Quantitative analysis of eligible own funds in the EEA

Background

1. The European Commission ('the Commission') decided to undertake a review of the definition of own funds which would contribute to form the basis of the EU's future thinking on own funds. On 20 June 2005, the Commission asked CEBS to inform its work by providing technical advice[1] through:

    a. a survey of the implementation of the current rules on own funds across Member States;

    b. an analysis of the capital instruments recently created by the industry;

    c. the development of guiding principles behind own funds; and

    d. a quantitative analysis of the types of capital held by credit institutions within the Member States.

2. On 23 June 2006, CEBS published the surveys referred to in Parts (a) and (b) of the Commission's Call for Advice on http://www.c-ebs.org/Advice/advice.htm.

3. In a letter dated 3 August 2006(1), the Commission indicated that there was considerable merit in undertaking Part (d) at this stage in order to form a foundation for future discussions and put forward recommendations on how this could be done.

4. In a second letter(1) dated 26 October 2006, the Commission amended its proposal relating to Part (d) and invited CEBS to conduct the quantitative analysis in a more targeted way than previously set out in the first letter, including trying to assess the importance of the characteristics of hybrid instruments eligible as original own funds[2].

5. The quantitative analysis of the characteristics of hybrids eligible as original own funds in the EU was published in March 2007 on the CEBS website.

---

[1] See http://www.c-ebs.org/Advice/advice.htm

[2] As defined in the recitals (29) and (30) of Directive 2006/48/EC and Article 12 of Directive 2006/49/EC. In addition, to differentiate between capital, reserves, funds for general banking risks and these new instruments, CEBS adopted in its two reports published in June 2006 the terminology used by the BAC-GTIAD and used 'core' original own funds to refer to items already listed in Directives 2006/48/EC and 2006/49/EC and 'supplementary' original own funds to refer to all the other instruments. The Basel terminology refers to 'Tier 1', 'Core Tier 1' and 'non-Core Tier 1'.

6. The quantitative analysis below completes Part (d). It gives a quantitative assessment of the similarities and differences in eligible own funds as surveyed in June by CEBS in response to Part (a) of the CfA ('Part A report').

Methodology

7. A taxonomy[3] common to all EEA[4] members was devised on the basis of the COREP CA template for the regulatory own funds. The latter was simplified, taking out all items relating to the new provisions of the Capital Requirements Directive (CRD) which enters into force as of 1 January 2007. The Commission has requested that the survey be carried out as of 31 December 2006.

8. The COREP CA template was also amended to identify the different categories -gross and net- of CEBS prudential filters. It differentiates in the analysis between CEBS recommended filters and other country specific adjustments.

9. The analysis is based on data submitted as of 31 December 2006 by the supervisory competent authorities of 30 EEA Member States[5].

10. The survey is based on representative aggregate samples of the banking sector (and where relevant investment firms sector) of the countries that participated in the exercise. On average, the data coverage ranges from 80% to 90% of the national banking and securities sectors of the participants.

11. The participating supervisory competent authorities have provided data either on the basis of in-house information collected via their regular prudential reporting or by collecting information directly from institutions on an ad-hoc and very preliminary basis.

12. The data was reported at the highest level of prudential consolidation within each jurisdiction, be it at a consolidated (when the top company of the group is located in the jurisdiction), sub-consolidated (when the top company of the group is located outside the jurisdiction but within the EU) or solo level (stand-alone institutions- they should not be already included in the other two categories).

13. Double-counting across countries where the same is institution present in two countries and is therefore reported by both Country A (sub-consolidated data) and Country B (consolidated data), is inevitable.

14. However, in order to avoid double-counting on an aggregate basis, the structure of own funds at EU level is obtained by adding the data reported

[3] See Annex VII

[4] Austria (AT), Belgium (BE), Bulgaria (BG), Cyprus (CY), Czech Republic (CZ), Germany (DE), Denmark (DK), Estonia (EE), Greece (EL), Spain (ES), Finland (FI), France (FR), Hungary (HU), Iceland (IC), Ireland (IE or IR), Italy (IT), Liechtenstein (LI), Lithuania (LT), Luxembourg (LU), Latvia (LV), Malta (MT), Netherlands (NL), Norway (NO), Poland (PO), Portugal (PT), Romania (RO), Sweden (SE or SW), Slovenia (SI or SL), Slovakia (SK), United Kingdom (UK)

[5] IC provided data only in percentage for the main layers (no nominal amount)

by each country on consolidated and solo bases by both IFRS and non-IFRS institutions (i.e. excluding the sub-consolidated data).

15. The structure of own funds in an individual country has been estimated by adding the data reported on a solo (for stand-alone institutions), sub-consolidated and consolidated basis by both IFRS and non-IFRS institutions.

16. The report does not only use the terminology of Directive 2006/48/EC and Directive 2006/49/EC but also the terminology commonly used by the markets. For instance, Tier 1 is used to refer to 'Original own funds', Core Tier 1 for 'Core original own funds', non Core Tier 1 for 'Supplementary original own funds', Tier 2 for 'additional own funds', upper Tier 2 for 'core additional own funds', Lower Tier 2 for 'Supplementary additional own funds', and Tier 3 for 'Ancillary own funds'.

17. As the terminologies are not strictly identical, the report follows the Directives' terminology to the maximum extent possible and refers to 'Tiers' when analysing the structure of eligible own funds from a economic perspective.

18. Consistent with the previous surveys published by CEBS, the generic term 'hybrids' is used in this report to include:

    a. Innovative instruments (i.e. instruments with incentive to redeem such as step-ups);

    b. Non-innovative instruments (i.e. instruments which do not have incentives to redeem) and

    c. Non-cumulative perpetual preference shares.

19. The economic characteristics of such instruments were analysed by CEBS in a report published in March (the 'CEBS Hybrid report'). The key characteristics of these instruments, their repartition across countries, the limits applied by supervisory competent authorities to their inclusion in original own funds and a lexicon of 'country-specific' instruments have been extracted from the CEBS Hybrid report and incorporated at the end of this paper.

20. The CEBS Survey published on http://www.c-ebs.org/Advice/OF_part1_rules.pdf gives a detailed description of the elements recognised as eligible own funds in EEA countries.

21. The timeline given in the Commission's letter is shorter than the usual period institutions have to deliver and report definitive data for 31 December. Therefore, the data may not have been subject to the usual statutory control/audit certification or may not have been approved by the General Assembly of the institutions included in the sample.

22. The data as of 31 December 2006 is based on national rules on own funds prior to the transposition and implementation of Directive 2006/48/EC and Directive 2006/49/EC.

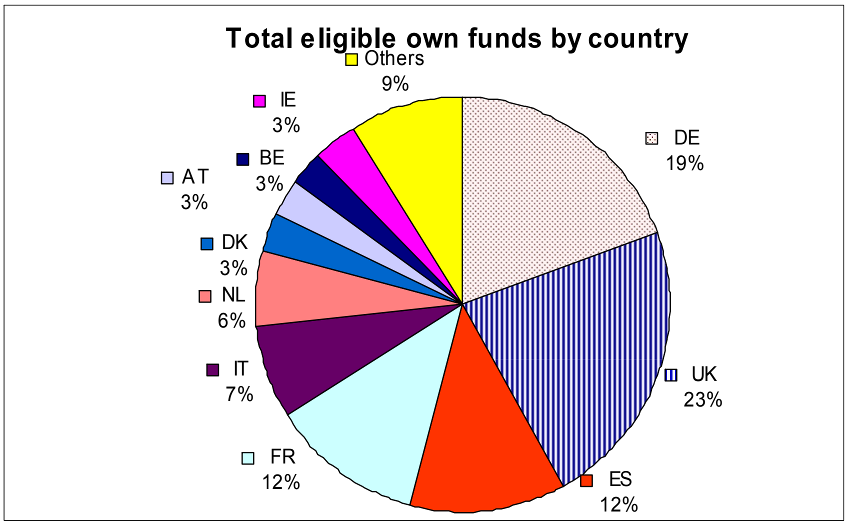
23. The impact of prudential filters is more appropriately assessed for institutions reporting in IFRS as filters do not in most cases apply to institutions reporting in local GAAP based on the Accounting Directives. For this reason, the taxonomy and the analysis distinguish between IFRS and non-IFRS institutions.[6]

[6] IFRS institutions comprise only institutions using IFRS as endorsed by the EU. Institutions using local GAAP that are similar to IFRS have been included in the column "Non-IFRS institutions '. CEBS prudential filters may also be applied to those institutions.

Key findings

24. The total outstanding amount of own funds reported on a preliminary basis by a sample of EU institutions and as of 31 December 2006 is estimated at approximately EUR 1 718 billion before and EUR 1 706 billion after prudential filters.

25. On an aggregate basis[7], 73% of the eligible own funds is reported by 5 countries: UK, DE, ES, FR, IT:



Preliminary data as of 31 December 2006 (aggregate basis)

The structure of eligible own funds in the EEA

26. The capital elements with the highest quality -the original own funds[8]- represent a major part 64%[9] of the own funds of European credit institutions and investment firms. Additional own funds represent 34%. EU institutions cover their market risks mainly with original and additional own funds: ancillary own funds account for a marginal amount 2% of total own funds.

27. On a aggregate basis deductions from total own funds are 7,4% of total own funds.

---

[7] As indicated in the methodology above, 'Aggregate data' refers to the sum of the data reported on a consolidated and solo (the latter by stand-alone institutions not already included in a group or a subgroup) basis by both IFRS and non-IFRS institutions. 'National data' comprise data reported on a solo (stand-alone institutions), sub-consolidated and consolidated basis by both IFRS and non-IFRS institutions

[8] Although the two terminologies differ, the report uses the terminology of Directive 2006/48/EC and Directive 2006/49/EC and the 'Tier' terminology. Tier 1 is used to refer to 'Original own funds', Core Tier 1 for 'Core original own funds', non Core Tier 1 for 'Supplementary original own funds', Tier 2 for 'additional own funds', Upper Tier 2 for 'core additional own funds', Lower Tier 2 for 'Supplementary additional own funds', Tier 3 for 'Ancillary own funds'. However, the elements are, unless explicitly stated otherwise, reported in accordance with and as defined by the two Directives.

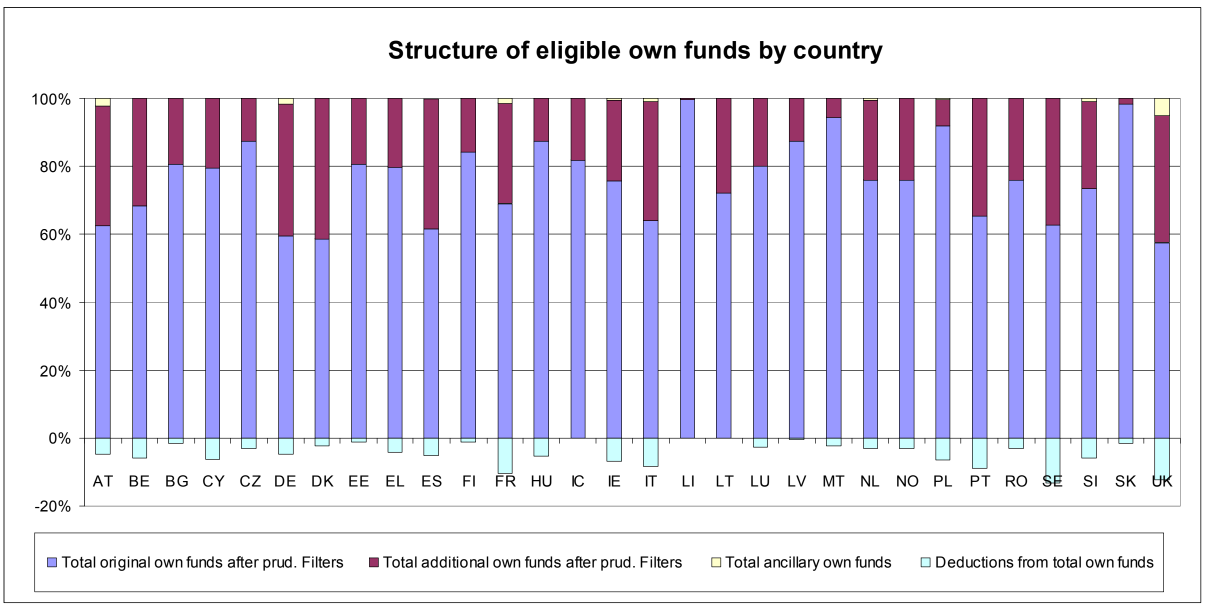
[9] Percentages calculated on the basis of total own funds after prudential filters and before the deductions from total own funds referred to in Article 66 of Directive 2006/48/EC.

28.The structure of regulatory capital does not significantly differ between IFRS institutions and non-IFRS institutions. As shown in the table below, IFRS institutions have more original own funds than non-IFRS institutions and have greater deductions:

% of total own funds after prudential filters and after deductions	IFRS institutions	Non IFRS institutions	All institutions
Total Original Own funds (after prudential filters)	70,7	65	69
Total Additional Own funds (after prudential filters)	37,6	34	36,5
Total Ancillary Own funds	0,7	5	2
Total Deductions from total own funds	(9)	(4)	(7,5)
Total own funds after prudential filters	**100**	**100**	**100**

Preliminary data as of 31 December 2006 (Aggregate data- Sample basis)

29.The overall structure[10] of eligible own funds varies across countries:



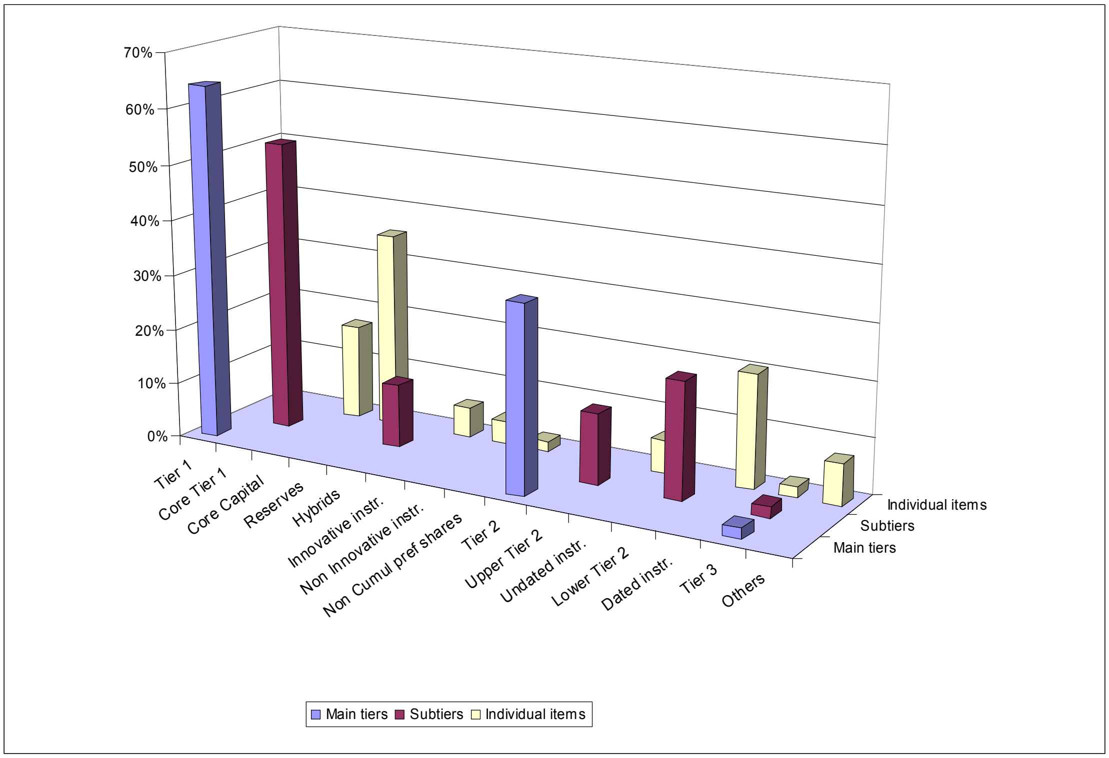
Preliminary data as of 31 December 2006 (National data- Sample basis-% calculated out of total own funds before deductions of total own funds

The quality of eligible own funds

30.The graph below shows the breakdown of eligible own funds[11] estimated on the basis of the aggregate data[12] of all respondents:

---

[10] Percentage calculated on the basis of the total own funds after prudential filters and before deductions referred to in Article 66 of Directive 2006/48/EC.
[11] After prudential filters and before taking into account the elements deductible referred to in Article 66 of Directive 2006/48/EC.



Preliminary data as of 31 December 2006 (Aggregate data- Sample basis)

31.The quality of own funds can be assessed by taking into consideration that 'Core Tier 1' (i.e. original own funds minus hybrids) account for approximately 52,5% of total own funds. Hybrids account for 11,5% and Tier 2 instruments for 34%.

32.Aggregated amounts can only give a very rough idea of whether the regulatory limits placed on Tier 1 and Tier 2 have been 'used', for the following reasons:

- Not all the countries recognised hybrid capital elements in Tier 1, or all the types of hybrid instruments (innovative, non-innovative instruments and non cumulative perpetual preference shares);
- Not all the institutions are issuing Tier 1 hybrids, or Upper or Lower Tier 2 instruments; and
- The limits differ depending on the types of hybrid instruments,
- The country samples include different levels of large and smaller institutions, e.g. due to different levels of sector consolidation,
- The relative quality of the instruments is important: some instruments are close to common shares, others may have strong incentives to redeem.

[12] Data on hybrids based on data collected and reported in the CEBS Hybrid report, with adjustments (e.g. to the sample) where necessary. Percentages calculated on the basis of total own funds before deductions referred to in Article 66 of Directive 2006/48/EC

33. Bearing this in mind and zooming to the countries which have reported the highest amounts of hybrids, hybrids account for roughly 15% of Tier 1 before deductions (18% of Tier 1 after deductions):

%	BE	DE	ES	FR	IE	IT	NL	UK	Total of the 8 countries
Hybrids (1) /Total own funds before deductions	8	10	11	10	13	8	22	16	12
Core Tier 1/Total own funds before deductions	64	52	54	66	68	61	56	49	56
Hybrids (1)/ Total original own funds before Tier 1 deductions	11	16	14	10	15	9	26	19	15
Hybrids (1)/ Total original own funds after Tier 1 deductions	11	17	17	13	16	11	28	25	18

Preliminary data – 31 December 2006- (National data-Sample basis)
(1) As estimated on the basis of the data reported in the taxonomy. In some countries, different samples for this report and the CEBS Hybrid report may have been used.
Core Tier 1 =Original own funds after prudential filters and after Tier 1 deductions – hybrids as estimated on the basis of the data reported in the taxonomy

34. At the EU level, Upper Tier 2 is less than 20 % of Tier 1, Lower Tier 2 is less than 34% of Tier 1.

35. In a very limited number of countries, a relatively low amount of excess Tier 1 Capital has been reported in Tier 2. The same holds true for Tier 2 reported in Tier 3.

Prudential filters

36. Prudential filters eliminate some of the unwanted effects of IFRS from Tier 1. The overall reduction of own funds as a result of their application amounts to 0,9 % for IFRS institutions (0,7% for all institutions) and is mainly due to the shift of IFRS-related valuation differences from Tier 1 to Tier 2.

37. CEBS recommended filters produce a reduction of 6,5 % in original own funds (for IFRS institutions) while other adjustments partly counteract this by an increase of 1,3%.

38. Where IFRS is used for prudential purposes CEBS recommended filters are generally complied with, with a very limited number of exceptions. There are only 3 cases of non-compliance with the filters covered by Article 64 (4) of Directive 2006/48/EC.

39. The most important adjustment in absolute terms moves part (62,5%) of the positive valuation differences related to available for sale equities from Tier 1 to Tier 2.

Elements deductible from own funds

40. There are two types of deduction:

- those that are deducted from Tier 1; and

- those that are deducted from total own funds. From 1 January 2007, they must be deducted 50% from Tier 1 and 50% from Tier 2. However Article 154(4) of Directive 2006/48/EC allows Member States to continue to deduct participations in insurance undertakings acquired before 20 July 2006 from total own funds, instead of deducting them 50% from Tier 1 and 50% from Tier 2, until 31 December 2012.

41. Intangible assets represent 93% of all the deductions from Tier 1. They mostly consist of goodwill.

42. Using the option given in Article 61 of Directive 2006/48/EC several countries require the deduction of items other than and in addition to those listed in the Directives. Despite their diversity, these country specific deductions are, in the vast majority of countries, minimal.

43. Deductions from total own funds mainly consist of holdings in unconsolidated credit and financial institutions (48% of the deductions) and participations in insurance undertakings (36%), bearing in mind that with regard to the latter, the methods of deduction (e.g. different thresholds) differ across countries.

44. Member States have disclosed under the CEBS supervisory disclosure at http://www.c-ebs.org/sd/options_national_discretions.htm if they apply the discretion referred to in Article 154(4) of Directive 2006/48/EC: AT, BE, CY, EL, ES, FR, IE, IT, LU, NL, SE, UK will apply that possibility, SK also but subject to prior approval. BG, CZ, DE, DK, EE, FI, HU, LT, LV, MT, PT, SI, IC, LI, NO are not using the discretion.

TABLE OF CONTENTS

Annexes

Annex I: Hybrids reported by institutions in Europe (by main categories)

Annex II: Limits to the inclusion of hybrids in original own funds

Annex III: Economic characteristics of hybrids in Europe (by main categories)

Annex IV: Lexicon

Annex V: CEBS prudential filters

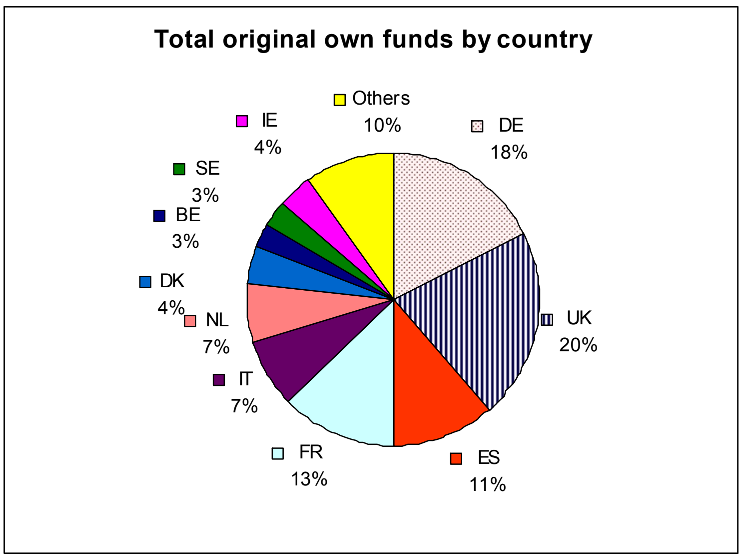
Annex VI: Other prudential filters applied by countries

Annex VII: Taxonomy

Chapter 1. The strongest element of regulatory capital, the original own funds, represents the highest portion 64% of the total eligible own funds[13] of European credit institutions and investment firms

45.The total amount of original own funds reported on a preliminary basis and as of 31 December 2006, is estimated at approximately EUR 1 176 billion after prudential filters.

46.Original own funds of European credit institutions and investments firms are rather concentrated: on an aggregate basis, 5 Member States (UK, DE, FR, ES, IT) account for 70% of total original own funds after prudential filters:



Preliminary data as of 31 December 2006 (Aggregate data-Sample basis)

47.On an aggregate basis, original own funds account for 64% of total own funds. The situation varies across countries, ranging from 59,6% in DE, 62% in ES, 66% in the UK, 69% in IT and in FR, to 84% in FI. In some of the new Member States original own funds constitute practically the only type of eligible own funds.

48.In accordance with Article 57(a) of Directive 2006/48/EC, original own funds consist of:

(a) capital, plus share premium accounts but excluding cumulative preference shares;

(b) reserves and profit and loss brought forward as a result of the application of the final profit or loss; and

[13] Percentages are calculated on the basis of total own funds after prudential filters and before deductions referred to in Article 66 of Directive 2006/48/EC

(c) funds for general banking risks.

49. In accordance with Article 66 and Article 57(i) to (k) of Directive 2006/48/EC the following items shall be deducted from original own funds:

(i) own shares at book value held by the credit institution;

(j) intangible assets within the meaning of Article 4(9) (Assets) of Directive 86/635/EEC; and

(k) material losses of the current financial year.

50. As of 31 December 2006, these elements account for :

All institutions-	Billion EUR	%
Eligible Capital	409,5	34,8
Eligible reserves	919,2	78,2
Funds for general banking risks	20,4	1,7
Other country specific original own funds	50,5	4,3
Deductions from original own funds	(209,6)	(17,8)
Other country specific deductions from original own funds	(13,7)	(1,2)
Original own funds after prud.filters	**1 176**	**100**

Preliminary data as of 31 December 2006 (aggregate data-Sample basis)

51. Paid-up capital within the meaning of Article 22 of Directive 86/635/EEC constitutes the main element of Eligible capital:

All institutions	Billion EUR	%
Paid-up Capital	194,2	47,4
(-) Own shares	(10,4)	(2,6)
Share premium[14]	159,6	39
Other instruments eligible as capital	66,2	16,2
Eligible Capital	**409,5**	**100**

Preliminary data as of 31 December 2006 (aggregate data-Sample basis)

52. Reserves within the meaning of Article 23 of Directive 86/635/EEC represent the most significant part of Eligible Reserves:

All institutions	Billion EUR	%
Reserves	754,6	82,2
Eligible minority interests	114,8	12,5
Interim profits and losses	48,4	5,2
Valuation differences eligible as original own funds (adjusted as a result of the application of prudential filters)	1,4	0,1
Eligible Reserves	**919,2**	**100**

Preliminary data as of 31 December 2006 (aggregate data-Sample basis)

53. The Part A report indicated that Reserves were generally treated quite similarly across Member States, differences in the types and denominations of legal and statutory reserves arising as the result of different national company laws.

[14] As indicated in the Part A report share premium is included in 'Reserves' in some countries.

54. The breakdown of the reported data makes it difficult to carry out a detailed analysis of the components of Eligible minority interests. (see below on hybrids).

55. Countries have reported 'interim profits and losses' for those institutions whose financial year does not end on 31 December. In some cases, profits not yet accepted by the General Assembly have also been reported in this category.

56. A limited number of countries have reported Funds for general banking risks (FGBR) and only in very small amounts. FGBR include certain amounts set aside for future losses and other unforeseeable risks on the basis of requirements or as allowed by local circumstances or legislation. This item is mainly reported by non-IFRS institutions. Indeed under IAS/IFRS the setting aside of amounts in respect of general banking risks is not an expense but an appropriation of retained earnings and as such is transferred to reserves.

57. Some Member States have reported hybrid instruments under 'Other country specific original own funds'. These are addressed in the section below.

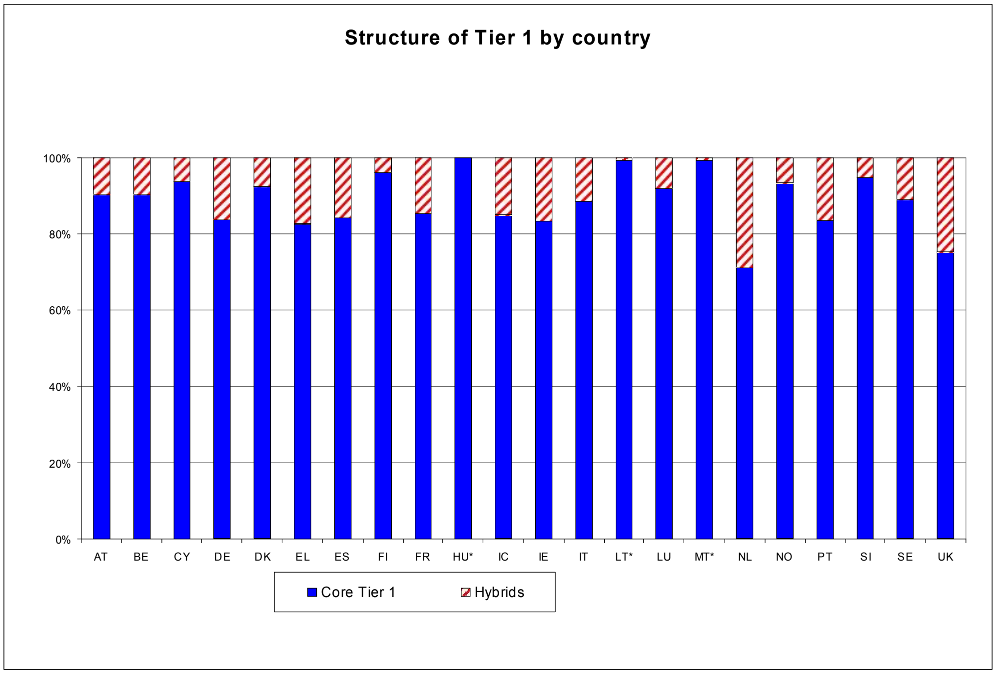
58. The breakdown above may not reflect the economic reality of 'Core Capital' as the reporting of items follows an accounting approach and therefore can encompass different types of capital instruments.

59. For instance, 'Share premium' can incorporate non cumulative perpetual preference shares (e.g. UK) together with other share premiums on ordinary shares. 'Eligible Minority interest' can encompass non cumulative perpetual preference shares booked by an entity within a group as well as minority interests related to operating subsidiaries.

60. Therefore, it was deemed necessary to make some adjustments to the data reported in order to establish the economic composition of Tier 1.

1.1. On an aggregate basis, Core Tier 1 accounts for 52,5% of total eligible own funds

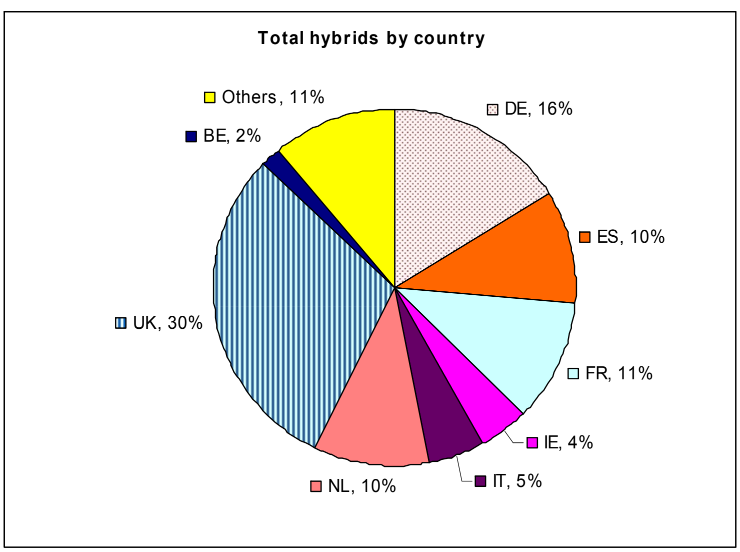
61. As indicated in the Part A report, original own funds consist of 'core' original own funds and 'supplementary' original own funds. The structure of original own funds can be estimated as follows:



Preliminary data as of 31 December 2006 (national data-Sample basis)
Percentages calculated on the basis of original own funds after prudential filters and after Tier 1 deductions. 'Core Tier 1' is by construction the difference between this amount of original own funds and the amount of hybrids reported in the CEBS Hybrid report. (*) Amount of hybrids too small to appear on the graph

1.2. On an aggregate basis, 'Hybrids[15]' account for 11,5% of total eligible own funds

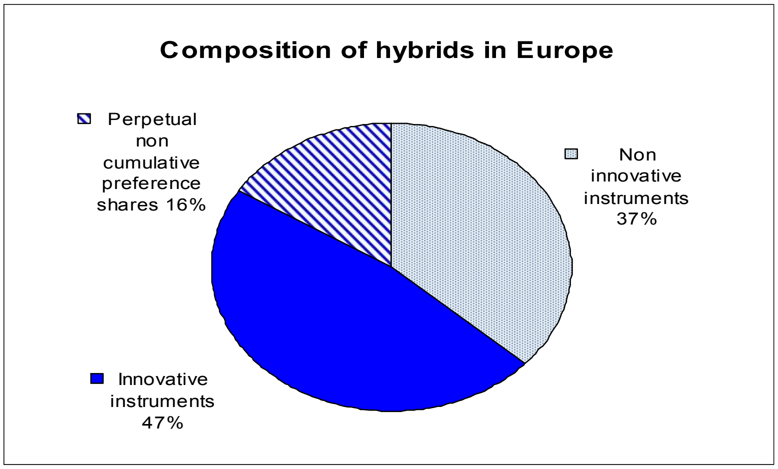
62. Eight countries (UK, DE, ES, FR, NL, IE, BE and IT) have reported 89% of hybrids:



Preliminary data as of 31 December 2006- Data extracted from CEBS Hybrid report-

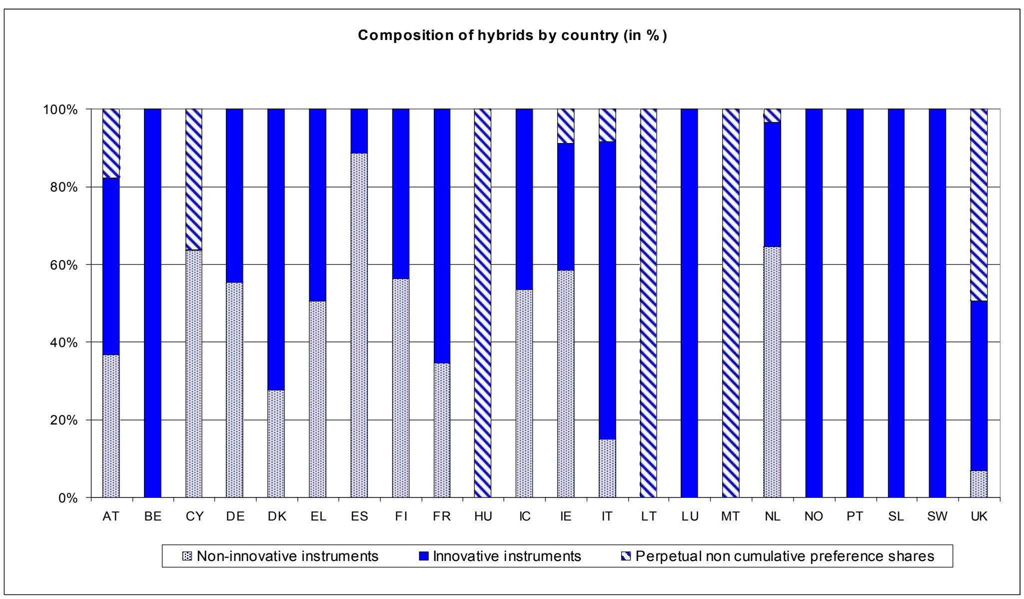
[15] This report uses the same definition of 'hybrids' as that used in the previous CEBS Surveys

63.The CEBS Hybrid report showed that hybrids are mainly composed of the following three broad categories of instruments[16]:



Preliminary data as of 31 December 2006 (National data- Sample basis)-Extract from CEBS Hybrid report

64.The categories of hybrid capital instruments are present in the following countries:



Preliminary data as of 31 December 2006 (National data- Sample basis)-Extract of CEBS Hybrid report

1.3. The three broad categories of hybrids have different shares of Core Tier 1

65.On an aggregate basis, 'hybrids' account for approximately 15% of original own funds after prudential filters and before Tier 1 deductions (18% after Tier 1 deductions):

[16] See the section Methodology above and Annexes below, and the CEBS Hybrid report for further information on the characteristics of the categories.

%	BE	DE	ES	FR	IE	IT	NL	UK	Total of the 8 countries
Hybrids (1) /Total own funds before deductions	8	10	11	10	13	8	22	16	12
Core Tier 1/Total own funds before deductions	64	52	54	66	68	61	56	49	56
Hybrids (1)/ Total original own funds before Tier 1 deductions	11	16	14	10	15	9	26	19	15
Hybrids (1)/ Total original own funds after Tier 1 deductions	11	17	17	13	16	11	28	25	18

Preliminary data – 31 December 2006- (National data-Sample basis)
(1) As estimated on the basis of the data reported in the taxonomy. In some countries, different samples for this report and the CEBS Hybrid report may have been used.
Core Tier 1 =Original own funds after prudential filters and after Tier 1 deductions – hybrids as estimated on the basis of the data reported in the taxonomy

66. However, it is worth noting that some countries do not accept hybrids[17], or all three categories of hybrids, as eligible original own funds and if they do, they may not apply the same limits to their inclusion. Moreover, limits apply to individual institutions, and at different consolidation level. For instance, in France, the mutual groups issue hybrids via subsidiaries that are publicly listed (sub-consolidated level). In order to estimate the proportion of hybrids in original own funds, a number of adjustments have been made:

- Alignment to the maximum extent possible of the samples used, and

- Reliance on the analysis carried out in the CEBS Hybrid report with regard to the three categories of innovative instruments, non-innovative instruments and non-cumulative perpetual preference shares.

67. In that context, the percentage of hybrids and of each of the three categories in original own funds in the eight countries mentioned in paragraph 62, has been estimated as follows:

	BE	DE	ES	FR	IE	IT	NL	UK	Total of the 8 countries
Hybrids/Original own funds (after Tier 1 deductions)	11%	17%	17%	13%	16%	11%	28%	25%	18%
of which Non cumulative perpetual pref. shares					1%	1%	1%	12%	3%
of which Non innovative Instruments		11%	14%	5%	10%	3%	16%	2%	7.5%
of which Innovative Instruments	11%	6%	3%	8%	5%	7%	11%	11%	7.5%

Preliminary data as of 31 December 2006 (National data- Sample basis)
(1) As estimated on the basis of the data reported in the taxonomy. In some countries, different samples for this report and the CEBS Hybrid report may have been used.

---

[17] UK does not permit hybrid capital instruments to count as Tier 1 for the purpose of meeting the CRD Pillar 1 Requirements.

68. For these countries, Tier 1 (without taking into account the elements deductible from Tier 1) can be broken down as follows:

%	BE	DE	ES	FR	IE	IT	NL	UK	Total of the 8 countries
Core capital	39	20	28	27	41	54	19	16	26
Core reserves	50	63	58	63	44	38	55	66	59
Non cumulative perpetual pref.shares					1	1	1	9	3
Non innovative instruments		11	12	4	9	2	15	1	6
Innovative instruments	11	6	2	6	5	6	10	8	6
Total	100	100	100	100	100	100	100	100	100

Preliminary data as of 31 December 2006 (National data- Sample basis)
'Core Capital' and 'Core Reserves' estimated by taking out of the taxonomy items 'Eligible Capital' and 'Eligible Reserves' all capital elements that are not already reported under the taxonomy items related to hybrids. Cooperative and mutual groups do not have statutorily ordinary shares.
In some countries, different samples for this report and the CEBS Hybrid report may have been used.
The breakdown of reported hybrids between Core capital and Core reserves may differ across countries. Moreover some countries reported share premium under 'reserves'. As the exact breakdown cannot be easily extracted from the reported sets of data, the breakdown should be considered as indicative.

69. Institutions take into account a number of factors when issuing hybrids, including the ways rating agencies assess the 'equity' component of these instruments; their limits can be more restrictive than those applied by supervisors.

70. In a limited number of countries (EL, ES, IT, NO, PT, SI, UK), insignificant amounts of 'excess of limits on original own funds' have been reported as additional own funds. That means that for some institutions in these countries, the limits have an effect.

1.4. Deductions from original own funds account for 19% of original own funds and are mainly composed of 'intangible assets'

71. Intangible assets represent 93% of all the deductions from original own funds. The most significant item among intangible assets is goodwill.

72. With the introduction of IAS/IFRS, the definition of intangible assets has been broadened in some countries. This may explain why on a consolidated basis, intangible assets of IFRS institutions are higher than those non-IFRS institutions.

73. The level of deductions from original own funds differs among Member States. This could be explained by the cumulative effect of different accounting treatments of goodwill under the national GAAP (in line with EU Accounting

Directives). One of the treatments may be an immediate deduction from reserves.

74. Using the option given in Article 61 of Directive 2006/48/EC several countries (NO, SE, DK, FR, PT, IT, EL, LU, DE, IE, ES, CY) require the deduction of items other than and in addition to those listed in the Directive. These country specific deductions are detailed in the Part A report.

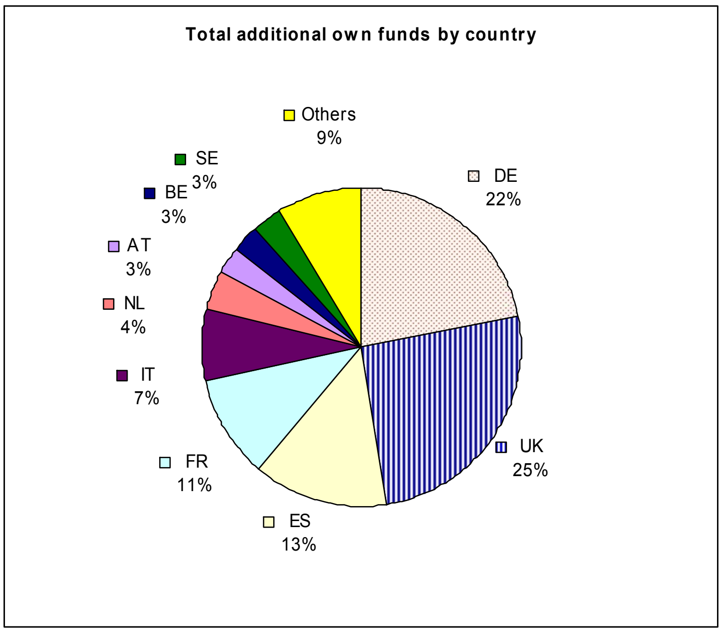
75. Despite their diversity, country specific deductions are in general of a residual amount, except for AT, FI, PT (negative net pension liabilities or some components of the defined benefit pension liability) ,SE (deferred tax assets), and FR (deduction of participations in insurance undertakings by institutions that apply Method 1 of the Financial Conglomerate Directive[18]).

[18] deduction from Tier 1 of the investors' proportionate interests in the investee arising from changes in the investee's equity (equity method)

Chapter 2. Additional own funds represent 34% of total eligible own funds[19]

76. Items eligible as additional own funds are subject to the criteria set out in Directive 2006/48/EC and their inclusion in regulatory capital is limited. Additional own funds instruments are cumulative and are less permanent than original own funds. They usually[20] rank senior to original own funds.

77. As the graph below shows, 5 member states (DE, UK, ES, FR, IT) have reported 78% of the total additional own funds issued by European institutions:



Preliminary data as of 31 December 2006- Aggregate data Sample basis

78. On an aggregate basis, the ratio of additional own funds to total own funds after prudential filters and before deductions amounts to 34%. It varies across countries, ranging from around 10% in some of the new Member States to a maximum of 40% reported by DE, ES and 42% in the UK.

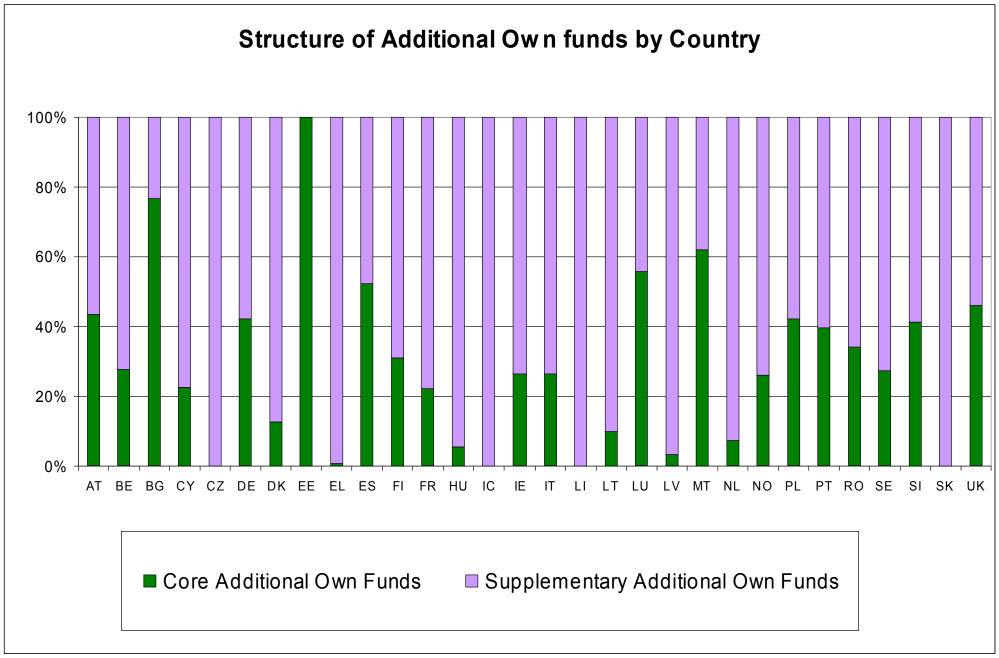
79. Additional own funds are divided into two main groups- core additional own funds and supplementary additional own funds.

All institutions	Billion EUR	%
Total additional own funds	622	34
Of which core additional own funds	234,7	12,8
Of which supplementary additional own funds	387,3	21,1
Total eligible own funds after prud. filters and before deductions	**1 833**	**100**

Preliminary data as of 31 December 2006- (Aggregate data – Sample basis)

[19] Percentages are calculated on the basis of total own funds after prudential filters and before the deductions referred to in Article 66 of Directive 2006/48/EC
[20] In Germany, participation rights rank pari passu with ordinary shares

80. In most countries, core additional own funds (Upper Tier 2) represent less than 30 % of additional own funds, the financial institutions of these countries using mainly dated subordinated loans:



Preliminary data as of 31 December 2006- Aggregate data- Sample basis

81. Where, for instance in the UK, DE, and ES, the proportion of core additional own funds is more important, this is mainly due to the inclusion of items other than revaluation reserves and securities with indeterminate duration in core additional own funds. (see below paragraph 87)

82. The additional own funds increase by 8,3 % after the application of prudential filters for institutions using IFRS. This is largely due to the inclusion of IFRS valuation differences relating mainly to AFS equities and securities. The difference is more important for countries recording relatively large unrealised gains on equities (BE, ES, FR, IT, UK).

2.1. Core additional own funds mainly consist of securities with indeterminate duration

83. Items recognized as core additional own funds fall in four categories :

- revaluation reserves ;
- value adjustments within the meaning of Article 37(2) of Directive 86/635/EC
- other items within the meaning of Article 63 (1) of Directive 2006/48/EC and
- instruments which fulfill all the conditions set out in Article 63(2) of Directive 2006/48/EC :
  - ➢ securities with indeterminate duration;

- undated cumulative preference shares (other than those referred to in Article 57(h) of Directive 2006/48/EC;
- other instruments.

84.On a quantitative basis, those items account for

All institutions	Billion EUR	%
Excess on limits for original own funds transferred to core additional own funds	1,6	0,7
Adjustments made to valuation differences in original own funds transferred to core additional own funds	33,3	14,2
Revaluation reserves,	10,5	4,5
Securities with indeterminate duration and other instruments	109,4	46,7
Country specific core additional own funds	3,3	1,4
Others	76,4	32,5
Total core additional own funds	**234,7**	**100**

Preliminary data as of 31 December 2006 (Aggregate data – Sample basis)

85.Revaluation reserves come mainly from ES and IT and relate to tangible fixed assets (i.e real estate properties) in accordance with the provisions of Article 33 of Directive 78/66/EEC.

86.For a limited number of countries, securities with indeterminate duration represent more than 10 % of total own funds (AT, SE, SI, UK). The main issuer is UK with more than 38 % of the outstanding amount at EU level.

87.'Other elements' are only present in a limited number of EU countries. They are significant in DE (10 % of total own funds) and relate mainly to value adjustments similar to those defined in Article 57 (e). In ES (9 % of total own funds) and in the UK (5,8% of total own funds), they relate to general provisions/collective impairments which are limited to 1,25 % of risk weighted assets.

88.Country specific core additional own funds and items in excess of original own funds limits are negligible and come mainly from DE, ES and UK.

2.2. Supplementary additional own funds mainly comprise dated subordinated loan capital instruments

89.On an aggregate basis, dated subordinated loan capital is by far the main item in supplementary additional own funds:

All institutions-	Billion EUR	%
Commitments of members of institutions set up as cooperative societies	7,3	1,9
Fixed-term cumulative preferential shares	2,8	0,7
Subordinated loan capital and securities	379,1	98
Country specific supplementary additional own funds (mainly country specific negative adjustments – see Chapter 5 below)	(2,3)	(0,6)
Total supplementary additional own	**387,3**	**100**

funds		

Preliminary data as of 31 December 2006 – (Aggregate data – Sample basis)

90.Only DE and with a lower amount AT report undrawn commitments of members of institutions set up as cooperative societies (Article 64(1) of Directive 2006/48/EC). They amount respectively to 1,3 % and 2 % of total own funds for these countries.

91.Fixed term cumulative preference shares are relatively negligible and are concentrated in the UK.

2.3. Additional own funds amount to 54% of original own funds

92.According to Article 66 of Directive 2006/48/EC, additional own funds cannot exceed original own funds and supplementary additional own funds cannot exceed 50% of original own funds.

93.At EU aggregate level, core additional own funds amount to 20 % of original own funds. Supplementary own funds account for the remaining 34%.

94.The situation varies across countries:

	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HU	IC	IE
Core Additional own funds compared to Original own funds	24%	13%	19%	6%	0%	27%	2%	24%	1%	32%	6%	10%	1%	0%	8%
Supplementary Additional own funds compared to Original own funds	31%	34%	6%	20%	14%	37%	26%	0%	25%	30%	13%	34%	14%	26%	23%

	IT	LI	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK	UK
Core Additional own funds compared to Original own funds	15%	0%	4%	14%	0%	4%	2%	8%	4%	21%	11%	16%	15%	0%	30%
Supplementary Additional own funds compared to Original own funds	40%	0%	35%	11%	14%	2%	29%	24%	5%	32%	21%	43%	21%	2%	35%

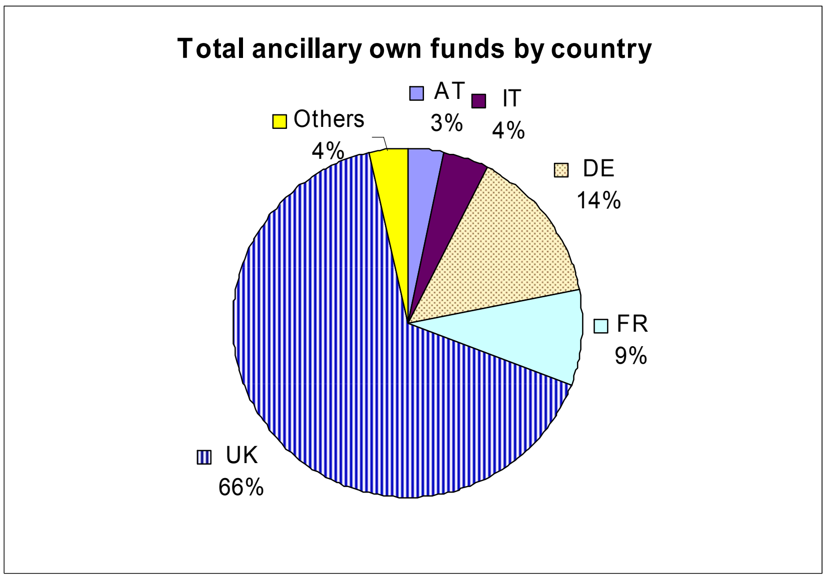
Preliminary data as of 31 December 2006- National data- Sample basis- Additional own funds and original own funds calculated after prudential filters

95.In a limited number of countries (AT, DE, FR, IRL, HU, NL), amounts in 'excess of limits on additional own funds' have been reported as ancillary own funds used specifically to cover market risk. That means that for some institutions in these countries, the limits relating to additional own funds have an effect.

Chapter 3. Ancillary own funds do not constitute a significant part of EU total eligible own funds[21]

96. Following the introduction in 1996 of the Tier 3 concept in the Basel Capital Accord[22], the European Union included in its legislation the possibility for competent authorities to allow credit institutions and investment firms subject to their supervision to use an alternative determination of own funds (ancillary own funds) specifically to meet the capital requirements in respect of their trading book (including large exposures in the trading book), foreign exchange risk and commodities risk.

97. Five countries (AT, DE, FR, IT, UK) account for approximately 96% of ancillary own funds. UK accounts for 66% of EU overall ancillary own funds:



Preliminary data as of 31 December 2006- Aggregate data- Sample basis

98. Ancillary own funds consist of the sum of the following items:

- own funds as defined in Directive 2006/48/EC, excluding items (l) to (p) of Article 57 of that Directive for those investment firms which are required to deduct illiquid assets from this alternative determination of own funds;

- net trading-book profits net of any foreseeable charges or dividends, less net losses on its other business provided that none of those amounts has already been included in original and additional own funds; and

- subordinated loan capital and/or the items referred to in Article 13(5) of Directive 2006/49/EC; less

---

[21] Percentages calculated on the basis of total own funds after prudential filters and before deductions referred to in Article 66 of Directive 2006/48/EC

[22] Basel Committee on Banking Supervision, *Amendment to the Capital Accord to Incorporate Market Risks* (January 2006).

- at the discretion of the competent authorities, illiquid assets.

3.1. Ancillary own funds are mainly composed of short term subordinated loan capital

99. Institutions tend to cover the capital requirements in respect of their market risks primarily through original and additional own funds rather than making wide use of specific items comprising ancillary own funds.

100. Approximately 67% of total ancillary own funds is composed of short term subordinated loan capital:

Aggregate data – Sample basis- All institutions	Billion EUR	%
Excess on limits for additional own funds transferred to additional own funds specific to cover market risks	12,3	35,6
Net trading book profits	-	-
Short term subordinated loan capital	23,2	67,1
Illiquid assets[23]	(0,9)	(2,8)
Total ancillary own funds	**34,5**	**100**

Preliminary data as of 31 December 2006- National data- Sample basis

101. Short term subordinated loan capital is issued mainly in DE, FR and UK.

3.2. Ancillary own funds are reported by a limited number of countries and are issued mostly by stand-alone investment firms

102. Many investment firms are included in banking groups and therefore incorporated in the computation of own funds at the parent company level. Therefore, in many countries the overall own funds amount reported by 'stand alone' investment firms (i.e. not included in a group) is not material[24].

103. Moreover, the information collected indicates that the latter mainly rely on original own funds for conducting their activities (paid-up capital and reserves).

104. As indicated above, ancillary own funds are mainly reported by stand-alone investment firms operating in the UK with non-EU parent companies which primarily rely on this category of own funds to cover the risks in their activities (market risks).

---

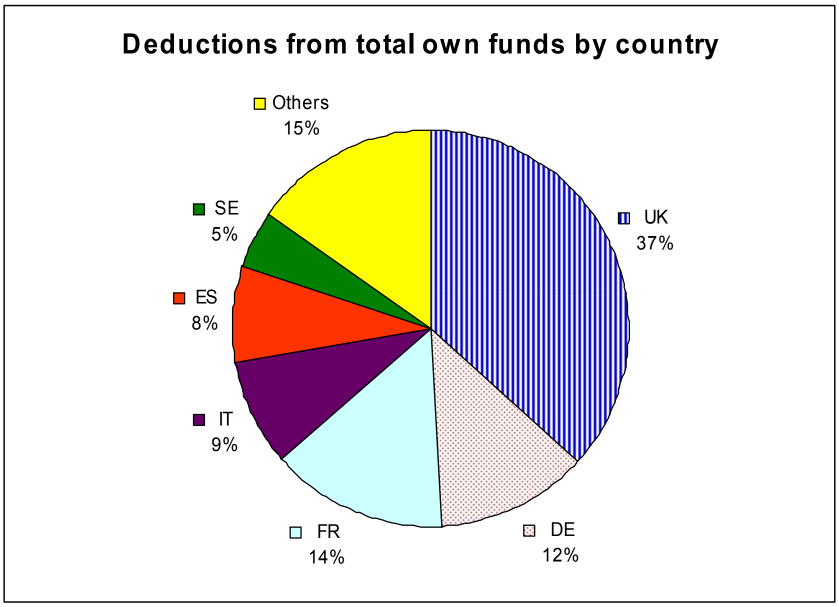
[23] Austria has reported excess of Tier 2

[24] In countries such as BE, NL, IE, investment firms were not included in the sample of institutions due to their immateriality

Chapter 4. Elements deductible from total own funds represent around 7,4% of the total amount

105. According to Article 66 of Directive 2006/48/EC, a number of items shall be deducted from regulatory capital in order to prevent double gearing. They are described in Chapter 3, Section 3.1 of the Part A report.

106. Five countries (DE, ES, FR, IT, UK) account for approximately 80% of the deductions made:



Preliminary data as of 31 December 2006- Aggregate data Sample basis

107. The taxonomy grouped the deductions from total own funds into four main categories:

- holdings in other credit and financial institutions amounting to more than 10% of their capital;
- holdings in other credit and financial institutions in which holdings are up to 10% of their capital[25];
- participations held in insurance undertakings, reinsurance undertakings and insurance holding companies; and
- country specific deductions.

108. Directive 2006/48/EC which entered into force on 1 January 2007 require institutions to deduct such items half from original own funds and half from

[25] The part exceeding 10% of the reporting institution's own funds before deductions shall be deducted

additional own funds after application of the limits laid down in paragraph 1 of Article 66.

109. As the quantitative analysis has been carried out as of 31 December 2006 the rules of Directive 2000/12/EC apply and therefore the deductions are made from the sum of original and additional own funds.

110. As of 31 December 2006, they account for:

Aggregate data – Sample basis- All institutions-	Billion EUR	%
(-) Holdings in other credit and financial institutions amounting to more than 10% of their capital	47,1	37
(-) Holdings in other credit and financial institutions in which holdings are up to 10% of their capital	14	11
(-) Participations hold in insurance undertakings, reinsurance undertakings and insurance holding companies[26]	45,6	36
(-) Country-specific deductions from total own funds	20,4	16
Total deductions from total own funds	**127,1**	**100**

Preliminary data as of 31 December 2006- National data- Sample basis

111. IFRS institutions deduct an overall higher amount than non-IFRS institutions (respectively 8,5% and 4,2%). This can probably be explained by the fact that IFRS institutions may have more complex organisational structures and generally include larger intermediaries for which the amounts related to holdings in other banking, financial and insurance entities are usually more relevant[27].

4.1. The deduction of holdings in unconsolidated banks and financial institutions account for 48% of total deductions

112. As indicated above, as IFRS institutions generally include larger intermediaries which are included in consolidated data, deductions of non consolidated holdings (in percentage of total deductions) is higher for non-IFRS institutions than for IFRS institutions .

113. The situation varies across countries: deductions of holding in unconsolidated financial entities account for 15% of the total deductions in PT, 25% in the UK, 34% in ES, 49% in NL, 53% in IT, 85% in FR[28] and 93% in DE[29].

[26] Participations in insurance entities are deducted from Tier 1 in FR (see paragraph 75). Therefore the corresponding amount is not included in this amount.

[27] Data for non-IFRS institutions include the whole amount of deductions for DE. DE has introduced IFRS for prudential purposes as of 1 January 2007.

[28] As indicated in paragraph 75, FR deducts its participations in insurance from original own funds. The amount is therefore overestimated.

[29] Due to national reporting requirements applicable until December 2006 DE has included of the amount deducted with respect to participations held in insurance undertakings in item "Holdings in other credit and financial institutions amounting to more than 10% of their capital". Hence no amount is reported as "Participations held in insurance undertakings, reinsurance undertakings and insurance holdings".

4.2. The deduction of participations held in insurance companies represents more than one third (36%) of the total deductions[30]

114. The deductions have been reported mainly by IFRS institutions, as participations in the insurance sector are mainly held by larger banking groups.

115. UK (57%), SE, IT, ES (around 12% each) have reported the highest amounts for deductions of participations in insurance undertakings in the aggregated total of deductions of participations[31] in the EU.

116. Deductions of participations in insurance undertakings account for almost 49% of the deductions in ES, PT, 46% in IT, 22% in FR (readjusted) , 53% in the UK to 92% in SE.

117. However, data may not always be fully comparable among Member States, due to the different approaches adopted to implement Article 57 (o) and (p) of Directive 2006/48/EC. As highlighted in the Part A report, different approaches are used by Member States:

i) the deduction of more than 20% of the voting rights or insurance share capital and of other participations lower than 20% if there is a durable link with the insurance undertaking according to Article 17 of Directive 78/660/EEC. This is the method[32] adopted by BE, DE, IT, LU, NL, PT, SI. BE and FR allow the choice between Method 1 of the Financial Conglomerate Directive ('FCD') and the deduction of more than 20% referred to here in (i).

ii) the deduction of participations only when they exceed 20% of insurance share capital (the existence of a durable link is not considered for deductions). This is the method used by DK, EL, LV and ES. In EL and LV institutions have also the choice to apply Method 2 of the FCD.

iii) the deduction of holdings in insurance companies in the same way as holdings in other financial institutions (i.e. with the 10% threshold). This is the method applied by FI, IE, HU and SE.

118. There are also other methods used in few Member States: Method 1 of the FCD at the consolidated level and paragraph 117 (ii) referred to above at individual level is applied by LT and MT. NO applies Method 1 of the FCD to participations and paragraph 117 (iii) for holdings less than 20%.

119. Method 3 of the FCD is applied by UK: for holdings above 20%, UK requires the deduction from total capital of the higher of the book value and the capital requirement of the insurance entity.

---

[30] As explained in the previous note, this amount is underestimated.

[31] See the notes above, for the specific situation of DE and of FR.

[32] In DE, NL and LU one of the three methods in Annex 1 to the Financial Conglomerate Directive may alternatively be used. In PT Method 2 of the FCD may alternatively be used. FR requires deduction from Tier 1 of the investors' proportionate interests in the investee arising from changes in the investee's equity.

120. Article 60 of Directive 2006/48/EC allows Member States to provide that for the solo calculation of own funds, credit institutions subject to supervision on a consolidated basis or to supplementary supervision, need not deduct items referred to in points (o) and (p) which are held in insurance undertakings reinsurance undertaking and insurance holding companies included in the scope of consolidated or supplementary supervision. BE, FR, DE, IE, LU, LV, NL, NO, PT and SE apply this option, whereas DK, FI, IT, EL, HU, LI, MT, SI, ES and UK are not using the discretion.

121. Article 154(4) allows Member States to apply to participations in insurance undertakings acquired before 20 July 2006 the deduction rule provided by the text of Directive 2000/12/EC (deduction from the sum of original own funds and additional own funds) instead of the deduction rule provided by Article 66(2) (deduction of 50% from original own funds and 50% from additional own funds), until 31 December 2012.

122. Member States have disclosed under the CEBS supervisory disclosure at http://www.c-ebs.org/sd/options_national_discretions.htm if they apply the discretion. AT, BE, CY, EL, ES, FR, IE, IT, LU, NL, SE, UK will apply that possibility, SK also but subject to prior approval. BG, CZ, DE, DK, EE, FI, HU, LT, LV, MT, PT, SI, IC, LI, NO are not using the discretion.

4.3. Country specific deductions account for around 16% of the total amount of deductions and are significant in only a limited number of countries

123. As indicated in the Part A report, Article 61 of Directive 2006/48/EC grants Member States the option to deduct elements that are not included in the list of deductible elements already included in the Directive.

124. More than half (52,4%) of the country specific deductions were reported by the UK, 15,4% by FR, 8,6% by ES, 7,6% by NL and 4,2% by PT.

125. They mainly consist of:

- credit enhancement to securitisations (UK, BE, NL, EL, IE, PT, FR);
- connected lending of a capital nature (UK, CY);
- tangible fixed assets (real estate) in the possession of institutions as a result of acquisitions in repayment of the institution's own loans and other fixed assets exceeding certain limits (determined with reference to own funds) (PT).

126. In addition to this, and due to the fact that the survey is based on a simplified taxonomy, data reported under 'country specific' may also include excesses of qualifying holdings outside the financial sector above the limits established by Article 120 (which can be significant for instance in UK, ES, PT, DE) and to excesses over large exposures limits (which can be significant for instance in DE, ES, PT).

Chapter 5. The prudential filters moderately reduce total eligible own funds by 0,9% and result in a 5,2% decrease in original own funds

127. In the wake of the adoption of Regulation 1606/2002/CE CEBS has issued guidelines on prudential filters for regulatory capital for recommended application by its members to institutions applying IFRS (or IFRS-similar GAAP) for prudential purposes with the aim of maintaining the definition, quality and stability of the regulatory capital of financial institutions on a level that is comparable with the situation prior to the introduction of the IAS Regulation.

128. This chapter provides an overview of the use, the implementation and the impact of the CEBS guidelines on prudential filters for regulatory capital and other country specific adjustments. The data shows that out of the 29 countries that provided quantitative data 14 countries (BE, BG, CY, EE, FR, IT, LI, LT, LV, MT, NL, PT, SE, SK) provided purely IFRS based data while 8 countries (CZ, EL, ES, FI, IE, LU, SI, UK) provided both IFRS and non IFRS-based data. Another 7 countries (AT, DE, DK, HU, NO, PL, RO) provided only data based on national GAAP. The share of IFRS-based data in the overall sample reached 68,7%.

129. This chapter focuses on the discussion of the prudential filters' impact for IFRS institutions. As the CEBS recommended filters have varying effects on the different categories of own funds, the analysis will moreover concentrate on these categories, and on original own funds in particular.

5.1. CEBS guidelines on prudential filters are generally complied with

130. The use and implementation of CEBS guidelines depend on the use of IAS/IFRS for prudential purposes, i.e. for the calculation of regulatory capital (and capital requirements). The following paragraphs provide an overview of the CEBS guidelines (which are described in more detail in Annex V and of their implementation in the 21 countries that reported IFRS-data[33].

131. For the revaluation reserves on available-for-sale assets the following filters shall apply:

- for equities: deduct unrealised losses after tax from original own funds and partially (i.e. at least net of tax effects) include unrealised gains in additional own funds ;

[33] Of the 22 countries that reported IFRS-data 1 country (LI) did not provide information on the implementation of the prudential filters so that the qualitative information only covers 21 countries (except for the filters prescribed by Directive 2006/48/EC (see below). The tables in paragraphs 131 to 133 include under 'additional observations' the future implementation of the CEBS guidelines for 5 of the 7 countries (AT, DE, NO, PL, RO) that have only provided data based on local GAAP. HU does not intend to move to IFRS for prudential purposes in the short term. DK uses national GAAP for prudential purposes but does apply the filters prescribed in Directive 2006/48/EC. IC indicated that no prudential filters are applied.

- for loans and receivables: neutralise unrealized gains and losses (after tax) - except for impairment-related losses - in own funds ;

- for other available-for-sale assets (i.e. debt securities): either apply the treatment for equities or for loans and receivables.

Generally, no adjustment should be applied to impairment losses

		Compliance	Non-compliance / Other	Additional observations
Available for sale valuation reserves related to				
	Equities	21 countries	-	5 other countries will comply from 2007
	Loans and receivables (L/R)	18 countries	3 countries: equity treatment (FI, LV, MT)	4 other countries will comply from 2007, 1 will deviate (AT)
	Other assets	21 countries: 11 apply equities, 9 L/R treatment; 1 equities or L/R [34]		From 2007, 2 other countries will apply equity treatment, 3 l/r treatment

132. For the revaluation reserves on property assets the following filters shall apply:

- investment property or property plant and equipment (at fair value): deduct unrealised losses (after tax) from original own funds and partially (i.e. at least net of tax effects) include (cumulative) unrealised gains in additional own funds.[35]

Revaluation reserves from fair valuing investment property / property plant and equipment				
	Investment property (IP)	17 countries	4 countries: neutralization (ES) / partial inclusion of gains in T1 (CZ, FI) / legislation does not allow CEBS filter, but is due to change (SK)	5 other countries will apply from 2007
	Property, plant, and equipment	19 countries	2 countries: neutralization (ES), partial inclusion of gains in T1 (FI)	5 other countries will apply from 2007

133. In addition to the CEBS guidelines Article 64(4) of Directive 2006/48/EC formally introduces two mandatory prudential filters for institutions into EU legislation:

[34] The 11 countries applying the treatment for equity are BG, CY, EE, ES, FI, IT, LV, LT, LU, MT, PT, while the 9 countries applying the loans and receivables treatment are BE, CZ, EL, FR, NL, SE, SI, SK, UK. IE allows institutions to choose between the treatments

[35] Members are also encouraged to consider the need for transferring unrealised gains, if any, resulting from the revaluation when applying the deemed cost method at the first time application to properties from original own funds to additional own funds.

- gains and losses on cash flow hedges, other than cash flow hedges on available for sale assets should be excluded from own funds[36];

- the consequences (gains and losses) resulting from valuing liabilities at fair value due to changes in their own credit standing should be excluded from own funds:

Adjustments foreseen by Article 64(4) of Directive 2006/48/EC				
	Fair value option (own liabilities)	21 countries (includes DK)	2 countries: IC, IE (under discussion)	5 other countries will apply from 2007
	Cash flow hedge (amortised cost)	21 countries (includes DK)	2 countries: no filter (IC), deduction losses and partial inclusion gains (EE)	5 other countries will apply from 2007

134. The following observations merit specific mention:

- **There are only a limited number of deviations from the CEBS guidelines;**
- **For available for sale equities (and other available for sale assets) as well as for property assets,** the amounts of unrealised gains included in additional own funds range from 0 to 74% of gains before tax and from 50% to 100% of gains after tax;
- **For gains and losses related to financial instruments (other than the impact of the institutions' own credit standing for liabilities) under the fair value option** CEBS does not recommend any adjustments. 4 countries (BG, EE, MT, PT) do however impose filters (which include: neutralization (BG), adjustments for particular categories of instruments (EE, PT)[37] and partial inclusion of unrealized gains in Tier 2 (MT); and
- **2 countries deviate from the adjustments included in Article 64 (4) of Directive 2006/48/EC**.

135. National adjustments that are applied by countries relate to:

- **pension obligations/liabilities or surpluses:** 8 countries (EL, FR, IE, MT, NO, PT, SE, UK): in most cases actuarial gains are neutralised while actuarial losses are deducted from regulatory own funds; 2 countries (IE, UK) replace accounting measures of pension obligations with a regulatory measure (for a lesser amount than the accounting actuarial loss), while accounting surplus positions are not recognised as regulatory capital;[38]

[36] For Cash flow hedges on available for sale assets the guidelines specify that the treatment should be consistent with that of the reserve created for the relevant assets.

[37] These are in 1 case holdings in subsidiaries and associates (at fair value) that are not deducted from unconsolidated own funds by provision of Article 59 of Directive 2006/48/EC and in 1 case loans and receivables designated under the option (albeit only for resulting gains).

[38] In 4 countries (EL, FR, NO, PT) adjustments are made to address the effect of the first time application of IFRS to such schemes. While in 1 case (FR) these are being continued as ongoing adjustments others (EL, PT) introduced them as transitional measures. It should be noted that the effect of these measures varies to the extent that in 1 case (FR) it leads to the neutralisation of accounting pension surpluses while in others (EL, PT) it results in the deferral of the accounting pension obligations over a certain number of years. NO has introduced a transitional measure to defer the impact of actuarial losses from the first time application. Net pension assets are deducted..

- **deferred tax assets:** 6 countries (BE, LU, MT, NO, PT, SE). In most countries a part of deferred tax assets is deducted;
- other limited adjustments (as listed in Annex VI).

5.2. CEBS recommendations account for most of the impact of prudential filters and result in a shift of IFRS-related valuation differences from original to additional own funds

136. The impact of prudential filters on the different categories of own funds and its relative importance varies:

	IFRS data		Non-IFRS data	
	Billion EUR	**% of Impact**	**Billion EUR**	**% of Impact**
Original Own Funds (before filters)	873.8		347.5	
(after filters)	828.6		347.6	
Impact	-45.2	-5,2%	+0.1	+0.0%
Additional Own Funds (before filters)	407.1		183.2	
(after filters)	440.8		181.2	
Impact	33.7	+8.3%	-2.0	-1.1%
Overall Own Funds (before filters)	1,183.1		535.4	
(after filters)	1,172.3		533.7	
Impact	-10.8	-0.9%	-1.7	-0.3%

Preliminary data as of 31 December 2006

137. The overall effect on aggregated own funds (in the consolidated and solo data for IFRS institutions) accounts for a reduction of 0.9%. This compares to a reduction of 0.7 % for all institutions (both IFRS and non-IFRS institutions) and of 0.3% for non-IFRS institutions. 86.6% of the overall reduction is attributable to IFRS institutions.

138. The limited overall shift is the result of a larger decrease in absolute terms (45.2 Billion EUR)original own funds and a less than compensating increase in additional own funds (33,7 Billion EUR).

139. For IFRS institutions the effect on original own funds accounts for a reduction of 5.2% while for non-IFRS institutions there is only a very marginal increase (0.02%), which compares to a 3.7% decrease for all institutions (both IFRS and non-IFRS)

140. The impact on additional own funds is contrary to the one observed for original own funds, even though it is smaller in absolute terms as some countries only allow a partial inclusion of latent gains in additional own funds.

141. For non-IFRS institutions the impact of prudential filters on additional own funds is negative. This is mostly due to one country (AT) where national adjustments negatively impact 'lower' additional own funds.

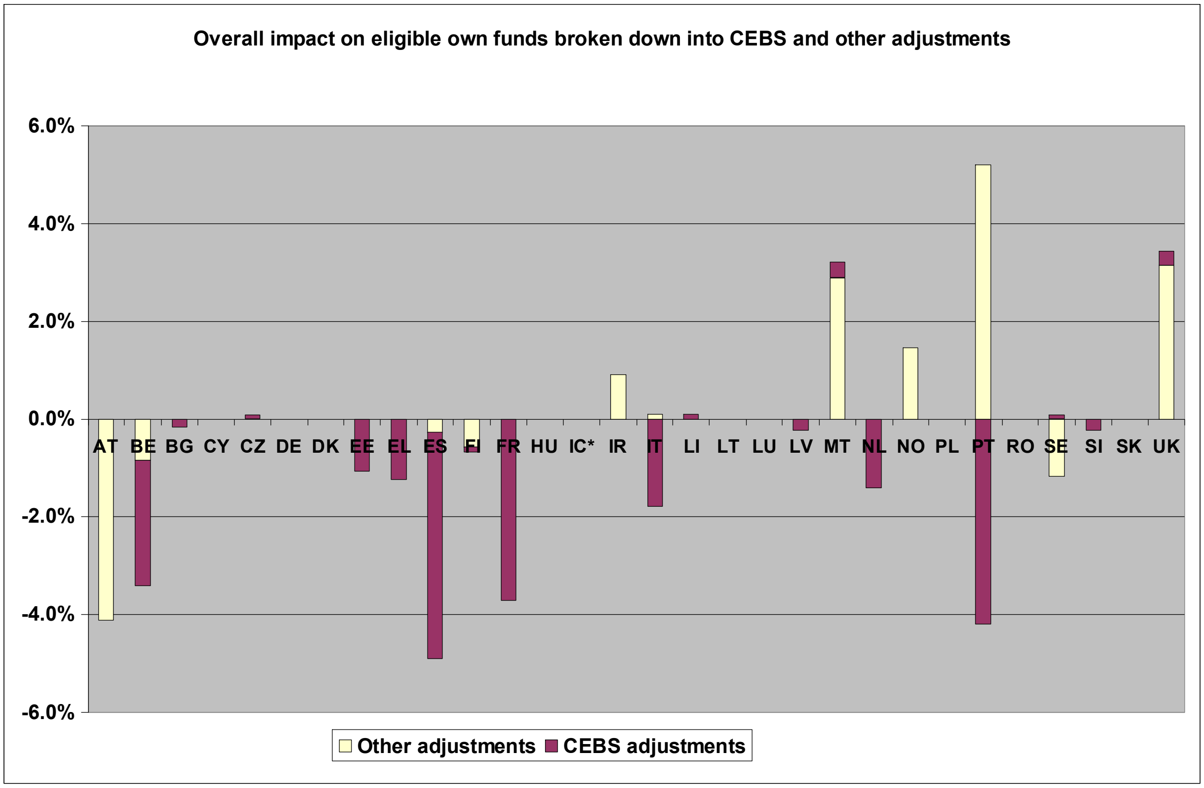
142. CEBS recommended filters and other country specific adjustments have opposite impacts on original own funds as well as on additional own funds:

	IFRS data		Non-IFRS data	
	Billion EUR	**%**	**Billion EUR**	**%**
Impact original own funds	-45.3	-5.2%	0.1*	+0.0%
attributable to: CEBS guidelines	-56.8	-6.5%	-0.1*	+0.0%
Other adjustments	+11.5	+1.3%	0.4*	+0.1%
Impact additional own funds	33.7	+8.3%	-2.0	-1.1%
of which attributable to CEBS guidelines	33.4	+8.2%	0.0	0.0%
Other adjustments	0.3	+0.1%	-2.0	-1.1%

*The data inconsistencies in this table stem for the fact that in a few cases the sum of the elements in some countries do not exactly match the reported sub- or overall totals

5.3. The impact of prudential filters on an aggregate basis is to a certain extent reflective of the effect observed at country level

143. The impact of prudential filters broken down into CEBS recommended and other adjustments (in relative terms) on overall own funds as observed in the countries that provided quantitative data is as represented in the following graph:



Preliminary data as of 31 December 2006

144. A closer look at the data shows:

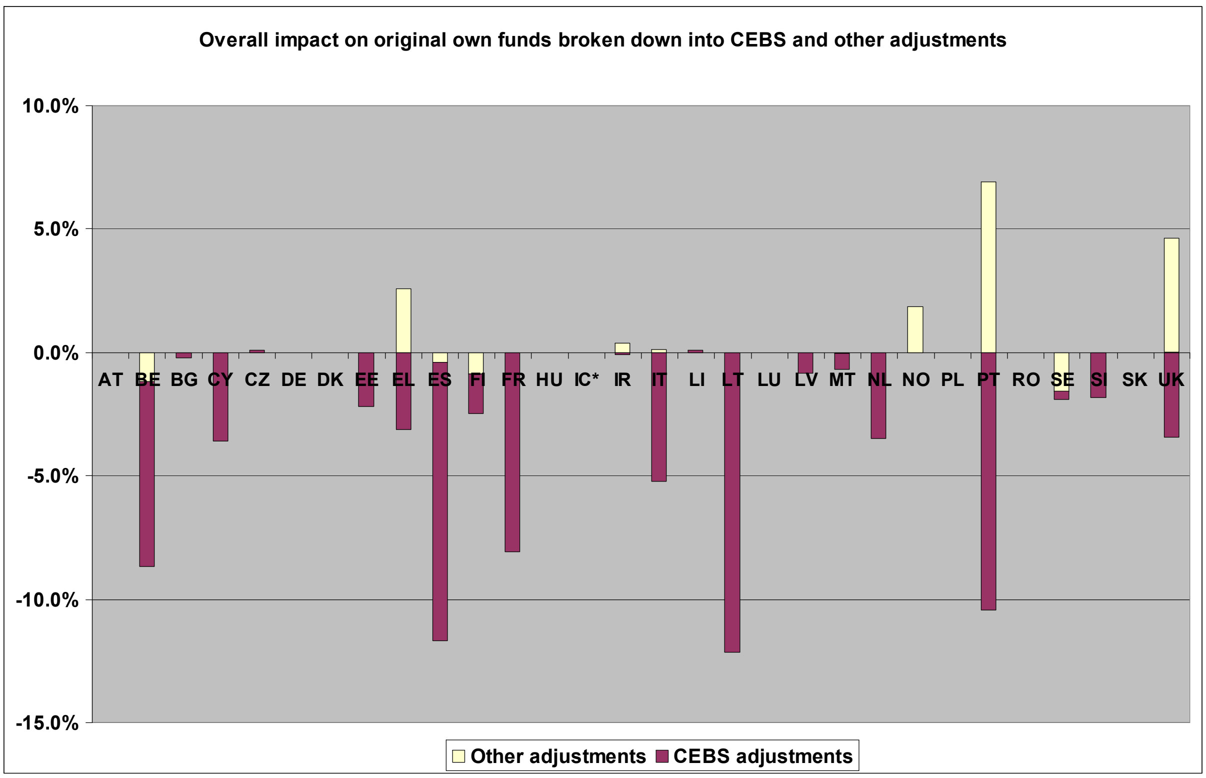
- **Overall reduction of own funds** in 13 countries; with:
  - a **negative impact on original own funds combined with a weaker positive effect on additional own funds -** 10 countries (BE, EE, ES, FI, FR, IT, LV, NL, SE, SI) - or **no effect** - 1 country (BG); both findings are in line with the general trend of a qualitative shift from original towards additional own funds,
  - national adjustments that are counteracting (AT) or enhancing the negative impact on total own funds (EL).
- **Overall increase of own funds in 8 countries, explained by:**
  - neutralisation of unrealised losses related to other AFS assets: in 1 case (CZ)
  - national adjustments: 7 cases (DK, IE, LI, MT, PT, NO, UK) [39]
- **No impact on own funds in 8 countries, as a result of:**
  - **negative impact on original own funds exactly offset by the positive impact on additional own funds**: 3 countries (CY, LT, SK)

[39] In the countries with positive national adjustments, these aim in most cases to adjust the impact of the accounting measures of pension obligations or surpluses. As noted in paragraph 135 some countries apply ongoing adjustments by replacing accounting measures of pension obligations with a regulatory measure while apply transitory measures to reduce the negative impact on regulatory own funds.

- the calculation of prudential own funds being based on national GAAP, with no prudential filter being applied as of 31 December 2006: 4 countries (DE, HU, PL, RO)[40]
- the filters having no impact in the aggregated figures (as IFRS institutions only reported sub-consolidated data, which is excluded from the analysis): 1 country (LU)

In 2 countries where national GAAP are being used for the calculation of own funds (AT, NO), the differences can be explained by national adjustments (in the case of NO transitional adjustments to address pension obligations). In 2 countries (CZ, LU) the impact of the prudential filters varies depending on whether one considers the total national data or only the aggregated data (which disregards of the sub-consolidated data).

145. The impact of prudential filters broken down into CEBS-recommended and other adjustments (in relative terms) on original own funds as observed in the responding countries is represented in the following graph:



Preliminary data as of 31 December 2006

146. The graph shows that in a number of countries the impact on original own funds is neutralised by national adjustments which, as set out before, are made either

- to adjust on an ongoing basis the effect of certain accounting treatments (mostly for pension schemes): IE, UK

[40] In most cases these countries do not apply prudential filters because national GAAP do not require any adjustments. As set out in footnote 33 most of these countries will move to IFRS for regulatory purposes in the course of 2007 and will accordingly introduce the prudential filters recommended by CEBS.

- to correct on transitory basis the impact related to the first time application of IAS/IFRS (among others for those relating to the treatment for pension schemes): EL, NO, PT

5.4. The main impacts of prudential filters result from adjustments made in relation to valuation differences for available for sale assets

147. The biggest adjustment on original own funds - made to filter positive valuation differences related to available for sale equities - covers 98.9% of the positive valuation differences for AFS equities and represents 109.5% of the impact on original own funds (for IFRS data)

	IFRS data	
	Billion EUR	
Total adjustments to Valuation differences (original own funds)	**-45.1**	**% of total adjustments**
… related to AFS equities	**-49.6**	**110.0%**
… related to AFS loans and receivables	-2.3	5.1%
… related to other AFS assets	-3.0	6.7%
… related to FVO financial liabilities (own credit risk)	0.8	-1.8%
… in cash flow hedges not related to AFS assets	-0.7	1.6%
… related to investment property	-1.3	2.9%
… related to property, plant and equipment	-0.8	1.8%
… affecting the eligible reserves	**11.8**	**26.2%**

Preliminary data as of 31 December 2006

148. Adjustments to other valuation differences affecting the eligible reserves represent the second most important adjustment from prudential filters.

149. The main driver for the impact of the prudential filters on additional own funds is the partial inclusion in additional own funds of the adjustments to valuation differences related to available for sale equities.

150. Of the adjustments transferred from original to core additional own funds those related to AFS equities account for 93.1% of the overall adjustments.

	IFRS data	
	Billion EUR	
Adjustments transferred to additional own funds	**33.3**	**% of adjustments**
...related to AFS equities	**31.0**	**93.1%**
… related to other AFS assets	0.8	2.4%
… related to investment property	1.2	3.6%
…related to property, plant and equipment	0.8	2.4%
… affecting reserves	-0.5	1.5%

Preliminary data as of 31 December 2006

151. The data shows that for original own funds adjustments relate to:

- **to positive valuation differences on available for sale assets** (and primarily on equities): in 17 countries (BE, BG, CY, CZ, EL, ES, FI, FR, IT, LT, MT, NL, PT, SE, SI, SK, UK);
- **to positive valuation differences on investment property** (and to a lesser extent on property, plant and equipment): 14 countries (CY, EE, EL, FI, FR, IR, IT, LT, LV, MT, NL, PT, SI, UK);
- **other valuation differences that affect eligible reserves** 7 countries (EL, ES, FI, IR, MT, PT, UK) report amounts of varying importance in this category; these relate to pension adjustments (in 5 cases) and / or other national adjustments (2) cases [41];and
- **valuation differences for cash flow hedges not related to AFS assets** (11 countries: BE, CZ, EL, ES, FR, IR, IT, NL, PT, SE, UK) **or to valuation differences related to FVO financial liabilities** (3 countries: ES, PT, UK)[42]

152. For additional own funds the adjustments made are for the large part related to the adjustments made in relation to original own funds. They mainly relate to:

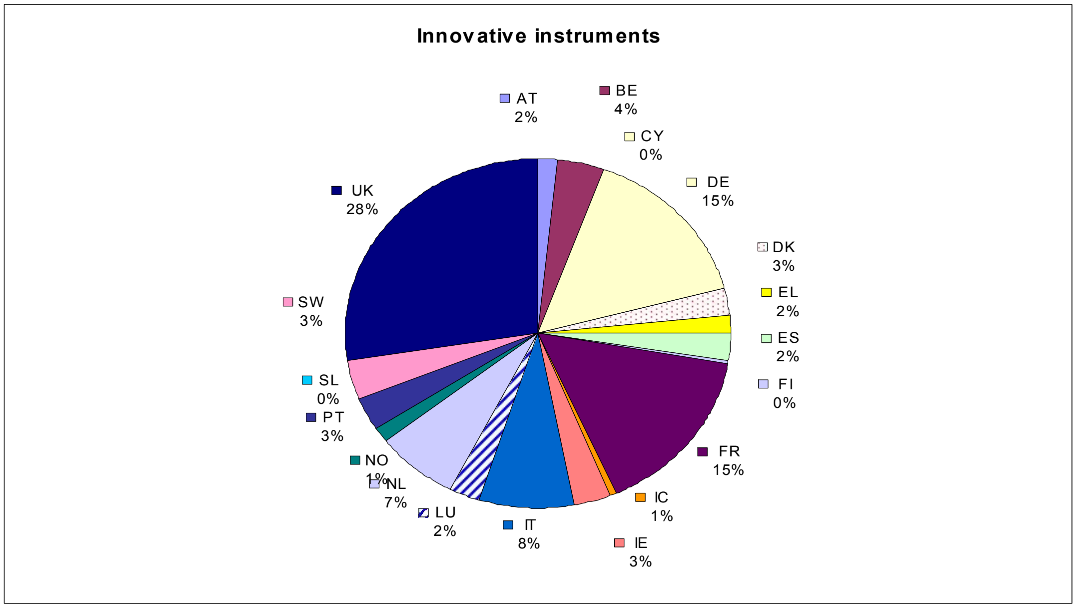
- positive adjustments to available for sale instruments (primarily equities), which represent in 13 countries (BE, CY, ES, FI, FR, IR, IT, NL, PT, SE, SI, SK, UK) the biggest share of all adjustments;
- positive adjustments for valuation differences related to investment property (and to a lesser extent to property, plant and equipment), which are attributable to 11 countries (CY, EE, EL, IT, LT, LV, MT, NL, PT, SI, UK); and

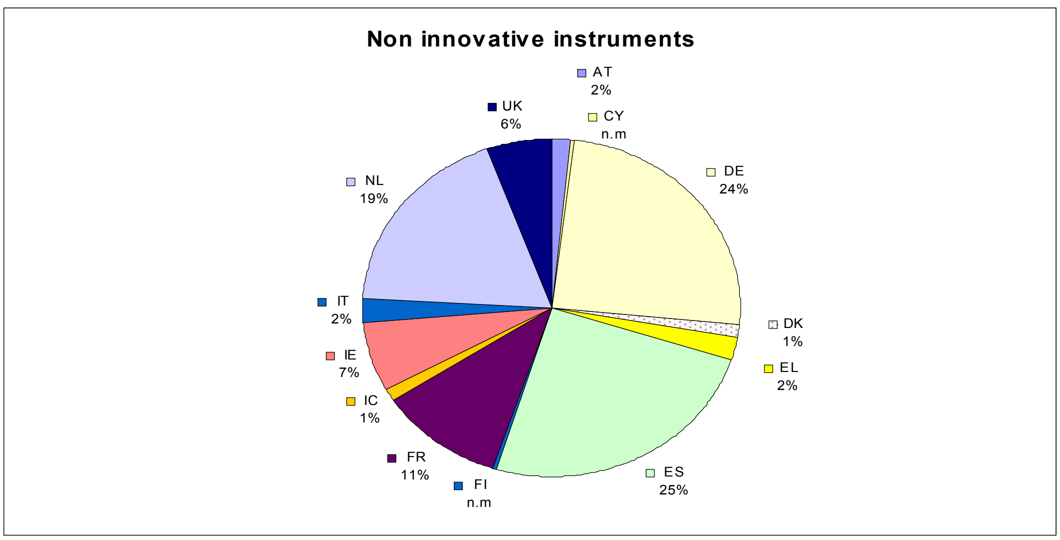
[41] These include among others non current assets held for sale reserves, except when the valuation differences are related to AFS equities and bonds (1 country) and for loans and receivables classified as held for trading or at fair value through profit and loss (fair value option).

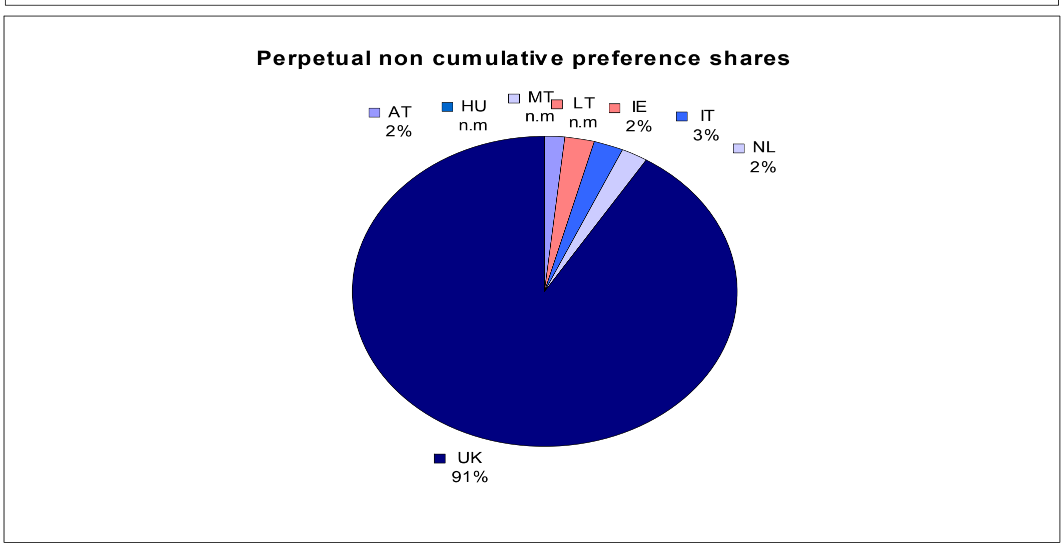
[42] In some countries the adjustments covered under the latter 3 points account for an important share both in absolute and relative terms.

- negative adjustment to other valuation differences affecting eligible reserves are being made in 1 country.

Annex I: Hybrids reported by institutions in Europe (by main categories) as of 31 December 2006 - Extract from the CEBS Hybrid Report







Annex II: Limits to the inclusion of hybrids in original own funds (extract from the CEBS Hybrid Report)

Country	**Supervisory limit on innovative instruments** (hybrids with an incentive to redeem, e.g. a step-up)	**Supervisory limit on hybrids excluding non cumulative preference shares** (includes the limit of the first column unless otherwise stated)	**Limit on perpetual non cumulative preference shares defined under National Law** (in % of ordinary shares)	**Maximum supervisory limit on hybrids** (innovative instruments, non innovative instruments, non cumulative perpetual pref. shares; including the limits of all the preceding columns, unless otherwise stated)
AT	15%	30%	33%	30%
BE	15%	33%	33% (1)	33%
BG	Not eligible as original own funds		Does not exist in the legislation	
CY	15%	15%	No limit	15%(9)
CZ	Not eligible as original own funds		Does not exist in the legislation	
DE	15%	50%	does not exist(8)	50%
DK	15%	15%	No limit	15%(9)
EE	Not eligible as original own funds		No limit	Not eligible
EL	10%(7)	25%(7)	No limit (1)	25%(9)
ES	15%	30%	50%	30%
FI	15%	15%	No limit	50%
FR	15%	25%	25% (1) (2)	50%
HU	Not eligible as original own funds	15%	No limit	
IC	15%	33%	No defined	33%
IE	15%	49%	No limit	49%
IT	15%	20%(3)	50%	20% (4)
LI	Not eligible as original own funds		Does not exist(8)	Not eligible
LT	Not eligible as own funds		33% (5)	No limit (5)
LU	15%	15%	Does not exist	15%
LV	Not eligible as original own funds		No limit(1)	Not eligible
MT	15%	Not eligible as original own funds	No limit(10)	15%(9)
NL	15%	50%	No limit	50%
NO	15%	15% (1)	No limit (1)	15%
PL	Not eligible as original own funds		Does not exist in the legislation	
PT	20%	20%	50%(6)	20% (4)
RO	Not eligible as original own funds			
SK	Does not exist in the legislation			
SL	15%	15%	No limit	49%
SW	15%	15%	No limit(6)	15%(9)
UK	15%	15%	No limit	50 %

(1) No issuance
(2) For publicly listed companies.
(3) This limit is valid as of 1 January 2007. Until 31 December 2006, the limit was 15%.
(4) This limit does not take into account the limit on non cumulative preference shares indicated in the third column.
(5) The New Regulations which come into force in 2008 foresee a limit on perpetual non cumulative preference shares of 15% of original own funds.
(6) Issuance is unusual.
(7) Limits valid for new issues of hybrids as of 1 January 2006. Until 31/12/05, the limits were respectively 15% and 30%.
(8) Preference shares can only be cumulative and therefore only eligible as additional own funds
(9) Does not cover non cumulative preference shares as they are not hybrids in the law
(10) No limit so far. In the near future this position is going to be analysed in detail to check if there is any need to include a limit.

Annex III. Economic characteristics of hybrids in Europe (by main categories)

HYBRIDS reported as original own funds as of 31 December 2006	All types (%)	Non-innovative instr. (%)	Innovative instr. (%)	Non-cumulative perpetual preference shares (%)
Pari passu with ordinary share capital	5%	7%	4%	4%
Senior to ordinary share capital only	75%	71%	72%	91%
Senior to other instruments in addition to ordinary share capital	20%	22%	24%	5%
With voting rights (similar to those of ordinary shareholders)	12%	1%	2%	69%
to be exercised after a period without payment of dividends	*9%*	*0%*	*1%*	*52%*
to be exercised after other trigger event				
Other	*7%*	*1%*	*1%*	*36%*
Without voting rights	88%	99%	98%	31%
Convertibility into ordinary shares				
Conversion	1%	1%	0.4%	4%
on a trigger event	0.3%	1%		
at a fixed time (mandatory)	0.6%	0%		3%
at the initiative of the issuer	0.2%	0%		1%
at the initiative of the holder	0.6%	1%	0%	
No conversion feature	99%	99%	99.6%	96%
Convertibility into preference shares				
Conversion	18%	16%	25%	1%
on a trigger event	*18%*	*16%*	*25%*	
at a fixed time (mandatory)				
at the initiative of the issuer				
at the initiative of the holder				1%
No conversion feature	82%	84%	75%	99%
Undated	95%	99%	90%	100%
Dated	5%	1%	10%	0%
Without call	10%	11%	4%	22%
With call	90%	89%	96%	78%
Step-up at the time of issue < or = 100 bps	36%	0%	75%	3%
Step-up at the time of issue > 100 bps	6%	1%	12%	1%
No step-up	58%	99%	12%	96%
Write down of principal on a going concern basis	39%	55%	39%	3%
Principal written down and up before the share capital is serviced	17%	21%	19%	0%
Principal written down permanently	13%	27%	7%	0%
Other	10%	7%	14%	3%
Principal cannot be written down	61%	45%	61%	97%
Cumulative	7%	4%	11%	0%
Cash	*3%*	*1%*	*5%*	*0%*
Kind	*4%*	*3%*	*6%*	*0%*
Non cumulative	93%	96%	89%	100%
Issuer may not suspend payments (e.g. in case of dividend pushers)	19%	18%	25%	1%
Issuer may suspend payments in case of				
Breach of regulatory solvency limits	*68%*	*71%*	*73%*	*50%*
Breach of other limits fixed by supervisors	*18%*	*9%*	*21%*	*28%*
Dividends not paid on other security class	*44%*	*49%*	*43%*	*35%*
Solvency difficulties	*28%*	*20%*	*32%*	*32%*
Other	*61%*	*66%*	*57%*	*61%*
Coupon payment in kind feature	10%	11%	8%	11%
No coupon payment in kind feature	90%	89%	92%	89%
Principal Stock settlement feature	4%	2%	5%	3%
Subject to limit	*0%*	*0%*	*1%*	*0%*
Not subject to limit	*3%*	*2%*	*4%*	*3%*
No Principal Stock settlement feature	97%	98%	95%	97%
Issued directly	50%	34%	45%	98%
Issued through SPV	50%	66%	55%	2%
Denominated in				
EUR	56%	72%	56%	21%
GBP	14%	6%	15%	25%
USD	28%	20%	26%	52%
JPY	1%	0%	1%	0%
Other	1%	1%	2%	2%

Annex IV. Lexicon – Extract from the CEBS Hybrid report- Brief description of Country specific hybrid instruments

Association en participation (Luxembourg)

The contract is subject to Article 139 of the Law of 10 August 1915 on commercial companies, as amended, between an investor and a bank, where the latter manages the business of the "association en participation" in its own name as manager of the association. This instrument would not be considered to be a liability in the case of insolvency.

The participation funds the expansion of the business of the bank which will be the managing partner of the association en participation. The investors do not acquire any title to or ownership of any of the assets of the relevant managing partner and may not act for or represent the managing partner.

The Luxembourg law on commercial companies of the 10th August 1915 as amended, and the Luxembourg Civil Code, offer a high degree of flexibility in structuring association en participation arrangements with respect to the sharing of profits and contribution to losses. Association en participation arrangements, in order to qualify as Tier 1 regulatory capital, must under Luxembourg regulations provide for the participation of the investors in the losses of the business of the managing partner up to the full amount of their contribution. The investors do not receive any right to participate or interfere in the management of the association en participation.

Convertible Preferred Securities included in non-innovative convertible perpetual bonds by Italy in the CEBS Hybrid report

The scheme is usually the following: a Trust issues preferred securities to be placed in the market and purchases similar instruments issued by an SPV; from the proceeds, the SPV provides a Subordinated Deposit to the credit institution.

The holders of the instruments have a conversion option that may be exercised in certain time periods. Securities are automatically converted to equity if a "Capital Deficiency Event" occurs or if at any time, starting 7 years from issue, the market price is above a predetermined level.

The SPV is not required to pay dividends on the instruments if the credit institution does not have, according to the last unconsolidated annual accounts, Distributable Profits and/or the credit institution has not declared or paid dividends on any class of its share capital. In addition, the SPV is not required to pay dividends when the credit institution is otherwise prohibited under applicable Italian banking laws or regulations from declaring a dividend or making a distribution on any class of its share capital.

The Subordinated Deposit constitutes an unsecured obligation of the credit institution that will rank subordinate and junior in right of payment to all senior indebtedness of the credit institution and senior to share capital of the credit institution.

Non-cumulative perpetual preference shares

These are issued under specific national laws, and mostly (if not all) are directly issued. Their characteristics are set out in national company/commercial law. They have preferred rights to distribution of dividends and have no voting rights.

Participaciones preferentes (Spain)

This is the trade name for hybrid instruments issued by a credit institution or an entity resident in Spain or another European Union territory that does not have tax-haven status, whose activity or exclusive corporate purpose is the issuance of these instruments. The instrument has no voting rights, is non-cumulative, with the accrual of returns conditional on the existence of distributable profits at the controlling credit institution or at the consolidated group or sub-group, and ranks senior to ordinary capital. They shall in principle be non-redeemable, although early redemption may be agreed from the fifth year after the issuance date with authorisation from Banco de España. They must be listed on a regulated secondary market.

In the case of issues made by a subsidiary institution, the funds obtained shall be deposited, entirety and permanently, once issuance and management costs have been deducted, at the controlling credit institution or at another entity in the consolidated group or sub-group. This deposit shall be used by the depository institution for the offseting of losses, either in its liquidation or in the overall financial restructuring of the institution or its consolidated group or sub-group, once reserves have been depleted and ordinary capital reduced to zero. In such instances, participaciones preferentes must have the joint and irrevocable guarantee of the controlling credit institution or of the depository institution.

In the event of winding-up, or other such cases that give rise to the application of the priorities envisaged in the Commercial Code, of either the issuing credit institution or the controlling institution of the consolidated group or sub-group, participaciones preferentes entitle holders to obtain only redemption of their face value along with any accrued, unpaid return. For the purposes of seniority of debt, these instruments will be placed behind all the creditors, whether subordinated or not, of the issuing credit institution or of the controlling credit institution of the consolidated group or sub-group, and before ordinary shareholders.

The instrument has a special tax regime. The issuance of participaciones preferentes is tax exempt. The income arising on participaciones preferentes shall be considered a deductible expense for the issuing institution and as returns obtained on the transfer of capital to third persons for investors. Were income to be obtained by taxpayers subject to non-resident personal income tax without a permanent establishment, such income shall be exempt from tax under certain conditions.

Perpetual Non-cumulative Guaranteed Preference Shares issued through Special Purpose Vehicles (SPV) located in non-EU jurisdictions reported as 'Other' by Portugal in the CEBS Hybrid report

The SPVs are subsidiaries of Portuguese parent credit institutions as the voting share capital is fully owned by the latter.

The Preference Shares are perpetual securities and have no fixed redemption date. However, usually these Preference Shares may be redeemed, at the option of the Issuer, on the first call date and on any preferred dividend payment date falling thereafter. Such redemption is subject to the prior approval of the parent credit institution and the supervisory authority (Banco de Portugal).

In addition to the optional redemption clause mentioned above (usually associated with a step-up), generally the Preference Shares also provide for early redemption due to the occurrence of Tax or Capital Disqualification Events. Such redemption is also subject to prior supervisory approval (Banco de Portugal).

These Preference Shares will pay non-cumulative preferential cash dividends, when and if declared by the Issuer (if the Issuer does not declare a preferred dividend, then the entitlement of the holders of Preference Shares to such preferred dividend shall lapse and accordingly no payment will need to be made at any time in respect of any such missed payment).

The issues of Preference Shares usually provide for the existence of a Guarantee (the Subordinated Guarantee) by the parent credit institution of the Issuer (i.e. the Guarantor being the company which will include the proceeds of the issue in its supplementary original own funds on a consolidated basis). This Guarantee, however, is not to enhance the seniority of the claim. Instead, it is intended to provide for dividend, redemption and liquidation rights equivalent to those which would attach to the Preference Shares had they been issued directly by the Guarantor.

Silent partnerships (Germany)

They are capital instruments regulated in sections 230 to 237 of the German Commercial Code. In a "typical" silent partnership, the silent partner invests cash or other assets into a company. However, he does not appear as an owner of the company in the trade register and does not participate in operating the company's business. In return for his investment, the silent partner participates in the gains and losses the company makes. In addition he receives the annual accounts of the company and is allowed to check their correctness through access to the company's books.

The loss absorption capacity of the silent partnership (write down of the principal) is usually limited to the amount of the investment of the silent partner and in most cases takes place *pari passu* with the company's paid up capital. If the contract which governs the silent partnership meets certain requirements (such as subordination to all claims of senior and subordinated creditors in the case of the insolvency or liquidation of the company and permanence of the silent partner's investment), the silent partnership may be accounted for as paid up capital under German accounting standards.

In addition to the general requirements of the commercial code, the German Banking Act lays down some additional rules for silent partnerships to be eligible as part of regulatory own funds and silent partnerships of internationally active German banks also have to fulfil the requirements of the Basel Press Release.

The key element of the requirements of the German Banking Act for the recognition of silent partnerships as regulatory own funds is their full participation in any losses of the institution. In the few cases in which these instruments are dated, they are excluded from regulatory own funds in the last two years before repayment while they still remains fully able to absorb losses. There has to exist an agreement between the institution and the silent partner that, in the event of the initiation of insolvency proceedings over the institution's assets or of the institution's liquidation, the silent partnership will not be repaid until all creditors have been satisfied. The institution, when establishing the silent partnership, has to refer explicitly and in writing to the legal consequences of the silent partnership. These consequences are that participation in any loss cannot be changed to the detriment of the institution and the subordination of claims cannot be limited. Any premature repayment shall be returned to the institution, notwithstanding any arrangements to the contrary, unless the capital has been replaced by other own funds of at least equivalent status or the Federal Financial Supervisory Authority has agreed to the premature repayment.

Undated deeply subordinated notes

These instruments are bonds with the most junior rights among the debts of the issuing institution. They are subordinated to any ordinary or subordinated notes of the issuer and are senior only to ordinary share capital of the issuer.

These instruments are perpetual securities with no fixed redemption date. However, undated deeply subordinated notes may contain a call option, which can be exercised only at the option of the issuer, on the first call date and on any preferred coupon payment date falling thereafter. Such redemption is subject to the prior approval of the supervisory authority.

In addition to the optional redemption clause mentioned above - associated with a step-up for innovative instruments - the notes also provide for early redemption due to the occurrence of Tax or Capital Disqualification Events. Such redemption is also subject to prior supervisory approval.

These undated deeply subordinated notes will pay non-cumulative cash coupons, preferential to the service of the ordinary shareholders. If the Issuer does not declare a preferred coupon, then the entitlement of the holders to such preferred coupon shall lapse and accordingly no payment will need to be made at any time in respect of any missed payment.

In France they contain a loss absorption clause on a going concern basis which expects the nominal value of the security to be reduced in respect of any further calculation of payment of interests, accordingly to the losses registered by the issuer that are not covered by capital.

In the Netherlands, this category of instruments include fully paid up permanent subordinated non cumulative member certificates in a cooperative bank.

In Norway the instruments must be able to be written down pro rata with the share capital on a going concern basis. In the event of a write-down, the interest calculation base has to be revised down.

Hybrid capital (innovative and non-innovative) reported as "other" by United Kingdom in the CEBS Hybrid report

The instruments reported here have all been issued by major UK credit institutions. Institutions have reported data here where the names of the instruments which are commonly used in the market do not exactly match the categories on the data sheet.

They encompass instruments which are variously known as Reserve Capital Instruments (RCIs), Tier One Notes (TONs) or other alternative names. In terms of features, these instruments are directly issued, perpetual and deeply subordinated. Some instruments have calls with a step-up, whilst others have calls without a step-up. One distinguishing feature of these instruments is that although there is full discretion over coupon payments, any deferred coupons can only be settled with the proceeds of the sale of shares through the use of an alternative coupon satisfaction mechanism (ACSM). An additional feature of those instruments which do not have a step-up is that after the call date coupons must be satisfied using the ACSM.

The "other" innovative instruments are indirect issues which are typically called non-cumulative step-up perpetual preferred securities.

Instrument included in the "other" category by Ireland in the CEBS Hybrid report

Innovative:

(1) Guaranteed (By the parent bank) Step-Up Callable Perpetual Preferred Securities/Issued 7/3/2001 by a UK Holding Company subsidiary of the parent bank-Grandfathered.

(2) Fixed Rate/Floating Rate Guaranteed (by Parent Bank) Non-Voting Non Cumulative Perpetual Preferred Securities/ Issued 27/1/2006 by a Limited Partnership

Non-Innovative:

(1) Guaranteed (by parent Bank) Callable Perpetual Preferred Securities/Issued 7/3/2003 by a UK Holding Co subsidiary of the parent bank-Grandfathered.

(2) Fixed Rate/Variable Guaranteed (by Parent Bank) non-voting non-cumulative Perpetual Preferred Securities/Issued 2/3/2005 by a Limited Partnership

(3) Fixed Rate/Floating rate Guaranteed (by Parent Bank) Non-voting non-cumulative Perpetual Preferred securities/Issued 3/2/2006 by a Limited Partnership

(4) Fixed Rate/Floating Rate Guaranteed (by Parent Bank) Non-voting non-cumulative Perpetual Preferred Securities/Issued 19/9/2006 by a Limited Partnership

The Netherlands

'Other non innovative instruments' includes deeply subordinated perpetual non cumulative intragroup loans issued by one of the Dutch banks to the holding company in a conglomerate structure.

Annex V: CEBS Guidelines on Prudential filters for regulatory capital

The CEBS guidelines on prudential filters for regulatory capital contain the following recommendations:

- For the revaluation reserves on available-for-sale assets the following filters shall apply:
    - for equities: deduct unrealised losses after tax from original own funds and partially (i.e. at least net of tax effects) include unrealised gains in additional own funds ;
    - for loans and receivables: neutralise unrealized gains and losses (after tax) - except for impairment-related losses - in own funds ;
    - for other available-for-sale assets (i.e. debt securities): either apply the treatment for equities or for loans and receivables.

  Generally, no adjustment should be applied to impairment losses.

- For revaluation reserves arising from fair valuing investment property or property plant and equipment: deduct unrealised losses (after tax) from original own funds and partially (i.e. at least net of tax effects) include (cumulative) unrealised gains in additional own funds.[43]

In addition to the CEBS guidelines article 64(4) of Directive 2006/48/EC formally introduces two mandatory prudential filters for institutions into EU legislation:

- gains and losses on cash flow hedges, other than cash flow hedges on available for sale assets should be excluded from own funds[44];.
- the consequences (gains and losses) resulting from valuing liabilities at fair value due to changes in their own credit standing should be excluded from own funds.

CEBS moreover recommends maintaining the current prudential classification or definition of the following:

- debt and equity: financial instruments can be included in own funds if they respect the criteria of the directive on own funds regardless of the accounting classification; conversely some instruments booked in equity should be excluded from regulatory own funds or classified as hybrid original own funds or additional own funds.
- trading book.

[43] Members are also encouraged to consider the need for transferring unrealised gains, if any, resulting from the revaluation when applying the deemed cost method at the first time application to properties from original own funds to additional own funds.

[44] For Cash flow hedges on available for sale assets the guidelines specify that the treatment should be consistent with that of the reserve created for the relevant assets.

- scope and method of consolidation: securitization transactions fulfilling the prudential definition of a true sale should follow the prudential principles regardless of the accounting treatment.

CEBS moreover notes that, in order to mirror the impact of prudential filters on own funds, national competent authorities may require adjustments to the balance sheet value of the exposures used in the computation of accounting-based risk weighted exposures.

No changes or (further adjustments) are encouraged, for the time being, for existing intangible assets (including goodwill), deferred tax assets, pension cost, stock option costs and leasing, consideration should be given to the need for transitional/other arrangements to address the impact of the first time adoption of the standards, or to accommodate particular national circumstances for the mentioned items.

Annex VI. Other prudential filters applied by countries

The following adjustments are being applied adjustments by only one or two countries at the same time:

- EL: unrealised gains and losses on derivatives used as economic hedges of AFS bonds;
- ES: non current assets held for sale reserves, except when the valuation differences are related to AFS equities and bonds;
- IT: put options on own capital instruments; fair value gains and losses on fair valued hybrid and subordinated debt instruments;
- LU: financial instrument (eligible for inclusion in Tier 1 or Tier 2 capital) valued at amortised cost and subject to a fair value hedge;
- PT: unrealised gains and losses from cash flow hedge of forecast transactions; unrealised gains from loans and receivables classified as held for trading.CEBS Guidelines on Prudential filters for regulatory capital