they are held on the banking or trading books. Refer to paragraph 26(l) and Attachment J of APS 111.

2.10 Common Equity Tier 1 specific adjustments relating to securitisation (excluding securitisation start-up costs)

This is the value, as at the relevant date, of the following securitisation-related items:

(a) gain on sale, including expected future income from a securitisation exposure that the reporting entity reports as an on-balance sheet asset or profit, until irrevocably received;

(b) funds provided by the reporting entity to establish a spread, reserve or similar account, until the funds are irrevocably paid to the reporting entity;

(c) the difference between the book value and the amount received by the reporting entity, where the originating entity transfers exposures to an SPV below their book value, unless it is written off in the reporting entity's profit and loss (and capital) accounts; and

(d) any other specific deductions in accordance with Prudential Standard APS120.

This item excludes start-up and other establishment costs that have been capitalised.

Where APRA has permitted an ADI with IRB approval to partially use the standardised approach to credit risk for certain asset classes or business lines (refer to APS 113), the ADI must sum the amounts for Common Equity Tier 1 Capital specific deductions relating to securitisation (excluding securitisation start-up costs) from both form ARF 120.0 and form ARF 120.1B, and report the total under this item.

2.11 Surplus in any ADI-sponsored defined benefit superannuation plan

This is the value, at the relevant date, of any surplus in a defined benefit fund of which an ADI is an employer-sponsor, unless otherwise approved in writing by APRA. This is the value, as at the relevant date, of the aggregate surpluses in employer-sponsored defined benefit superannuation plans, net of DTL that would be extinguished if the assets involved become impaired or derecognised under the Australian Accounting Standards (refer to Attachment J of APS 111).

Report this item for superannuation funds as follows, where applicable:

(a) At Level 1, in any of the reporting entity's employer-sponsored defined benefit superannuation funds; or

(b) At Level 2, in any of the reporting entity's or other Level 2 group member's employer-sponsored defined benefit superannuation funds.

Surpluses and deficits must not be netted across employer-sponsored defined benefit superannuation plans.

2.12 Deficit in any ADI-sponsored defined benefit superannuation plan not already reflected in Common Equity Tier 1 Capital

This is the value, as at the relevant date, of the aggregate deficits in employer-sponsored defined benefit superannuation plans.

Report this item for superannuation funds as follows, where applicable:

(a) At Level 1, in any of the reporting entity's employer-sponsored defined benefit superannuation funds; or

(b) At Level 2, in any of the reporting entity's or other Level 2 group member's employer-sponsored defined benefit superannuation funds.

For the purposes of this item, only include deficits to the extent not already reflected in Common Equity Tier 1 Capital before adjustment. Surpluses and deficits must not be netted across employer-sponsored defined benefit superannuation plans.

2.13 Adjustments to Common Equity Tier 1 Capital due to shortfall in Additional Tier 1 Capital and Tier 2 Capital

A shortfall will arise where the amount of Additional Tier 1 and/or Tier 2 Capital is insufficient to cover the amount of adjustments required to be made from these categories of capital.

2.14 Other Common Equity Tier 1 Capital adjustments

This is the value, as at the relevant date, of any other Common Equity Tier 1 Capital adjustments as required under APS 111.

2.15 Equity exposures (non-Additional Tier 1 or Tier 2 Capital instruments) and other capital support provided to:

2.15.1 Financial institutions

This is the value, as at the relevant date, of direct, indirect and synthetic equity exposures, guarantees and other capital support (other than holdings in Additional Tier 1 Capital and Tier 2 Capital instruments) in financial institutions (as defined in APS 001), held by the reporting entity.

For the purposes of this item, exclude equity where:

(a) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within five days of the date of issue. If the equity instrument is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity; or

- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group.)

of which

2.15.1.1 Other ADIs or overseas equivalents, and their subsidiaries

This is the value, as at the relevant date, of direct, indirect and synthetic equity exposures, guarantees and other capital support (other than holdings in Additional Tier 1 Capital and Tier 2 Capital instruments) in other ADIs or overseas equivalent, and their subsidiaries, held by the reporting entity.

For the purposes of this item, exclude equity exposures where:

(a) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within five days of the date of issue. If the equity instrument is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity; or

- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group).

2.15.1.2 Holding companies of ADIs and equivalent overseas entities

This is the value, as at the relevant date, of direct, indirect and synthetic equity exposures, guarantees and other capital support (other than holdings in Additional Tier 1 Capital and Tier 2 Capital instruments) in holding companies of ADIs or equivalent overseas entities held by the reporting entity.

For the purposes of this item, exclude equity exposures where:

(a) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within five days of the date of issue. If the equity instrument is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity; or

- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group).

2.15.1.3 Insurers, including holding companies of insurers, or other financial institutions other than ADIs, authorised NOHCs or equivalent overseas entities

This is the value, as at the relevant date, of direct, indirect and synthetic equity exposures, guarantees and other capital support (other than holdings in Additional Tier 1 Capital and Tier 2 Capital instruments) in insurers, including holding companies of insurers, or other financial institutions other than ADIs, authorised NOHCs or equivalent overseas entities held by the reporting entity.

For the purposes of this item, exclude equity exposures where:

(a) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within five days of the date of issue. If the equity instrument is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity; or
- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group).

2.15.2 Commercial (non-financial) entities

This is the value, as at the relevant date, of direct, indirect and synthetic equity exposures, guarantees and other capital support (other than holdings in Additional Tier 1 Capital and Tier 2 Capital instruments) in non-financial institutions (i.e. entities that do not meet the definition of 'financial institution' in APS 001) held by the reporting entity.

For the purposes of this item, exclude equity exposures and other capital investments where:

(a) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within five days of the date of issue. If the equity instrument is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure or other capital investment is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity;
- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group); or

(c) the equity exposure or other capital investment is held on the ADI's trading book.

2.16 Guarantees or credit derivatives that provide for a materiality threshold

This is the value, as at the relevant date, of any guarantee, or credit derivative covering a credit exposure of the ADI, that provides for a materiality threshold below which no payment will be made in the event of a loss (refer to APS 112 and APS 113 for limits on the amounts an ADI is required to deduct).

2.17 Non-repayable loans advanced by the ADI under APRA's certified industry support arrangements

This is the value, as at the relevant date, of non-repayable loans advanced by the reporting entity under APRA's certified industry support arrangements.

2.18 All other adjustments relating to securitisation

Include all other adjustments relating to securitisation that have not been reported at items 2.6.5 or 2.10.

2.19 Shortfall in provisions for credit losses

This item only applies to ADIs with IRB approval. It is a derived field based on the amounts reported under Eligible provisions in Section D: Memorandum items of this form.

An ADI using the IRB approach to credit risk must compare:

- the total expected loss (**EL**) amount (before any tax effects) for non-defaulted IRB exposures to the total eligible provisions (including any associated DTA) for non-defaulted IRB exposures; and

- the total EL amount (before any tax effects) for defaulted IRB exposures to the total eligible provisions (including any associated DTA) for defaulted IRB exposures.

In both cases, where the EL amount is higher than the eligible provisions, the difference must be deducted from Common Equity Tier 1 Capital.

2.20 Other Common Equity Tier 1 Capital adjustments as advised by APRA

This is the value, as at the relevant date, of all other Common Equity Tier 1 Capital adjustments as advised by APRA. Adjustments that would increase Common Equity Tier 1 Capital should be reported as a positive and adjustments that would decrease Common Equity Tier 1 Capital should be reported as a negative.

2.21 Adjustments and exclusions to Common Equity Tier 1 Capital

This is the amount of adjustments applied to Common Equity Tier 1 Capital that are specific to the application of the requirements of paragraph 55 of APS 111.

Adjustments that would increase the amount of Common Equity Tier 1 Capital recognised should be reported as a positive value.

2.22 Common Equity Tier 1 Capital

This is a derived field on the form.

3. Additional Tier 1 Capital

3.1 Transitional Additional Tier 1 Capital as at reporting date

This is the value, as at the relevant date, of non-complying Additional Tier 1 Capital instruments which are eligible for transition: this amount is amortised over nine years, commencing at 90 per cent of the base amount on 1 January 2013, reducing by 10 percentage points on 1 January of each of the following years. Refer Table 1 in paragraph 11 of APS 160.

3.1.1 Transitional Additional Tier 1 capital instruments issued by fully consolidated subsidiaries in the Level 2 group held by third parties (Level 2 only)

Report the amount of non-complying Additional Tier 1 Capital instruments issued by the fully-consolidated subsidiaries in the Level 2 group held by third parties, as agreed with APRA under paragraph 12 of APS 160.

3.2 Additional Tier 1 Capital instruments

Defined as per APS 111 paragraph 29(a), meeting all the eligibility criteria as set out in Attachments D, E and I of APS 111.

3.2.1 Additional Tier 1 Capital instruments issued by fully consolidated subsidiaries in the Level 2 group held by third parties (Level 2 only)

This is as defined in paragraph 29(b) of APS 111 and calculated in accordance to paragraph 6 of Attachment C, APS 111 and excludes capital instruments subject to transitional arrangements reported under 3.1.1.

3.3 Regulatory Adjustments to Additional Tier 1 Capital

This is a derived field on the form.

3.3.1 Capital investments in Additional Tier 1 Capital instruments of ADIs or overseas equivalents and their subsidiaries, insurance companies and other financial institutions

This is the value, as at the relevant date, of the reporting entity’s direct, indirect and synthetic holdings of Additional Tier 1 Capital instruments of other ADIs, or overseas equivalents and their subsidiaries, insurance companies and other financial institutions.

For the purposes of this item, exclude:

(a) exposures acquired through underwriting of a new Additional Tier 1 Capital instrument and the exposure is disposed of within five days of the date of issue. If the exposure is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure or other capital investment is held under a legal agreement on behalf of:

- at Level 1 - an external third party, even if held in the name of the reporting entity; or

- at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group).

3.3.2 Holdings of own Additional Tier 1 Capital instruments and any unused trading limit agreed with APRA

This is the value, as at the relevant date, of the reporting entity's holdings of its own Additional Tier 1 Capital instruments, unless exempted by APRA or eliminated through the application of Australian Accounting Standards. Include any unused trading limit on these instruments where agreed with APRA and own Additional Tier 1 Capital instruments that the ADI could be contractually obliged to purchase, regardless of whether they are held on the banking or trading book. Refer APS 111 paragraph 31(b) and Attachment J.

3.3.3 Adjustments to Additional Tier 1 Capital due to shortfall in Tier 2 Capital

Where the amount of Tier 2 Capital is insufficient to cover the amount of deductions required to be made from this category of capital, the shortfall must be deducted from Additional Tier 1 Capital. If Additional Tier 1 Capital is insufficient to cover the amount of deductions required, the remaining amount must be deducted from Common Equity Tier 1 Capital.

3.3.4 Adjustments and exclusions to Additional Tier 1 Capital

This is the amount of adjustments applied to Additional Tier 1 Capital that are specific to the application of the requirements of paragraph 55 of APS 111.

Adjustments that would increase the amount of Additional Tier 1 Capital recognised should be reported as a positive value.

3.4 Additional Tier 1 Capital

This is a derived field on the form.

4. Tier 1 Capital

Derived field calculated as the sum of items 2.22 Common Equity Tier 1 Capital and 3.4 Additional Tier 1 Capital.

5. Tier 2 Capital

5.1 Transitional Tier 2 Capital as at reporting date

This is the value, as at the relevant date, of non-complying Tier 2 Capital instruments which are eligible for transition: this amount is amortised over nine years, commencing at 90 per cent of the base amount on 1 January 2013, reducing by 10 percentage points on 1 January of each of the following years. Refer Table 1 in paragraph 11 of APS 160.

5.1.1 Transitional Tier 2 Capital instruments issued by fully consolidated subsidiaries in the Level 2 group held by third parties (Level 2 only)

Report the amount of non-complying Tier 2 Capital instruments issued by the fully-consolidated subsidiaries in the Level 2 group held by third parties, as agreed with APRA under paragraph 12 of APS 160.

5.2 Tier 2 Capital instruments

Defined as per APS 111 paragraph 38(a), meeting all the eligibility criteria as set out in Attachments G and I of APS 111.

5.2.1 Tier 2 Capital instruments issued by fully consolidated subsidiaries in the Level 2 group held by third parties (Level 2 only)

This is as defined as paragraph 38(b) of APS111 and calculated in accordance to paragraph 7 of Attachment C, APS 111 and excludes capital instruments reported under 5.1.1.

5.3 General reserve for credit losses (**GRCL**)

The GRCL can be included in Tier 2 capital gross of tax effects, subject to the limits below.

5.3.1 Standardised approach (to a maximum of 1.25% of total credit RWA)

This is the value, as at the relevant date, of GRCL (refer to APS 220) to be included in Tier 2 Capital is limited to a maximum of 1.25 per cent of the total credit RWA of the ADI calculated under APS 112. This item is applicable to ADIs using the standardised approach to credit risk.

5.3.2 IRB approach surplus provisions on non-defaulted exposures (to a maximum of 0.6% of credit RWA)

This item is only applicable to ADIs using the IRB approach to credit risk. This is a derived field based on the amounts reported under Eligible provisions in Section D: Memorandum items of this form. For non-defaulted exposures, where there is a surplus of total eligible provisions over the total EL amount, the difference may be included as Tier 2 Capital, where

- the surplus provisions are eligible to be treated as General Reserves for Credit Losses (as defined in APS 220); and
- the amount to be included as Tier 2 Capital is limited to a maximum of 0.6 per cent of the IRB credit RWA of the ADI.

5.4 Regulatory adjustments to Tier 2 Capital

5.4.1 Capital investments in Tier 2 instruments of ADIs or overseas equivalents and their subsidiaries, insurance companies and other financial institutions

This is the value, as at the relevant date, of the reporting entity's direct, indirect and synthetic holdings of Tier 2 Capital instruments of other ADIs, or overseas equivalents and their subsidiaries, insurance companies and other financial institutions.

For the purposes of this item, exclude:

(a) exposures acquired through underwriting of a new Tier 2 Capital instrument and the exposure is disposed of within five days of the date of issue. If the exposure is not disposed of within five days of issuance, it must be reported; or

(b) the equity exposure or other capital investment is held under a legal agreement on behalf of:

   - at Level 1 - an external third party, even if held in the name of the reporting entity; or
   - at Level 2 - a party outside the Level 2 consolidated group, even if held in the name of the reporting entity (or another member of its Level 2 consolidated group).

5.4.2 Holdings of own Tier 2 Capital instruments and any unused trading limit agreed with APRA

This is the value, as at the relevant date, of the reporting entity's holdings of its own Tier 2 Capital instruments, unless exempted by APRA or eliminated through the application of Australian Accounting Standards. Include any unused trading limit on these instruments where agreed with APRA and own Tier 2 Capital instruments that the ADI could be contractually obliged to purchase, regardless of whether they are held on the banking or trading books. Refer APS 111 paragraph 41(b) and Attachment J.

5.4.3 Adjustments and exclusions to Tier 2 Capital

This is the amount of adjustments applied to Tier 2 Capital that are specific to the application of the requirements of paragraph 55 of APS 111.

Adjustments that would increase the amount of Tier 2 Capital recognised should be reported as a positive value.

5.5 Tier 2 Capital

This is a derived field on the form.

6. Level 1/Level 2 Total Capital

This is a derived field on the form calculated as the sum of items 4 Tier 1 Capital and 5.5 Tier 2 Capital.

SECTION B: RISK PROFILE

This section summarises an ADI's RWA amounts for credit, operational and market risks and any other charges as required by APRA. To convert a capital charge for operational risk, market risk or any other item to a RWA equivalent amount, the amount of the charge must be multiplied by a factor of 12.5. The total RWA amount is used to calculate the capital adequacy ratio.

This form is designed to be used by all ADIs, irrespective of the approaches an individual ADI is applying to credit risk, operational risk and market risk. Consequently, not all line items are relevant to each ADI. An ADI may determine the line items it is required to complete based on the approaches it is applying.

1. Credit risk

1.1 Credit risk (excluding securitisation)

This section captures the total credit risk-weighted amount of on-balance sheet assets and the risk-weighted credit equivalent amount of off-balance sheet exposures at Level 1/Level 2.

Securitisation exposures, risk-weighted in accordance with APS 120, are excluded from the amounts reported under section B, item 1.1 (refer to section B, item 1.2 below).

1.1.1 Standardised approach

This item applies to an ADI using the standardised approach to credit risk.

Report the total RWA amount of the on-balance sheet assets and off-balance sheet exposures determined in accordance with APS 112, as captured in *Form ARF 112.1 Standardised Credit Risk - On-balance Sheet Assets* (**ARF 112.1**) and *Form ARF 112.2 Standardised Credit Risk - Off-balance Sheet Exposures* (**ARF 112.2)** respectively.

Partial use of the standardised approach to credit risk

Where APRA has permitted an ADI with IRB approval partial use of the standardised approach to credit risk for certain asset classes or business lines (refer to APS 113), the ADI is to report the RWA amount of exposures subject to the standardised approach in this item.

1.1.2 Foundation IRB approach

This item only applies to an ADI with approval to use the foundation internal-ratings based (**FIRB**) approach to credit risk (refer to APS 113).

Report the total RWA amount of the on-balance sheet exposures and off-balance sheet exposures determined under the FIRB approach to credit risk, as captured in the *FIRB Reporting Forms - ARF 113.0A* to *ARF 113.0E* (**ARF 113.0A** to **ARF 113.0E**).

1.1.3 Advanced IRB approach

This item only applies to an ADI with approval to use the advanced internal-ratings based (**AIRB**) approach to credit risk (refer to APS 113).

Report the total RWA amount of the on-balance sheet exposures and off-balance sheet exposures determined under the AIRB approach to credit risk, as captured in the *AIRB Reporting Forms – ARF 113.1A* to *ARF 113.1E* (**ARF 113.1A** to **ARF 113.1E**).

1.1.4 Supervisory slotting

This item only applies to an ADI with IRB approval that does not meet the requirements to use the IRB approach in relation to one or more of the specialised lending sub-asset classes.

Report the total RWA amount of the on-balance sheet exposures and off-balance sheet exposures relating to specialised lending that are subject to the supervisory slotting approach (refer to APS 113), as captured in *Form ARF 113.2 Specialised Lending Supervisory Slotting* (**ARF 113.2**).

1.1.5 IRB retail

This item only applies to an ADI with IRB approval.

Report the total RWA amount of the on-balance sheet exposures and off-balance sheet exposures relating to the IRB retail asset class determined under the IRB approach to credit risk (refer to APS 113), as captured in the *IRB Retail Reporting Forms – ARF 113.3A* to *ARF 113.3D* (**ARF 113.3A** to **ARF 113.3D**).

1.1.6 IRB other assets, claims and exposures

This item only applies to an ADI with IRB approval.

Report the total RWA amount of other assets, claims and exposures under the IRB approach to credit risk (refer to APS 113), as captured in *Form ARF 113.4 IRB – Other Assets, Claims and Exposures* (**ARF 113.4**).

1.2 Securitisation

This section captures the total RWA amount that is attributable to an ADI's securitisation exposures at Level 1/Level 2, determined in accordance with APS 120.

1.2.1 Standardised approach

This item applies to an ADI using the standardised approach to credit risk.

Report the total RWA amount of securitisation exposures under the standardised approach to credit risk (refer to Attachment C to APS 120), as captured in ARF 120.0.

Partial use of the standardised approach to securitisation

Where APRA has permitted an ADI with IRB approval partial use of the standardised approach to credit risk for certain asset classes or business lines (refer to APS 113), the ADI is to report the RWA amount of the securitisation exposures that are subject to the standardised approach in this item.

1.2.2 IRB approach

This item only applies to an ADI with IRB approval.

Report the total RWA amount of securitisation exposures under the IRB approach to credit risk (refer to Attachment D to APS 120), as captured in ARF 120.1C.

1.3 Scaling factor (1 or 1.06)

This item only applies to an ADI with IRB approval.

An ADI using the IRB approach to credit risk is required to scale up its RWA amounts that are derived from the IRB risk-weight functions by a factor of 1.06 (refer to APS 113). The scaling factor does not apply to RWA that are derived from specific (defined) risk-weights (i.e. RWA amounts for specialised lending supervisory slotting and other assets, claims and exposures).

In some cases, an ADI may have already applied this scaling factor to its exposures prior to reporting to APRA.

Where an ADI is reporting RWA amounts to which:

(a) the scaling factor has already been applied, the ADI should enter a value of 1 in this field;

(b) the scaling factor has not been applied, the ADI should enter a value of 1.06 in this field.

1.4 Total RWA for credit risk

Derived field calculating the total credit RWA amount for an ADI, irrespective of the approach (or approaches) it is using to credit risk. For an ADI using the IRB approach, this derived field takes into account the scaling factor entered by the ADI.

2. Operational risk

This section captures the RWA equivalent amount of the operational risk regulatory capital of an ADI at Level 1/Level 2.

2.1 Standardised approach

This item applies to an ADI using the standardised approach to operational risk.

Report the RWA equivalent amount of operational risk regulatory capital calculated under the standardised approach to operational risk (refer to *Prudential Standard APS 114: Standardised Approach to Operational Risk* (**APS 114**)), as reported in *Form ARF 114.0 Standardised – Operational risk* (**ARF 114.0**).

Partial use of the standardised approach to operational risk

Where APRA has permitted an ADI with approval to use the advanced measurement approaches to operational risk (**AMA approval**), partial use of the standardised approach to operational risk for certain business activities (refer to *Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk* (**APS 115**)), the ADI is to report the RWA equivalent amount of the operational risk regulatory capital calculated under the standardised approach in this item.

2.2 Advanced measurement approaches

This item only applies to an ADI with AMA approval.

Report the RWA equivalent amount of operational risk regulatory capital calculated using an AMA (refer to APS 115), as captured in *Form ARF 115.0A AMA – Regulatory Capital* (**ARF 115.0A**).

2.3 Total RWA for operational risk

Derived field calculating the total RWA amount for an ADI’s operational risk, irrespective of the approach (or approaches) it is using.

3. Market risk

This section captures the RWA equivalent amount of the market risk capital requirement of an ADI at Level 1/Level 2.

3.1 Interest rate risk in the banking book – Internal model approach

This item only applies to an ADI for which APRA has approved the use of an internal model approach to interest rate risk in the banking book (**IRRBB**) for determining regulatory capital (refer to *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs)* (**APS 117**)).

Report the RWA equivalent amount of the IRRBB capital requirement, as captured in *Form ARF 117.1 IRRBB* (**ARF 117.1**).

3.2 Traded market risk, foreign exchange and commodities – Standard method

Report the RWA equivalent amount of the traded market risk, foreign exchange and commodities (**TFC**) capital requirement calculated using the standard method (refer to *Prudential Standard APS 116 Market Risk* (**APS 116**)), as captured in *Form ARF 116.0 – Market risk* (**ARF 116.0**).

3.3 Traded market risk, foreign exchange and commodities – Internal model approach

Report the RWA equivalent amount of the TFC capital requirement calculated using the internal model approach (refer to APS 116), as captured in ARF 116.0.

3.4 Total RWA for market risk

Derived field calculating the total RWA amount for an ADI's TFC and IRRBB capital requirement, irrespective of the approach (or approaches) it is using.

4. Other charges as required by APRA

4.1 Total other charges as required by APRA

Report the RWA equivalent amount of any additional capital charge imposed on the ADI by APRA.

5. Total for credit risk, operational risk and market risk

5.1 Total RWA

This is a derived field that sums the RWA amounts for all categories. This figure forms the denominator for calculating the risk-based capital ratios of an ADI.

SECTION C: RISK RATIOS

1. Risk-based capital ratios

1.1 Common Equity Tier 1

This is a derived field calculated by dividing item 2.22 *Common Equity Tier 1 Capital* of section A by item 5.1 *Total RWA* of section B.

1.2 Tier 1

This is a derived field calculated by dividing item 4 *Tier 1 Capital* of section A by item 5.1 *Total RWA* of section B.

1.3 Total Capital

This is a derived field calculated by dividing item 6 *Level 1/ Level 2 Total Capital* of section A by item 5.1 *Total RWA* of section B.

SECTION D: MEMORANDUM ITEMS

1. Eligible provisions

The items under *Eligible provisions* are only applicable to an ADI with IRB approval (refer to APS 113). The ADI should report the amounts, in items 1.1 to 1.3, inclusive of any associated DTA.

1.1 Credit-related provisions

This item relates to both defaulted and non-defaulted exposures. Include specific provisions and the amount in the General Reserve for Credit Losses.

1.2 Partial write-offs

Report the amount of any partial write-offs that form part of the ADI's total eligible provisions.

1.3 Discounts on defaulted assets

Report the total amount of discounts on defaulted assets (refer to paragraph 24 of Attachment B to APS 113 and paragraph 7 of Attachment C to APS 113).

1.4 Total eligible provisions

Derived field which for:

(a) defaulted exposures – sums credit-related provisions on defaulted exposures, partial write–offs, and discounts on defaulted assets;

(b) non-defaulted exposures – equals the amount of credit-related provisions.

1.5 Total expected losses

Report the amount of total expected losses on defaulted and non-defaulted exposures (refer to paragraph 17 of APS 113).

2. General Reserve for Credit Losses

2.1 Total General Reserve for Credit Losses

Report the total amount in the General Reserve for Credit Losses inclusive of any associated DTA for non-defaulted exposures. This amount should be reported irrespective of whether it is included in Tier 2 Capital (refer to APS 220).

The total amount in the General Reserve for Credit Losses must be reported without taking into account the limits applicable on the inclusion of this amount in Tier 2 Capital.