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 each ADI that is included in one of the classes of ADI to which the forms apply, as set out in the table below.

Class of ADI	Reporting required
Bank – Advanced or Applicant Advanced[2]	Yes
Bank – Standardised	Yes
Branch of a Foreign Bank	No
Building Society	Yes
Credit Union	Yes
Specialist Credit Card Institution (SCCI)[3]	Yes
Provider of Purchased Payment Facilities	No
Other ADI	Yes

1 Level 1 and Level 2 are defined in accordance with *Prudential Standard APS 110 Capital Adequacy*.

2 When an ADI is seeking APRA’s approval to use the internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk, and is therefore classified as a “Bank – Advanced or Applicant Advanced”, the ADI may concurrently be classified as a “Bank – Standardised”, and therefore also subject to the reporting requirements for a “Bank – Standardised” (refer to section below on “Where both "Bank – Standardised" and "Bank – Advanced or Applicant Advanced" reporting requirements and timeframes apply to an ADI”).

3 A specialist credit card institution operating through a branch in Australia is not required to complete this form.

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.[4]

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;

    (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**[5] 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**).

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.

[4] Refer to paragraph 4 of *Reporting Standard ARS 110.0 Capital Adequacy*.
[5] Securitisation exposures are defined in accordance with APS 120.

Class of ADI	Number of business days
Bank – Advanced or Applicant Advanced	30
Bank – Standardised	20
Branch of a Foreign Bank	Not applicable
Building Society	15
Credit Union	15
Specialist Credit Card Institution (SCCI)	15
Provider of Purchased Payment Facilities	Not applicable
Other ADI[6]	20

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:

6 Cairns Penny Savings and Loans Limited is to be treated in accordance with the reporting period requirements applicable to credit unions.

Description of ADI	Reporting requirement	Timeframes for lodgement
ADI is operating under Basel II[7] standardised approaches to credit and operational risk, but has applied to adopt IRB and AMA approaches for all 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 most (but not all) 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)
	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)

7 If an ADI is required to apply the Basel I capital adequacy standards pending APRA's determination of an application made before 1 January 2008 for approval to use an internal ratings-based approach to credit risk and/or an advanced measurement approach to operational risk, the ADI must report under the Basel I capital reporting standards: refer to *Reporting Standard ARS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)* and paragraph 14 of *Prudential Standard APS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)*.

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
Branch of a Foreign Bank	Not applicable
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
Provider of Purchased Payment Facilities	Not applicable
Other ADI	Whole dollars with no decimal place

An immediate parent NOHC must complete this form 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 CAPITAL BASE

1. Tier 1 capital

1.1 Fundamental Tier 1 capital

1.1.1 Paid-up ordinary share capital

Include:

(a) only the proceeds of the share issue that have been received by the issuer. Any partly paid issue is eligible only to the extent that it has been paid up; and

(b) ordinary shares issued prior to 1 January 1992 by way of fully paid bonus issue arising from capitalisation of property revaluation reserves. All such shares issued after that date must be included in Upper Tier 2 capital (refer to item 3.1.5 *Other Upper Tier 2 capital instruments*).

1.1.2 General reserves

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. These may include:

(a) reserves representing the offset to a charge to profit and loss of the ADI arising from equity-settled share-based payments (i.e. shares and/or share options) granted to employees as part of their remuneration package (including any shares or share options granted to employees by way of bonus arrangements associated with their employment, and shares or share options granted to employees of an acquired institution in return for continued services). This is provided that:

(i) the shares or share options granted relate only to the ordinary shares of the ADI itself; and

(ii) there are no circumstances in which such remuneration (including bonuses) can be realised, in part or full, other than by way of the issue of ordinary shares of the ADI – i.e. there is no right for remuneration to be converted to a payment in another form (e.g. cash).

All other reserves associated with share-based payments (refer to Australian accounting standard *AASB 2 Share-based Payment*) must be excluded from both Tier 1 and Tier 2 capital; and

(b) cumulative unrealised gains or losses on hedges[8] that offset gains or losses on reserves included in Tier 1 capital (e.g. movements in the currency value of foreign-currency-denominated hedging instruments which offset movements in foreign-currency-denominated items recognised in the foreign currency translation reserve). This includes fair value gains or losses on derivatives representing effective economic hedges of assets.

Exclude General Reserves for Credit Losses from this item.

1.1.3 Retained earnings

Include the amount of retained earnings.

1.1.4 Current year earnings

Report current year profits (or losses) after taking into account:

(a) negative goodwill;

(b) the unwinding of any discount on credit loss provisions;

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

(d) expected dividends and tax expenses.

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

[8] This item includes cumulative unrealised gains or losses on effective cash flow hedges, as defined in *AASB 139 Financial Instruments: Recognition and Management*, offsetting gains or losses on reserves included in Tier 1 capital.

(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 cannot 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.

Provided these conditions are met, fee income can include net positive amounts arising from the netting of deferred income and capitalised expenses associated with a product class.

1.1.5 Foreign currency translation reserve

Include the exchange rate differences arising on translation of assets and liabilities in accordance with AASB 121.

1.1.6 Capital profits reserve

Include realised gains on the disposal of revalued assets that have not been transferred from asset revaluation reserves (**ARR**) to retained earnings. Do not include in this item any amount that has been included under item 3.1.7 *Asset revaluation reserves* in Upper Tier 2 capital.

1.1.7 Minority interests (Level 2 only)

Include any minority interests arising from consolidation at Level 2 of the Tier 1 capital of subsidiaries.

1.1.8 Total Fundamental Tier 1 capital (Level 2) or ***1.1.7 Total Fundamental Tier 1 capital (Level 1)***

Derived field calculated as the sum of all *Fundamental Tier 1 capital* items:

(a) at Level 1 – items 1.1.1 to 1.1.6; or

(b) at Level 2 – items 1.1.1 to 1.1.7.

1.2 Residual Tier 1 capital

Residual Tier 1 capital is limited to 25 per cent of net Tier 1 capital (refer to APS 111) or a lower percentage, as determined by APRA (refer to APS 110). Any amounts in excess of the limits for Residual Tier 1 capital are (subject to the limits on eligible amounts of Tier 2 capital) to be reported as Upper Tier 2 capital, under item 3.1.4 *Excess Tier 1 capital instruments*.

1.2.1 Non-innovative Residual Tier 1 capital

Include perpetual non-cumulative preference shares that satisfy the relevant criteria set out in Attachment A to APS 111 at Level 1/Level 2.

1.2.2 Innovative Tier 1 capital

Include all other Residual Tier 1 capital instruments that satisfy the relevant criteria set out in Attachment A and Attachment C to APS 111 at Level 1/Level 2.

1.2.3 Total Residual Tier 1 capital

Derived field calculated as the sum of items 1.2.1 and 1.2.2.

1.3 Gross Tier 1 capital

Derived field calculated as the sum of:

(a) at Level 1 – item 1.1.7 and item 1.2.3; or

(b) at Level 2 – item 1.1.8 and item 1.2.3.

2. Deductions from Tier 1 capital

These items must be deducted from gross Tier 1 capital, in accordance with APS 111. Items 2.1 to 2.13 are to be deducted from Tier 1 capital only, while the items under 2.14 *50/50 deductions from Tier 1 capital* form part of the group of deductions that are to be deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. 50 per cent of the value of these items is reported under 2.14 *50/50 deductions from Tier 1 capital*, while the other 50 per cent of the value of these items is deducted from Tier 2 capital under item 4.1 *Total 50/50 deductions from Tier 2 capital*.

2.1 Deferred tax assets

Report the amount of deferred tax assets (**DTA**):

(a) excluding any DTA associated with collective provisions eligible to be included in the General Reserve for Credit Losses (refer to *Guidance Note AGN 220.2 Impairment, Provisioning and the General Reserve for Credit Losses*); and

(b) net of deferred tax liabilities (**DTL**) (except DTL amounts associated with surpluses in any ADI (or other group member) employer-sponsored superannuation funds. Refer to item 2.10 for an example).

An ADI must net these items on a consistent basis in accordance with the requirements set out in Attachment D to APS 111.

Where the amount of DTL exceeds the amount of DTA, the deduction reported for this item is zero (i.e. the excess must not be added to Tier 1 capital) (refer to Attachment D to APS 111).

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

Report the net amount of any fair value gains and losses where the values do not meet the requirements for use of fair values specified in APS 111 (including Attachment E).

2.2.1 Banking book

Report the net amount of any ineligible unrealised fair value gains and losses of items not covered by *Prudential Standard APS 116 Capital Adequacy: Market Risk* (**APS 116**) . A net gain must be reported as a positive figure (which will be deducted from Tier 1 capital) and a net loss as a negative figure (which will be added back to Tier 1 capital).

2.2.2 Trading book

Report the net amount of any ineligible unrealised fair value gains and losses of items covered by APS 116. A net gain must be reported as a positive figure (which will be deducted from Tier 1 capital) and a net loss as a negative figure (which will be added back to Tier 1 capital).

2.3 Net other fair value adjustments

Report the net amount of other required adjustments for unrealised fair value gains and losses required to be made in accordance with APS 111. A net gain must be reported as a positive figure (which will be deducted from Tier 1 capital) and a net loss as a negative figure (which will be added back to Tier 1 capital).

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

Include any cumulative unrealised fair value gains (losses) on effective cash flow hedges reflected in retained earnings or reserves included in Tier 1 capital that do not offset gains or losses on revaluations in reserves included in Tier 1 capital at Level 1/Level 2. An ADI must deduct any gains on hedges and add back any losses on hedges. The ADI must report the net amount in this item. A net gain must be reported as a positive figure (which will be deducted from Tier 1 capital) and a net loss as a negative figure (which will be added back to Tier 1 capital).

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

Include the net unrealised fair value gains (losses) arising from changes in an ADI’s own creditworthiness. A gain may arise for example, from a reduction in fair value of the ADI’s outstanding debt due to a change in credit rating.

A net gain must be reported as a positive figure (which will be deducted from Tier 1 capital) and a net loss as a negative figure (which will be added back to Tier 1 capital).

2.4 Goodwill

Include goodwill (net of impairment). Goodwill (determined in accordance with *AASB 3 Business Combinations*) represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

2.5 Intangible component of investments in subsidiaries and other entities (Level 1) or 2.5 Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities (Level 2)

For reporting purposes, intangible assets are defined in accordance with the Australian accounting standards but also include any other assets designated as intangible in APS 111.

Include at Level 1:

(a) the intangible component of investments arising on an acquisition (net of impairment) (refer to Attachment D to APS 111); and

(b) the intangible component of investments in subsidiaries and other entities (e.g. any excess of the reported market value of an interest in a subsidiary over the net amount of the subsidiary's assets and liabilities, based on the subsidiary's consolidated financial reports), that arise after or outside of acquisitions (refer to APS 111). This should be reported net of amortisation and impairment.

Include at Level 2:

(a) the intangible component of investments arising on an acquisition (net of impairment) (refer to Attachment D to APS 111); and

(b) the intangible component of investments in non-consolidated subsidiaries (refer to Attachment B to APS 111) that do not form part of the consolidated banking group at Level 2. This should be reported net of amortisation and impairment.

2.6 Capitalised expenses

An ADI must report the following capitalised expenses (refer to Attachment D to APS 111):

2.6.1 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:

(a) has a positive balance, the ADI must report the amount as a positive figure (which will be deducted from Tier 1 capital);

(b) has a negative balance, provided the net deferred income satisfies the criteria set out in APS 111, the ADI may report the amount as a negative figure (which will be added back to Tier 1 capital). Where the criteria are not satisfied, the ADI must report zero for this item as the negative balance must not be added back to capital.

2.6.2 Costs associated with debt raisings

Include costs associated with debt raisings and other similar transaction-related costs that are capitalised as assets.

2.6.3 Costs associated with issuing capital instruments

Include costs associated with issuing capital instruments, if not already charged to profit or loss.

2.6.4 Information technology software costs

Include all software costs capitalised in accordance with *AASB 138 Intangible Assets* (**AASB 138**).

2.6.5 Securitisation start-up costs

The amount to be reported in this item corresponds to item 5.1.1 *Securitisation start-up costs* on ARF 120.0 and/or item 4.1.1 *Securitisation start-up costs* on form *ARF 120.1B IRB – Securitisation – Other securitisation exposures* (**ARF 120.1B**), as appropriate.

Start-up and other establishment costs of a securitisation that are capitalised as an asset are to be set-off against the balance of fee income relating to securitisation schemes recognised and deferred as a liability.

Where the net amount for start-up and other establishment costs:

(a) has a positive balance, the ADI must report the amount as a positive figure (which will be deducted from Tier 1 capital);

(b) has a negative balance, provided the up-front fee income received satisfies the criteria set out in APS 111, the ADI may report the amount as a negative figure (which will be added back to Tier 1 capital). Where the criteria are not satisfied, the ADI must report zero for this item as the negative balance must not be added back to capital.

Partial use of the standardised approach to securitisation

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 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

Include:

(a) other capitalised expenses including those of a general nature such as strategic business development initiatives; and

(b) other forms of transaction costs and like costs that are required to be deferred/capitalised and amortised as part of the measurement of assets and liabilities under Australian accounting standards.

The balance of any transaction costs and like items that are capitalised and deferred as an asset must be netted off against the balance of any income deferred as a liability relating to the products giving rise to the capitalised transaction costs (i.e. only deferred costs and income in particular product portfolios may be netted). Where the net amount for capitalised transaction costs:

(a) has a positive balance, the ADI must report the amount as a positive figure (which will be deducted from Tier 1 capital);

(b) has a negative balance, provided the net up-front fee income received satisfies the criteria set out in APS 111, the ADI may report the amount as a negative figure (which will be added back to Tier 1 capital). Where the criteria are not satisfied, the ADI must report zero for this item, as the negative balance must not be added back to capital.

2.7 Any other intangible assets not included above

Include any other intangible assets (net of adjustments to profit and loss reflecting amortisation and impairment)[9] not included in the items above.

2.8 Holdings of own Tier 1 capital instruments and any unused trading limit agreed with APRA

[9] Amortisation applies to intangibles with finite useful lives, whereas, impairment applies to intangibles with indefinite useful lives (refer to AASB 138).

Include all holdings of own Tier 1 capital instruments, unless exempted by APRA and any unused trading limit on these instruments agreed with APRA (refer to Attachment D to APS 111).

2.9 Tier 1 specific deductions relating to securitisation (excluding securitisation start-up costs)

The amount to be reported in this item corresponds to item 5.1.2 *Tier 1 specific deductions (excluding securitisation start-up costs)* on ARF 120.0 and/or item 4.1.2 *Tier 1 specific deductions (excluding securitisation start-up costs)* on ARF 120.1B, as appropriate (refer to the instructions for ARF 120.0 or ARF 120.1B for further detail).

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 must sum the amounts for Tier 1 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.

2.10 Surplus in any ADI-sponsored defined benefit superannuation plan

Report the defined benefit superannuation plan surplus net of DTL (refer to Attachment D to APS 111):

(a) at Level 1, in any ADI employer-sponsored defined benefit superannuation fund; or

(b) at Level 2, in any ADI or other Level 2 group member employer-sponsored defined benefit superannuation fund);

unless otherwise agreed with APRA. Refer to the following example:

Defined benefit surplus	$100	
Related DTL (30% tax rate)	$ 30	Remove this DTL impact from item 2.1.
Net impact on gross Tier 1 capital	$ 70	Report in item 2.10.

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

2.11 Deficit in any ADI-sponsored defined benefit superannuation plan not already reflected in Tier 1 capital

If there are any gross aggregate deficits in an ADI employer-sponsored defined benefit superannuation fund at Level 1, or in an ADI or other group member employer-sponsored defined benefit fund at Level 2, these should be deducted to the extent not already reflected in gross Tier 1 capital at Level 1/Level 2 (refer to Attachment D to APS 111). Surpluses and deficits must not be netted across employer-sponsored defined benefit superannuation plans. Refer to the following example:

Defined benefit deficit	$100	
Related DTA (30% tax rate)	$ 30	Include in item 2.1, as part of a Tier 1 capital deduction.
Net impact on gross Tier 1 capital	$ 70	Report in item 2.11 if not already reflected in gross Tier 1 capital.

2.12 Deductions from Tier 1 capital due to shortfall in Tier 2 capital

Where an ADI does not hold sufficient capital at Level 1/Level 2 to absorb required deductions from Tier 2 capital, it must deduct an amount equivalent to the shortfall in its Tier 2 capital from its Tier 1 capital (refer to APS 111).

2.13 Other Tier 1 capital deductions

Report any other Tier 1 specific capital deductions (refer to APS 111) not captured in the preceding items, including:

(a) **asset impairment** – report any identified impairment of an asset where the impairment has not already been taken into account in profit or loss or the impairment has been incorporated in the fair value changes captured in an ARR included in Upper Tier 2 capital. This will include the value of any deficit in ARRs included in Upper Tier 2 capital after taking into account all adjustments;

(b) **net fair value gains (losses) relating to illiquid financial instruments** – deduct any fair value gains and add back any fair value losses relating to illiquid financial instruments[10] that are not eligible for inclusion in Tier 1 capital in accordance with APS 111 at Level 1/Level 2;

(c) **net fair value gains (losses) relating to loans and receivables** – deduct any fair value gains and add back any fair value losses relating to loans and receivables that are not eligible for inclusion in Tier 1 capital in accordance with APS 111 at Level 1/Level 2;

(d) **amounts relating to the General Reserve for Credit Losses not already charged against earnings** – report any amounts relating to the General Reserve for Credit Losses (net of any DTA) that have not already been charged against retained earnings or current year earnings;

10 Illiquid financial instruments are those financial instruments, including any instruments covered by effective economic hedges, which do not have a reliable fair value and are to be reported on an amortised cost basis. If fair values can be credibly inferred, the instrument need not be considered “illiquid”. Examples of circumstances in which a credible inference may be drawn include where a similar financial instrument exists and trades in a liquid market, or where an illiquid financial instrument can be rigorously broken down into components for which prices can be taken from liquid markets or from sound valuation approaches.

(e) **portion of current year earnings or retained earnings that represents the ADI's share of undistributed profit or loss in an associate/joint venture** – report any portion of current year earnings or retained earnings that represents any amount deriving from the ADI's share of undistributed profit or loss in an associate/joint venture, under equity accounting. This amount should be included in Upper Tier 2 capital (refer to item 3.1.7.3 *Eligible component of investments in associates/joint ventures/subsidiaries (Level 1)* or 3.1.7.3 *Eligible component of investments in associates/joint ventures/non-consolidated subsidiaries (Level 2)*);

(f) **revaluations of assets not held for trading purposes and passed through profit or loss** – report any revaluation of assets (including investment property) not held for trading purposes that are passed through the profit and loss unless the revaluations are specifically permitted to be included in Tier 1 capital for the purposes of APS 111;

(g) **any amounts included in revaluation reserves that would otherwise have been included in Tier 1 capital** – report any amounts included in revaluation reserves in Upper Tier 2 capital that would otherwise have been included in Tier 1 capital;

(h) **any deficit in the amount available in the respective revaluation reserves, to the extent not already accounted for in current year earnings or retained earnings, for the following items:**

  (i) property (owner-occupied and investment property readily available to be sold);

  (ii) readily marketable securities designated as available for sale;

  (iii) investments in unconsolidated subsidiaries; or

  (iv) investments in associates including any excess of the share of losses in associates under equity accounting;

(i) **deductions relating to specific provisions** – report:

  (i) any specific provisions (refer to *APS 220 Credit Quality* (**APS 220**)), including that portion of collective provisions deemed to be a specific provision for regulatory purposes; and

  (ii) any prescribed provisions;

  Both categories of provisions are ineligible to be included in Tier 1 and Tier 2 capital. These provisions should be reported to the extent that they have not resulted in a charge to profit and loss, by way of establishment of a provision in audited published financial accounts;

(j) **other** – include any other Tier 1 specific deductions.

2.14 50/50 deductions from Tier 1 capital

The following items are to be deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. Within each item, only 50 per cent of the total amount for that item should be reported under 2.14 *50/50 deductions from Tier 1 capital*. The remaining 50 per cent of the value will be deducted from Tier 2 capital under item 4.1 *Total 50/50 deductions from Tier 2 capital* which derives its value based on the amounts reported under item 2.14.

2.14.1 Equity exposures and other capital investments in:

For the items under 2.14.1, an ADI is not required to include in the reported amounts equity exposures and capital investments from Level 1/Level 2 capital where:

(a) the equity exposure or other capital investment is held for trading purposes, in which case it is to be included in the ADI's total risk-weighted assets (**RWA**) in accordance with Prudential Standard APS 116 Market Risk (**APS 116**); or

(b) the equity exposure is acquired through underwriting of a new equity instrument and the equity instrument is disposed of within 90 days of the date of issue. If the equity instrument is not disposed of within 90 days of issuance, it must be deducted in accordance with the relevant limits for equity exposures and other capital investments, unless the position forms part of the ADI's trading book; or

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

    (i) at Level 1 – an external third party, even if held in the name of the ADI; or

    (ii) at Level 2 – a party outside the Level 2 consolidated group, even if held in the name of the ADI (or another member of its Level 2 consolidated group.)

Where a facility, including a guarantee, provided to a related party or a non-related party constitutes capital support, in accordance with the requirements detailed in paragraphs 36 and 37 of APS 111 respectively, it must be treated as "other capital investments" and reported in the relevant items under 2.14.1. In the event that such investments are not deducted from Tier 1 capital or Tier 2 capital, these must be risk-weighted at 400 per cent (refer to APS 111), and are to be reported in the relevant standardised credit risk or IRB suite of forms, as appropriate.

Refer to Attachment D to APS 111 for further details on equity and other capital investments.

2.14.1.1 Other ADIs and equivalent overseas deposit-taking institutions, and their subsidiaries (50%)

Report at Level 1, equity exposures and other capital investments in other ADIs and equivalent overseas deposit-taking institutions, and their subsidiaries, except where:

(a) the other ADI or equivalent overseas deposit-taking institution is wholly-owned or effectively controlled, whether directly or indirectly, by the reporting ADI, and has been consolidated with the reporting ADI at Level 2 for capital adequacy purposes;[11] or

(b) the capital instruments of the other ADI or equivalent overseas deposit-taking institution are held for trading purposes.

Report at Level 2, equity exposures and other capital investments in other ADIs and equivalent overseas deposit-taking institutions and their subsidiaries, unless these are held for trading purposes.

2.14.1.2 Holding companies of ADIs and equivalent overseas entities (50%)

Include equity exposures and other capital investments in holding companies of ADIs and equivalent entities overseas unless these are held for trading purposes.

2.14.1.3 Insurers, including holding companies of insurers, or other financial institutions other than ADIs, authorised NOHCs or equivalent overseas entities (50%)

Include equity exposures and other capital investments in an insurer, including a holding company of an insurer, or other financial institution other than an ADI, authorised NOHC of an ADI or equivalent overseas entity, where the ADI holds greater than or equal to 20 per cent and less than or equal to 50 per cent of the voting shares.

2.14.1.4 Non-subsidiary entities exceeding prescribed limits (50%)

Include the portion of equity exposures and other capital investments in non-subsidiary entities at Level 1/Level 2 in excess of:

(a) 0.15 per cent of the ADI's Level 1/Level 2 capital base before deductions (at both Tier 1 and Tier 2), for an individual investment; and

(b) five per cent of the ADI's Level 1/Level 2 capital base before deductions (at both Tier 1 and Tier 2), in aggregate.

Do not include in these amounts, any investments previously deducted under items 2.14.1.1 to 2.14.1.3.

2.14.1.5 Unregulated subsidiaries after deduction of any intangible component of the investment (50%) (Level 1) or *2.14.1.5 Non-consolidated subsidiaries (50%) (Level 2)*

Include at Level 1:

(a) equity exposures and other capital investments in subsidiaries after deduction of any intangible component, except for equity exposures and

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[11] Equity exposures and capital instruments held in such subsidiaries are to be risk-weighted at 400 per cent (refer to APS 111).

other capital investments in subsidiaries that are regulated by APRA or an equivalent regulator overseas. Such equity exposures and other capital investments are to be risk-weighted at 400 per cent (refer to APS 111), and reported in the relevant standardised credit risk or IRB suite of forms, as appropriate.

Include at Level 2:

(a) equity exposures and other capital investments in non-consolidated subsidiaries, whether regulated or unregulated. This deduction does not apply to a subsidiary holding company where it acts as a holding company for pass-through of equity exposures and other capital investments in subsidiary ADIs or equivalent overseas deposit-taking institutions. In the event that a subsidiary holding company holds equity exposures and other capital investments in subsidiaries not eligible for consolidation, an ADI must deduct its equity exposures and other capital investments in the holding company net of the value of the holding company's investment in any consolidated subsidiary ADI or equivalent overseas deposit-taking institutions.

2.14.2 Guarantees or credit derivatives that provide for a materiality threshold (50%)

Where there is an equivalent to retained first loss positions, the ADI obtaining the credit protection must deduct the amount (refer to APS 111). Equivalents to retained first loss positions arise:

(a) where credit protection provides for a materiality threshold on payments below which no payment will be made in the event of loss (refer to APS 112 or APS 113 for limits on amounts an ADI is required to deduct); and

(b) in the context of securitisation, where there is partial coverage of an underlying exposure by a credit derivative, there is a difference in seniority between protected and unprotected tranches, and the credit derivative contract contains a materiality threshold.

In all cases, the deduction is capped at the amount of capital the ADI would be required to hold against the full value of the exposure or underlying exposure, as appropriate.

2.14.3 Non-repayable loans advanced by the ADI under APRA's certified industry support arrangements (50%)

Include any non-repayable loans advanced by the reporting ADI to another ADI under APRA's certified industry support arrangements at Level 1/Level 2.

2.14.4 All other deductions relating to securitisation (50%)

The amount to be reported in this item corresponds to item 5.2.1 *All other deductions relating to securitisation* on ARF 120.0 and/or item 2.3 *All other deductions relating to securitisation* on form *ARF 120.1C IRB – Securitisation – Summary* (**ARF 120.1C**), as appropriate.

Include all other deductions relating to securitisation that:

(a) must be deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital, in accordance with APS 120; and

(b) have not been specified elsewhere in this instruction guide.

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 will need to sum the relevant amounts for all other deductions relating to securitisation from both ARF 120.0 and ARF 120.1C, and report the total under this item.

2.14.5 Shortfall in provisions for credit losses (50%)

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:

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

(b) the total EL amount (before any tax effects) for defaulted IRB exposures to the total eligible provisions (net of 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 50 per cent from the ADI's Tier 1 capital and 50 per cent from the ADI's Tier 2 capital.

2.14.6 Unsettled non-DvP transactions (50%)

Report the value transferred (including any replacement costs) and the positive current exposure of non-delivery-versus-payment (**non-DvP**) transactions that remain unsettled for five business days or more after their due delivery dates (refer to Attachment D to APS 112 or Attachment E to APS 113, as appropriate).

2.14.7 Undercapitalised non-consolidated subsidiaries (50%) (Level 2 only)

Report any amount that APRA has required an ADI to deduct from Level 2 capital to cover the undercapitalisation of a non-consolidated subsidiary (or subsidiaries) of the ADI. Refer to APS 111 for details of the matters APRA may consider in making any such determination.

2.14.8 Other 50/50 deductions from Tier 1 capital (50%) (Level 2) or ***2.14.7 Other 50/50 deductions from Tier 1 capital (50%)***

Include any other deductions that have not been specified elsewhere in this instruction guide that are required to be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital.

2.14.9 Total 50/50 deductions from Tier 1 capital (Level 2) or ***2.14.8 Total 50/50 deductions from Tier 1 capital (Level 1)***

This is the total of the deductions reported under item 2.14 *50/50 deductions from Tier 1 capital*. It is a derived field calculated as the sum of:

(a) at Level 1 – items 2.14.1 to 2.14.7; or

(b) at Level 2 – items 2.14.1 to 2.14.8.

2.14.10 Other Tier 1 deductions as advised by APRA (Level 2) or ***2.14.9 Other Tier 1 deductions as advised by APRA (Level 1)***

Include any other Tier 1 deductions as advised by APRA.

2.15 Reduce amount of deductions by:

2.15.1 Other adjustments to Tier 1 capital approved by APRA

Include any reductions in deductions or additions to Tier 1 capital that have been approved by APRA including transition amounts affecting Tier 1 capital at Level 1/Level 2.

2.16 Total deductions from Tier 1 capital

Derived field calculated as the sum of items 2.1 to 2.14 less item 2.15.1.

2.17 Net Tier 1 capital

Derived field calculated as item 1.3 *Gross Tier 1 capital* less item 2.16 *Total deductions from Tier 1 capital*.

3. Tier 2 capital

3.1 Upper Tier 2 capital

Upper Tier 2 capital is comprised of components that are essentially permanent in nature, including some forms of hybrid capital instruments.

3.1.1 Perpetual cumulative preference shares

3.1.2 Perpetual cumulative mandatory convertible notes

3.1.3 Perpetual cumulative subordinated debt

To be eligible as Upper Tier 2 capital, the instruments listed in item 3.1.1 to item 3.1.3 must satisfy the relevant criteria set out in Attachments B and C to APS 111.

3.1.4 Excess Tier 1 capital instruments

Report any excess amounts of Tier 1 capital ineligible for inclusion in Tier 1 capital due to the limits set out in APS 111 (all required deductions from Level 1 and Level 2 capital are to be undertaken prior to calculating the limits).

3.1.5 Other Upper Tier 2 capital instruments

To be eligible as Upper Tier 2 capital at Level 1 and Level 2, instruments must be perpetual and cumulative in nature, and they must satisfy the criteria set out in Attachment B to APS 111.

Include:

(a) other hybrid capital instruments of a permanent nature approved by APRA; and

(b) shares issued from 1 January 1992 by way of a fully paid bonus issue arising from capitalisation of property revaluation reserves.

3.1.6 General Reserve for Credit Losses

The amount of the General Reserve for Credit Losses to be included in Upper Tier 2 capital is on an after-tax basis. Any DTA associated with collective provisions eligible to be included in the General Reserve for Credit Losses must be removed (refer to APS 111).

For an ADI using a partial IRB approach to credit risk, the sum of reserves is proportionately based on the limits in items 3.1.6.1 and 3.1.6.2. Where it is not possible for the ADI to determine whether the General Reserve for Credit Losses relates to assets under the standardised approach or the IRB approach to credit risk, the allocation is to be made on a basis that is reasonable and consistent (refer to APS 111).

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

This item is applicable to ADIs using the standardised approach to credit risk.

The amount of General Reserve for Credit Losses (refer to APS 220) to be included in Upper Tier 2 capital is limited to a maximum of 1.25 per cent of the total RWA of the ADI.

3.1.6.2 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 Upper Tier 2 capital, where the surplus provisions are eligible to be treated as General Reserves for Credit Losses (as defined in APS 220). The amount to be included as Upper Tier 2 capital is limited to a maximum of 0.6 per cent of the IRB credit RWA of the ADI.

3.1.7 Asset revaluation reserves

Where a particular asset belongs to a class of assets for which ARR are included in Upper Tier 2 capital and the asset has been identified as impaired and losses arise, the losses may be offset against any existing revaluations of the asset or class of revalued assets.

If an ARR included in Upper Tier 2 capital is negative after adjustment for revaluations of assets included in the reserve, for losses due to impairment of assets covered by the reserve and for any gains or losses on hedges offsetting revaluations of assets included in the reserve, the amount of deficit in the reserve must be reported as a deduction from Tier 1 capital (under item 2.13 *Other Tier 1 capital deductions*, refer to paragraph (a) *asset impairment*) and as a zero under the relevant ARR in items 3.1.7.1 to 3.1.7.3.

The amounts recognised under items 3.1.7.1 and 3.1.7.2 must be net of any fair value gains and losses and any gains or losses on hedges offsetting revaluations included in reserves. For each item, the amount to be included in Upper Tier 2 capital is limited to 45 per cent of the pre-tax revaluation reserves for that category of ARR.

Do not include in any ARR, any amount that has already been included in item 1.1.6 *Capital profits reserve*.

3.1.7.1 Owner-occupied property and investment property

To be eligible for inclusion in Upper Tier 2 capital at Level 1 and Level 2, reserves arising from the revaluation of property (including owner-occupied and investment property readily available to be sold[12]) must satisfy the relevant criteria set out in Attachment B to APS 111.

3.1.7.2 Readily marketable securities

To be eligible for inclusion in Upper Tier 2 capital at Level 1 and Level 2, reserves arising from the revaluation of readily marketable securities must satisfy the relevant criteria set out in Attachment B to APS 111.

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[12] For regulatory capital purposes, an investment property that is readily available to be sold means:

(1) investment properties that are measured at fair value for accounting purposes (in accordance with *AASB 140 Investment Property*); and

(2) investment property that could be readily sold within 6 months. A property need not be scheduled for sale, nor a sale be intended. However, such property must be capable of being readily sold within 6 months were a decision made to sell the property.

3.1.7.3 Eligible component of investments in associates/joint ventures/subsidiaries (Level 1) or 3.1.7.3 Eligible component of investments in associates/joint ventures/non-consolidated subsidiaries (Level 2)

To be eligible for inclusion in Upper Tier 2 capital at Level 1 and Level 2, reserves arising from changes in the value of investments must satisfy the relevant criteria set out in Attachment B to APS 111. The amount recognised must be net of fair value gains and losses and any gains or losses on hedges offsetting revaluations of investments. Refer to the following example:

Investment in associate at Year 0	$100
Share of profits in associate in Year 1	$ 15
Share of associate's ARR in Year 1	$ 5

Reporting for this example would be as follows:

(a) for item 3.1.7.3 of ARF 110.0 – report $9 [i.e. 45% of ($15 + $5)]; and

(b) for item 7.9 *All other assets and claims not specified elsewhere* of ARF 112.1 – report $109 [i.e. $100 + $9].

Note that any intangible component of investments in subsidiaries would be deducted from Tier 1 capital (refer to items 2.4 and 2.5).

Refer to APS 111 and the relevant items under 2.14.1 for specific capital rules covering deductions of investments in subsidiaries, deductions of equity investments in non-subsidiary entities and deductions of equity and other capital investments in ADIs or equivalent overseas deposit-taking institutions (and their subsidiaries).

3.1.8 Total Upper Tier 2 capital

Derived field calculated as the sum of items 3.1.1 to 3.1.7.

3.1.9 Other adjustments to Upper Tier 2 capital approved by APRA

Include the net amount of any adjustments to Upper Tier 2 capital that have been approved by APRA, including any transition amounts affecting Upper Tier 2 capital at Level 1/Level 2. Additions are to be reported as a positive figure and deductions are to be reported as a negative figure.

3.1.10 Deductions from Upper Tier 2 capital

3.1.10.1 Holdings of own Upper Tier 2 capital instruments and any unused trading limit agreed with APRA

Include all holdings of own Upper Tier 2 capital instruments, unless exempted by APRA in writing, and any unused trading limit on these instruments agreed with APRA in writing (refer to Attachment D to APS 111).

3.1.11 Net Upper Tier 2 capital

Derived field calculated as the sum of item 3.1.8 and item 3.1.9 less item 3.1.10.1.

3.2 Lower Tier 2 capital

To be eligible as Lower Tier 2 capital at Level 1 and Level 2, the following instruments set out in item 3.2.1 to item 3.2.3, must satisfy the relevant criteria in Attachments B and C to APS 111:

3.2.1 Term subordinated debt

3.2.2 Limited life redeemable preference shares

3.2.3 Other Lower Tier 2 capital instruments

The amount of an instrument eligible for inclusion in Lower Tier 2 capital at Level 1/Level 2 is to be amortised on a straight line basis at a rate of 20 per cent per annum over the last four years to maturity as follows:

Years to maturity	**Amount eligible for inclusion in Lower Tier 2 capital**
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

3.2.4 Total Lower Tier 2 capital

Derived field calculated as the sum of items 3.2.1 to 3.2.3.

3.2.5 Other adjustments to Lower Tier 2 capital approved by APRA

Include the net amount of any adjustments to Lower Tier 2 capital that have been approved by APRA, including any transition amounts affecting Lower Tier 2 capital at Level 1/Level 2. Additions are to be reported as a positive figure and deductions are to be reported as a negative figure.

3.2.6 Deductions from Lower Tier 2 capital

3.2.6.1 Holdings of own Lower Tier 2 capital instruments and any unused trading limit agreed with APRA

Include all holdings of own Lower Tier 2 capital instruments, unless exempted by APRA, in writing, and any unused trading limit on these instruments agreed, in writing, with APRA (refer to Attachment D to APS 111).

3.2.7 Net Lower Tier 2 capital

Derived field calculated as the sum of item 3.2.4 and item 3.2.5 less item 3.2.6.1.

4. Deductions from Tier 2 capital

This section includes deductions from Tier 2 capital not already deducted from Upper Tier 2 capital or Lower Tier 2 capital.

4.1 Total 50/50 deductions from Tier 2 capital

This is the remaining 50 per cent of the value of the deductions set out under item 2.14 *50/50 deductions from Tier 1 capital*. It is a derived field equal to the value of:

(a) at Level 1 – item 2.14.8 *Total 50/50 deductions from Tier 1 capital*; and

(b) at Level 2 – item 2.14.9 *Total 50/50 deductions from Tier 1 capital*.

4.2 Other Tier 2 capital deductions as advised by APRA

Include all other deductions from Tier 2 capital as advised by APRA.

4.3 Total deductions from Tier 2 capital

Derived field calculated as the sum of items 4.1 *Total 50/50 deductions from Tier 2 capital* and 4.2 *Other Tier 2 deductions as advised by APRA*.

4.4 Net Tier 2 capital

Derived field calculated as the maximum of zero and the sum of item 3.1.11 *Net Upper Tier 2 capital* and item 3.2.7 *Net Lower Tier 2 capital* less item 4.3 *Total deductions from Tier 2 capital*. Where the sum of item 3.1.11 and item 3.2.7 less item 4.3 is negative, an amount equivalent to this shortfall in Tier 2 capital must be deducted from Tier 1 capital, and must be reported under item 2.12 *Deductions from Tier 1 capital due to shortfall in Tier 2 capital* in Section A of this form.

5. Level 1/Level 2 capital base

Derived field calculated as the sum of item 2.17 *Net Tier 1 capital* and item 4.4 *Net 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

Derived field that sums the RWA amounts for all categories. This figure forms the denominator for calculating the risk-based capital ratio of an ADI.

5.2 Transitional floor adjusted RWA

This item only applies to an ADI with IRB and AMA approval. An ADI that has IRB and AMA approval must calculate a Basel II transitional floor adjusted RWA amount, in accordance with the requirements of *Prudential Standard APS 150 Capital Adequacy: Basel II Transition (Advanced ADIs)*. The transitional floor adjusted RWA amount is used to calculate an ADI's actual risk-based capital ratio and assess whether the ADI is meeting its prudential capital ratio (refer to APS 110).

Report the amount of Basel II transitional floor adjusted RWA. For those ADIs that complete this item, this amount will be substituted for item 5.1 *Total RWA* as the denominator in the formula for the calculation of the risk-based capital ratio in Section C.

SECTION C: RISK RATIO

Risk-based capital ratio

Derived field calculated by dividing item 5 *Level 1/Level 2 capital base* of section A by item 5.1 *Total RWA* of section B (or where applicable, item 5.2 *Transitional floor adjusted 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, on an after-tax basis and net 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 net of any associated DTA for non-defaulted exposures. This amount should be reported irrespective of whether it is included in the capital base (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 Upper Tier 2 capital.[13]

[13] The limits on the inclusion of General Reserves for Credit losses in Upper Tier 2 capital are detailed in paragraph 24(g) of APS 111.