ANNEX XII

TECHNICAL CRITERIA ON DISCLOSURE

PART 1

General criteria

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

2. Information shall be regarded as proprietary to a credit institution if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render a credit institution's investments therein less valuable.

3. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding a credit institution to confidentiality.

4. Competent authorities shall require credit institution to assess the need to publish some or all disclosures more frequently than annually in the light of the relevant characteristics of their business such as scale of operations, range of activities, presence in different countries, involvement in different financial sectors, and participation in international financial markets and payment, settlement and clearing systems. That assessment shall pay particular attention to the possible need for more frequent disclosure of items of information laid down in Part 2, points 3(b) and 3(e) and 4(b) to 4(e), and information on risk exposure and other items prone to rapid change.

5. The disclosure requirement in Part 2, points 3 and 4 shall be provided pursuant to Article 72(1) and (2).

PART 2

General requirements

1. The risk management objectives and policies of the credit institution shall be disclosed for each separate category of risk, including the risks referred to under points 1 to 14. These disclosures shall include:

(a) the strategies and processes to manage those risks;

(b) the structure and organisation of the relevant risk management function or other appropriate arrangements;

(c) the scope and nature of risk reporting and measurement systems; and

(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

2. The following information shall be disclosed regarding the scope of application of the requirements of this Directive:

(a) the name of the credit institution to which the requirements of this Directive apply;

(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are:

(i) fully consolidated;

(ii) proportionally consolidated;

(iii) deducted from own funds; or

(iv) neither consolidated nor deducted;

(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;

(d) the aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries; and

(e) if applicable, the circumstance of making use of the provisions laid down in Articles 69 and 70.

3. The following information shall be disclosed by the credit institutions regarding their own funds:

(a) summary information on the terms and conditions of the main features of all own funds items and components thereof;

(b) the amount of the original own funds, with separate disclosure of all positive items and deductions;

(c) the total amount of additional own funds, and own funds as defined in Chapter IV of Directive 2006/49/EC,

(d) deductions from original and additional own funds pursuant to Article 66(2), with separate disclosure of items referred to in Article 57(q); and

(e) total eligible own funds, net of deductions and limits laid down in Article 66.

4. The following information shall be disclosed regarding the compliance by the credit institution with the requirements laid down in Articles 75 and 123:

(a) a summary of the credit institution's approach to assessing the adequacy of its internal capital to support current and future activities;

(b) for credit institutions calculating the risk#weighted exposure amounts in accordance with Articles 78 to 83, 8 per cent of the risk#weighted exposure amounts for each of the exposure classes specified in Article 79;

(c) for credit institutions calculating risk#weighted exposure amounts in accordance with Articles 84 to 89, 8 per cent of the risk#weighted exposure amounts for each of the exposure classes specified in Article 86. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Annex VII, Part 1, points 10 to 13 correspond. For the equity exposure class, this requirement applies to:

(i) each of the approaches provided in Annex VII, Part 1, points 17 to 26;

(ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

(iii) exposures subject to supervisory transition regarding capital requirements; and

(iv) exposures subject to grandfathering provisions regarding capital requirements;

(d) minimum capital requirements calculated in accordance with Article 75, points (b) and (c); and

(e) minimum capital requirements calculated in accordance with Articles 103 to 105, and disclosed separately.

5. The following information shall be disclosed regarding the credit institution's exposure to counterparty credit risk as defined in Annex III, Part 1:

(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;

(b) a discussion of policies for securing collateral and establishing credit reserves;

(c) a discussion of policies with respect to wrong-way risk exposures;

(d) a discussion of the impact of the amount of collateral the credit institution would have to provide given a downgrade in its credit rating;

(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;

(f) measures for exposure value under the methods set out in Parts 3 to 6 of Annex III, whichever method is applicable;

(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;

(h) credit derivative transactions (notional), segregated between use for the credit institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group; and

(i) the estimate of α if the credit institution has received the approval of the competent authorities to estimate α.

6. The following information shall be disclosed regarding the credit institution's exposure to credit risk and dilution risk:

(a) the definitions for accounting purposes of ‘past due’ and ‘impaired’;

(b) a description of the approaches and methods adopted for determining value adjustments and provisions;

(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;

(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;

(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate;

(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;

(g) by significant industry or counterparty type, the amount of:

(i) impaired exposures and past due exposures, provided separately;

(ii) value adjustments and provisions; and

(iii) charges for value adjustments and provisions during the period;

(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area;

(i) the reconciliation of changes in the value adjustments and provisions for impaired exposures, shown separately. The information shall comprise:

(i) a description of the type of value adjustments and provisions;

(ii) the opening balances;

(iii) the amounts taken against the provisions during the period;

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

(v) the closing balances.

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

7. For credit institutions calculating the risk#weighted exposure amounts in accordance with Articles 78 to 83, the following information shall be disclosed for each of the exposure classes specified in Article 79:

(a) the names of the nominated ECAIs and ECAs and the reasons for any changes;

(b) the exposure classes for which each ECAI or ECA is used;

(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book;

(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Annex VI, taking into account that this information needs not be disclosed if the credit institution complies with the standard association published by the competent authority; and

(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Annex VI, as well as those deducted from own funds.

8. The credit institutions calculating the risk#weighted exposure amounts in accordance with Annex VII, Part 1, points 6 or 19 to 21 shall disclose the exposures assigned to each category in Table 1 in point 6 of Annex VII, Part 1, or to each risk weight mentioned in points 19 to 21 of Annex VII, Part 1.

9. The credit institutions calculating their capital requirements in accordance with Article 75, points (b) and (c) shall disclose those requirements separately for each risk referred to in those provisions.

10. The following information shall be disclosed by each credit institution which calculates its capital requirements in accordance with Annex V to Directive 2006/49/EC:

(a) for each sub-portfolio covered:

 (i) the characteristics of the models used;

 (ii) a description of stress testing applied to the sub-portfolio;

 (iii) a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;

(b) the scope of acceptance by the competent authority; and

(c) a description of the extent and methodologies for compliance with the requirements set out in Annex VII, Part B to Directive 2006/49/EC.

11. The following information shall be disclosed by the credit institutions on operational risk:

(a) the approaches for the assessment of own funds requirements for operational risk that the credit institution qualifies for; and

(b) a description of the methodology set out in Article 105, if used by the credit institution, including a discussion of relevant internal and external factors considered in the credit institution's measurement approach. In the case of partial use, the scope and coverage of the different methodologies used.

12. The following information shall be disclosed regarding the exposures in equities not included in the trading book:

(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;

(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;

(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;

(d) the cumulative realised gains or losses arising from sales and liquidations in the period; and

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

13. The following information shall be disclosed by credit institutions on their exposure to interest rate risk on positions not included in the trading book:

(a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk; and

(b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.

14. The credit institutions calculating risk weighted exposure amounts in accordance with Articles 94 to 101 shall disclose the following information:

(a) a description of the credit institution's objectives in relation to securitisation activity;

(b) the roles played by the credit institution in the securitisation process;

(c) an indication of the extent of the credit institution's involvement in each of them;

(d) the approaches to calculating risk weighted exposure amounts that the credit institution follows for its securitisation activities;

(e) a summary of the credit institution's accounting policies for securitisation activities, including:

  (i) whether the transactions are treated as sales or financings;

  (ii) the recognition of gains on sales;

  (iii) the key assumptions for valuing retained interests; and

  (iv) the treatment of synthetic securitisations if this is not covered by other accounting policies;

(f) the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;

(g) the total outstanding amount of exposures securitised by the credit institution and subject to the securitisation framework (broken down into traditional and synthetic), by exposure type;

(h) for exposures securitised by the credit institution and subject to the securitisation framework, a breakdown by exposure type of the amount of impaired and past due exposures securitised, and the losses recognised by the credit institution during the period;

(i) the aggregate amount of securitisation positions retained or purchased, broken down by exposure type;

(j) the aggregate amount of securitisation positions retained or purchased, broken down into a meaningful number of risk weight bands. Positions that have been risk weighted at 1 250 % or deducted shall be disclosed separately;

(k) the aggregate outstanding amount of securitised revolving exposures segregated by the originator's interest and the investors' interest; and

(l) a summary of the securitisation activity in the period, including the amount of exposures securitised (by exposure type), and recognised gain or loss on sale by exposure type.

PART 3

Qualifying requirements for the use of particular instruments or methodologies

1. The credit institutions calculating the risk#weighted exposure amounts in accordance with Articles 84 to 89 shall disclose the following information:

(a) the competent authority's acceptance of approach or approved transition;

(b) an explanation and review of:

  (i) the structure of internal rating systems and relation between internal and external ratings;

  (ii) the use of internal estimates other than for calculating risk#weighted exposure amounts in accordance with Articles 84 to 89;

  (iii) the process for managing and recognising credit risk mitigation; and

  (iv) the control mechanisms for rating systems including a description of independence, accountability, and rating systems review;

(c) a description of the internal ratings process, provided separately for the following exposure classes:

  (i) central governments and central banks;

  (ii) institutions;

  (iii) corporate, including SMEs, specialised lending and purchased corporate receivables;

  (iv) retail, for each of the categories of exposures to which the different correlations in Annex VII, Part 1, points 10 to 13 correspond; and

  (v) equities;

(d) the exposure values for each of the exposure classes specified in Article 86. Exposures to central governments and central banks, institutions and corporates where credit institutions use own estimates of LGDs or conversion factors for the calculation of risk#weighted exposure amounts shall be disclosed separately from exposures for which the credit institutions do not use such estimates;

(e) for each of the exposure classes central governments and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk, credit institutions shall disclose:

  (i) the total exposures (for the exposure classes central governments and central banks, institutions and corporate, the sum of outstanding loans and exposure values for undrawn commitments; for equities, the outstanding amount);

(ii) for the credit institutions using own LGD estimates for the calculation of risk#weighted exposure amounts, the exposure-weighted average LGD in percentage;

(iii) the exposure-weighted average risk weight; and

(iv) for the credit institutions using own estimates of conversion factors for the calculation of risk#weighted exposure amounts, the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class;

(f) for the retail exposure class and for each of the categories as defined under point (c)(iv), either the disclosures outlined under (e) above (if applicable, on a pooled basis), or an analysis of exposures (outstanding loans and exposure values for undrawn commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);

(g) the actual value adjustments in the preceding period for each exposure class (for retail, for each of the categories as defined under point (c)(iv) and how they differ from past experience;

(h) a description of the factors that impacted on the loss experience in the preceding period (for example, has the credit institution experienced higher than average default rates, or higher than average LGDs and conversion factors); and

(i) the credit institution's estimates against actual outcomes over a longer period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class (for retail, for each of the categories as defined under point (c)(iv) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail for each of the categories as defined under point (c)(iv). Where appropriate, the credit institutions shall further decompose this to provide analysis of PD and, for the credit institutions using own estimates of LGDs and/or conversion factors, LGD and conversion factor outcomes against estimates provided in the quantitative risk assessment disclosures above.

For the purposes of point (c), the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of PD and, if applicable, LGD and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definition of default as set out in Annex VII, Part 4, points 44 to 48, including the broad segments affected by such deviations.

2. The credit institutions applying credit risk mitigation techniques shall disclose the following information:

(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;

(b) the policies and processes for collateral valuation and management;

(c) a description of the main types of collateral taken by the credit institution;

(d) the main types of guarantor and credit derivative counterparty and their creditworthiness;

(e) information about market or credit risk concentrations within the credit mitigation taken;

(f) for credit institutions calculating risk#weighted exposure amounts in accordance with Articles 78 to 83 or 84 to 89, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral; and

(g) for credit institutions calculating risk#weighted exposure amounts in accordance with Articles 78 to 83 or 84 to 89, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Annex VII, Part 1, points 17 to 26.

3. The credit institutions using the approach set out in Article 105 for the calculation of their own funds requirements for operational risk shall disclose a description of the use of insurance for the purpose of mitigating the risk.