Annex 4

Capital and Reserves
Overview of the national rules

Country	Capital	Reserves
Austria	Paid-up capital for institutions registered as: 1. partnerships of commercial law, such capital as has been dedicated to the company plus claims of the personally liable partners arising from the business activities of the enterprise minus the losses, withdrawals and liabilities of the personally liable partners to the company; 2. stock corporations and limited liability companies, the paid-up share capital; 3. cooperatives, the money contributions paid in on the shares; 4. savings banks, the paid-up capital on formation; 5. State mortgage banks and the Mortgage Bond Division of the Austrian State Mortgage Banks, the paid-up capital; 6. branch offices of foreign credit institutions, the endowment capital put at their disposal in freely convertible currency; and 8. credit institutions, the participation capital (paras 4 and 5) without obligation of subsequent payment of dividends.	Disclosed reserves including the liability reserve Credit institutions shall form a liability reserve which amounts to 1% of the assessment basis for the calculation of own funds; a release of the liability reserve is allowed only to such extent as is necessary to fulfil obligations pursuant to deposit guarantee and investor compensation or to cover losses otherwise to be shown in the annual financial statement; the liability reserve shall be replenished to the extent of the released amount no later than within the following five fiscal years; the allocation to and release of the liability reserve shall be shown separately in the profit and loss account.
Belgium	Paid-up capital and share premium (excluding preferential shares) as defined by company law. (Non-cumulative undated preferential shares may be included but this is not relevant for BE)	Reserves and profit and losses brought forward (after tax and interim dividends). Adjustment to the reserve are made in order to take into account the IFRS prudential filters, namely: - revaluation reserves relating to AFS debt securities, loans and receivables, and cash flow hedge reserves are excluded; positive revaluation reserves relating to AFS equities and tangible assets are included in tier II.
Cyprus	Issued and wholly paid-up share capital, non-cumulative and non-redeemable preference shares, share premium accounts.	Reserves excluding revaluation reserves, previous years' retained earnings, interim profits
Czech Republic	1. Paid-up capital stock entered in the Companies Register, 2. paid-up share premium (cumulative preferential shares are not relevant for CZ)	1. statutory reserve funds other reserve funds created from after-tax profit except for specific reserve funds, 2. undistributed after-tax profit of previous years, provided that the relevant year’s profit has been confirmed by external auditors in their audit of the financial statements and the partners or general meeting have approved the financial statements and have determined the amount of undistributed profit, 3. net income in the approval process, provided that such income approved by the external auditor represents profit reflecting

		estimated dividends and other payments out of the estimated distribution of profit, 4. minus accumulated loss of previous years, 5. minus loss in the approval process
Denmark	Capital: Paid-up share capital, guarantee capital, or cooperative capital, and additional paid-in capital. Excluding preferential shares. Guarantee capital of savings banks is recognised as paid-up capital. Depositors and guarantors of the savings bank are entitled to vote when electing shareholder committee members. Each depositor has 1 vote, and each guarantor has between 1 and 20 votes depending of his share of paid-up guarantee capital. Savings banks can under certain conditions be dissolved without liquidation and the total assets and debt can be transferred to a limited company with a bank license	Disclosed Reserves, excluding revaluation reserves and disclosed retained earnings or losses.
Estonia	Paid-in share capital and share premium except for amounts paid for preferred shares	Reserves formed on the basis of law and audited profits and losses from previous years
Finland	Capital in limited liability companies: Share capital, funds in share issue accounts and premium fund. According to new bill on company law for new companies in form of joint stock company there will not be premium funds anymore. The bill is planned to come into force in September 2006. Capital in cooperatives: cooperative capital, additional cooperative capital (lisäosuuspääoma) and investment share capital (sijoitusosuuspääoma). Capital in savings banks: basic capital (peruspääoma) ja original fund (kantarahasto). The Credit Institution Act includes also capital loans as part of original own funds without a limit stated in the Act. The supervisory authority is allowed to guide the institutions to follow international recommenedations.	Reserve fund (vararahasto). Non-restricted equity capital (vapaa oma pääoma, uudempi vapaat rahastot). 'Restricted reserves' include 'Profit or loss brought forward' and 'Profit or loss for the financial year' (i.e. retained earnings). Voluntary provisions (vapaaehtoiset varaukset) net of any foreseeable tax charges. The amalgamation of cooperative banks is allowed to calculate in the non-restricted equity capital technical reserves of their internal insurance company (OVY:n vakuutustekniset varaukset mm. tasoitusmäärä, varaus tuntemattomiin vahinkoihin).
France	Share capital, in addition to the capital of those institutions subject to the present Regulation which are constituted in the form of commercial companies, shall be deemed to include the sums which take the place thereof or which are equivalent thereto, under the legislation in force, in the accounts of institutions governed by special Articles of association, in particular permanent endowments of funds or fixed or variable capital represented by actually paid-up "parts sociales" or by "certificats coopératifs d'investissement"	Reserves, including revaluation reserves; - share premiums; - retained earnings; - the profit for the last financial year, pending its allocation, less the dividend distribution to be provided for
Germany	According to German Banking Act the following instruments are differentiated depending on the legal form of the institution. Instruments eligible to original own funds, according to section 10 para. 2a German Banking Act (KWG), are:	Depending on the legal form and according to section 10 para. 2a sentence 1 No. 1 to 6 and No. 9 KWG “reserves” in the meaning of Article 23 of Directive 86/635/EEC are explicitly referred to as being original own funds.

	·Paid-up ordinary share capital ("Grundkapital") for joint stock corporations ("Aktiengesellschaften" – AG) ·Paid-up ordinary share capital ("Grundkapital") by shareholders ("Kommanditaktionäre") and paid-up business capital ("Geschäftskapital") of general partners ("Komplementäre") for partnerships limited by shares ("Kommanditgesellschaften auf Aktien" – KGaA) ·Paid-up capital ("Stammkapital") for limited liability companies ("Gesellschaften mit beschränkter Haftung" – GmbH) ·Endowment capital ("Dotationskapital"), for public banks ("öffentlich-rechtliche Kreditinstitute") ·Paid-up capital ("Geschäftsguthaben") for co-operative banking societies ("Volksbanken" and "Raiffeisenbanken") ·Paid-up business capital ("Geschäftskapital") for general commercial partnerships ("Offene Handelsgesellschaften" – OHG) ·Paid-up business capital ("Geschäftskapital") of general partners ("Komplementäre") and, in the amount paid up and registered in the Commercial Register at the court of registration, capital contributions ("Kapitaleinlagen") by limited partners ("Kommanditisten") for limited commercial partnerships ("Kommanditgesellschaften" - KG) <u>Main features:</u> 1. issued 2. fully paid-in 3. available to absorb losses on a going-concern basis 4. perpetual: they are infinitely available for loss participation and there are no covenants under law or contract (maturities or call options, be they qualified or not, be they explicit or implied) 5. the instruments provide the bank with the full discretion as to the amount and timing of distributions 6. the holders of the instrument have direct (pro rata) ownership in the bank under law. <u>Equivalent item</u>: - Perpetual and limited term silent partnerships Main features: 1. issued 2. fully paid-in 3. available to absorb losses on a going-concern basis 4. perpetual: they are infinitely available for loss participation and there are no covenants under law or contract. If they are	Reserves comprise the amounts designated as such in the balance sheet in the last approved annual accounts for the end of a financial year. Reserves which are formed as a result of premium income obtained through a share issue or through some other inflow of external funds may be included from the time of their inflow. Examples: reserves, share premiums and retained earnings. No revaluation reserves. From January 2007 valuation adjustments according to IFRS subject to Basel/CEBS prudential filters: unrealised gains on investment property (IAS 40); revaluation reserves relating to own use property; revaluation reserves relating to AFS equities, AFS debt securities and AFS loans and receivables; cash flow hedge revaluation reserve. Less net gains from securitisation. <u>Main features</u> 1. available to absorb losses on a going-concern basis 2. perpetual: they are infinitely available for loss participation and there are no covenants under law or contract (maturities or call options, be they qualified or not, be they explicit or implied) 3. the bank has the full discretion as to the amount and timing of distributions No different treatment for reasons of consolidation.

	dated, they are not recognized two years before the repayment date 5. the instruments provide the bank with the full discretion as to the amount and timing of distributions No different treatment for reasons of consolidation.	
Greece	**Non IFRS banks** Capital: Equity capital for institutions registered as "Société Anonyme" + Any other amount which takes the place of capital, according to the law and the statute of credit institutions registered as a cooperative banks plus share premium accounts less Cumulative preferential shares. **IFRS banks** Capital: Equity capital plus capitalised fixed asset revaluation reserves if: the fair value as deemed cost option (IFRS 1) is used and the reserve has been capitalised prior to the first full IFRS reporting date (31.12.2005) plus members' shares in the case of cooperative banks that in a legal sense constitute capital (regardless of the IAS 32/IFRIC 2 classification for financial reporting purposes) pus share premium accounts. NB As cumulative preferential shares are not equity under IFRS (as they are classified as liabilities) the issue of deducting them from capital does not arise.	**Non IFRS banks** Legal and statutory reserves plus profits and losses brought forward as a result of the application of the final profit or loss **IFRS banks** Legal and statutory reserves plus retained earnings plus valuation adjustments according to IFRS subject to the following prudential filters: less net unrealised fair value revaluation profit/loss of derivatives used as economic hedges of investment book items (but not meeting the IAS 39 hedging recognition criteria) less net unrealised gains arising from the use of the option to fair value investment property (IAS 40) or intangible assets (IAS 38) less the equity component of compound financial instruments plus 50% of accumulated post employment defined benefit plan deficits less fixed assets revaluation reserve resulting from the use of the deemed cost option of IFRS 1 less AFS revaluation reserve less cash flow hedge revaluation reserve less revaluation reserve resulting from the use of the option to fair value property, plant & equipment (IAS 16)

Hungary	**Positive components** of the core capital, based on the accounting records a) subscribed capital (When establishing a credit institution the subscribed capital must be paid up in cash. The subscribed capital may only be paid up or deposited into an account operated by a credit institution that is not involved in the foundation, in which the founder has no ownership share or which have no ownership share in the founder. Furthermore, any increase in the registered share capital of credit institutions operating as joint-stock companies through the issue of new shares and any increase in the endowment capital in respect of credit institutions operating as branch offices may only be carried out with cash contributions.) b) capital reserve, c) the indivisible shares from the tied-up reserves of co-operative credit institutions, d) general reserves, e) general risk provisions (not tied to individual exposures), up to 1.25% of the risk weighted assets f) retained earnings, if positive g) balance sheet profit endorsed by audit. h) core loan capital up to 15% of the total original own funds (in the meaning shown in the sheet Innovative Instruments). **Negative components** of the core capital shown in the accounting records: a) the unpaid amount of the subscribed capital, b) intangible assets other than those included in the tied-up reserve, c) subscribed and paid preferential shares paying dividends unpaid from previous year(s) in the year in which there is profit, d) retained earnings, if negative e) balance sheet profit endorsed by audit, if negative, or the interim negative result for determining the interim solvency margin, f) any shortfall in value adjustment and risk provision against individual exposures - excluding the general risk provision - covered by the Auditor or the Supervisory Authority	
Ireland	1. Equity capital, defined for the purposes of the Own funds Directive (89/299/EEC, Article 2(1)(1)) to include paid-up ordinary share capital and perpetual non-cumulative preference shares/preferred stock. With the approval of the Financial Regulator, building societies deferred shares may also be included subject to Section 17 of Building Societies Act, 1989 and minority interests in subsidiaries, where the underlying investment satisfies definition of equity capital. Share premium account. Note: Not all items issued under the Building Societies Act and amendments will be eligible - eligible items are dependent on forthcoming new legislation. 2. Minority interests in subsidiaries where the underlying investment meets the above definition of equity capital. Underlying instrument refers to the equity capital of the minority interest. The minority interest in operating subsidiaries may be recognised as Core Tier 1 at the discretion of the Financial Regulator. 3. Share premium account	Disclosed revenue and capital reserves but excluding revaluation reserves. Also includes capital contributions.
Italy	Paid-up Capital. It is possible to consider also shares giving special rights on dividends compared to ordinary shares, with exclusion of shares for which special rights are exercisable without time limitation considered as upper Tier 2 instruments	Reserves, share premiums, retained earnings etc. Positive "prudential filter" of Tier 1: own financial liabilities at fair value; redeemable shares; net negative amount from cumulative gain and loss on hybrid and subordinated instruments issued by the

		bank classified in the trading book, financial liabilities at fair value or hedged.
Latvia	Paid-up share capital and share premium, excluding cumulative preferential shares	Reserve capital and other reserves formed out of profit of the reporting year and previous years, retained profit of previous years if there is an auditor's opinion on existence of such profit or losses of previous years
Lithuania	Nominal value of the registered share capital (excluding cumulative preferential shares); In order to be eligible for inclusion in Tier 1 capital, preferential shares must have the following characteristics: 1) the bank must be able to eliminate dividend on the shares; 2)the dividend must be non-cumulative, i.e. unpaid dividends may not be carried forward; 3) the shares cannot be redeemed by the issuer at the option of their holder; 4) the shares have no other provisions which require future redemption of the issue; and 5) the shares are perpetual, i.e. they have no maturity date. Preferential shares which do not fulfil all these conditions shall be classified as Tier 2 capital.	Reserve capital (which shall be formed by the additional contributions of the bank's shareholders or deductions from the bank's profit) and retained earnings of the previous year; The mandatory reserve which shall be formed from a bank's net profit deductions. Allocations to the mandatory reserve shall be compulsory and may not be less than 1/20of the profit available for appropriation. The mandatory reserve may, by a decision of the bank's shareholders, be used only to cover losses of the activities of the bank; Restricted (distributable) profit which by a decision of the bank's shareholders could be used to purchase of bank's shares or to other purposes, stated in bank's statute is included into Tier 2 capital.
Luxembourg	Subscribed capital but excluding non-voting shares. Unpaid portions of capital shall be deducted for the calculation of original own funds. Share premium accounts.	Reserves and profits brought forward, after deduction of any down payments on reserve distribution and on profits brought forward. The final net profit/loss of the most recent financial year where pending appropriation, less any proposed dividends and directors' fees (tantièmes).
Malta	Ordinary shares	Share premium account Retained profits Interim profits/losses Capital reserve Exchange rate revaluation reserve Currency revaluation/devaluation reserve Other reserves Capital contributions
Netherlands	Paid-up share capital excluding cumulative preference shares and preference shares with a fixed term.	Share premium reserves, reserves prescribed by law (to the extent applicable under IAS/IFRS) and the articles of association and other reserves, plus retained profits (losses) pertaining to previous years, presented as such in the (published) annual accounts. Revaluation reserves are not to be included. Interim dividend payments are to be deducted from retained profits.
Norway	Capital: Paid- up share capital, premium account and paid-up PCC (Primary Capital Certificate) Capital. PCCs are very similar to shares	Reserves: Other equity (fund of retained earnings), the savings banks´ fund, dividend equalisation fund and donations fund.

	and are issued mainly by savings banks, but may also be issued by loan associations and mutual insurance companies. The holders of share capital have direct (pro rata) ownership in the institution. PCCs represent legal ownership in the PCC capital, the dividend equalisation fund and the premium account of the institution. The owners of PCCs elect at least one-fifth and not more than two-fifths of the savings bank's supreme body in accordance with provisions of the articles of association. Paid-up PCC (Primary Capital Certificate) capital has been recognised for 23 of the savings banks. <u>Main features:</u> issued and fully paid up - available to absorb losses on a going-concern basis - not yield returns independent of the annual operating profit/loss - undated - owner interests and voting rights Any resolution to reduce the share capital or PCC capital requires prior approval by Kredittilsynet. **Other items** In tier 1 capital we also include guarantees furnished through statutory guarantee schemes on terms approved by Kredittilsynet. The provision was introduced in the beginning of the 1990s during the banking crisis, but has not been applied since 1994.	<u>Main features:</u> . available to absorb losses or deficits on current operations . permanent in the sense that they are not subject to covenants Reserves also include 50 per cent of repayable members' contributions in loan associations, but there is only one loan association with such capital in Norway so this is not an important constituent of capital. It is a requirement for the inclusion of the repayable members' contributions that repayment cannot take place until the loan is redeemed and that the members' contributions do not bear interest, also provided that repayment cannot take place if the stipulated capital requirement pursuant to law or regulations is not met, or if repayment entails that it will not be met. Members' contributions shall furthermore be freely available to absorb losses or deficits on current operations. Repayment must furthermore not take place before the accounts for the year in question have been closed and approved in accordance with generally accepted accounting principles and with regulations laid down by Kredittilsynet as regards provisions for and recording of losses. Adjustments to Reserves: A consultation paper on the implementation of the CEBS guidelines on prudential filters has been circulated for comments and is now treated by the Ministry of Finance. The institutions will not be allowed to use IFRS when they calculate their capital adequacy until the CEBS guidelines have been implemented Under IFRS, according to the consultation paper, a non-distributable funds for unrealised gains will be included after deductions. The following items will be deducted from reserves: Dividends and group contributions allocated for distribution, net unrealised gains on equity instruments classified as AFS (tax effect taken into account), net unrealised gains on loans and receivables and on bonds and other debt securities classified as AFS (tax effect taken into account), unrealised gains on property, plants and equipment and on investment property included in original own funds, net unrealised gains on cash flow hedges, the equity component of compound financial instruments and any unrealised gains on an institution's liabilities arising from changes in the institution's own credit standing. Under IFRS, according to the consultation paper, the following items will be added: Net

		unrealised losses on loans and receivables and on bonds and other debt securities classified as AFS, net unrealised losses on cash flow hedges and any unrealised losses on an institution's liabilities arising from changes in the institution's own credit standing. Post employment obligations will be partly reintegrated in own funds according to a transitional provision.
Poland	a. At state bank - the registered equity fund, capital surplus fund and reserve fund; b. at banks incorporated as public limited companies - autorised share capital, paid-up and registered, together with the capital surplus and reserve capital, except for any obligations with respect to preferential shares; c. at cooperative banks - the member's share fund, paid-up, together with the resource fund ans reserve fund; d. at branches of foreign banks - the registered endowment capital assignet to the activity of that branch in Poland.	
Portugal	> Paid-up capital (including non-redeemable preferential shares as defined by Commercial Law) The following items are considered equivalent to paid up capital: > Prestações acessórias; > Prestações suplementares. Their eligibility is conditional upon the fulfilment of all applicable provisions of Commercial Law ("Prestações acessórias" and "Prestações suplementares" are, in generic terms, funds made available by the shareholders to a company, whose characteristics and conditions are regulated in Código das Sociedades Comerciais - Commercial Law). Additionally, they have to be fully paid up and can only be reimbursed with the prior approval of Banco de Portugal. > Share premium accounts	> Legal reserves, reserves provided for in the articles of association ("statutory reserves") and other reserves comprised of non-distributed profits > Profits brought forward In the case of Profits of the previous financial year, provided the following conditions are met: a) they are determined after accounting for all costs relating to the period in question and after complying with all regulations regarding to the building up of provisions and depreciation; b) they are calculated net of foreseeable tax charges and foreseeable dividends; c) they are verified by the persons responsible for the auditing of the accounts (external auditor/statutory auditor). For institutions that prepare their financial statements in accordance with IAS/IFRS (consolidated basis) or in accordance with the adjusted IAS framework (solo basis), the "profit from the previous financial year" to be considered under this item is that arising after the application of the "prudential filters". Should a negative value result from the application of the "prudential filters", it shall be considered as "material loss from the previous financial year
Slovakia	1.)Paid-up registered share capital Bank can be a legal entity founded as a joint stock company only as defined by Article 2, Paragraph 1 on the Act on Banks. 2.) Share premium accounts	Reserves: capital surplus,reserves and other funds created from distributed after-tax profits, other than those funds having the nature of a commitment, other capital reserves, other than translation differences in respect of equities denominated in a foreign currency, retained earnings from previous years.
Slovenia	1. For institutions registered as a bank or savings bank (i.e. a joint stock company with a head office in the Reublic of Slovenia that has obtained an authorisation from the Bank of Slovenia to provide banking services): paid-up subscribed capital (subscribed ordinary	Reserves in the meaning of point 3.1 2) of regulation governing the capital adequacy: (i) reserves from profit that in accordance with the Companies Act are not available for payments to shareholders or other persons

	shares and non-cumulative preferential shares at their nominal value less the amount of claims for the subscribed but not paid-up shares) and share premium accounts arising from those shares. 2. For a branch of a foreign bank (that has obtained an authorisation from the Bank of Slovenia for its establishing): endowment capital (i.e. a specific amount or other appropriate financial asset or other appropriate insurance as guarantee from the settlement of liabilities arising from transactions concluded within the Republic of Slovenia); Remark: foreign bank means non-EEA bank	and (ii) profit brought forward/retained profit endorsed at the general meeting of the bank's shareholders in the portion, which is deemed to remain a component of own funds in the future and which will not be available for distribution. " For the reason of the transition to the IFRS, retained (withheld) earnings may be included among components of profit brought forward/retained profit.
Spain	Capital: - Including fully paid-up ordinary capital of limited companies - the foundational funds and "cuotas participativas" of savings banks ("cuotas participativas":instrument similar to no voting right shares - perpetual, non cumulative) - the fully paid-up contributions to the corporate fund of credit co-operative banks, which fulfil the following conditions: (i) their returns shall be conditioned by the existence of net positive results or, with the prior authorisation of the Banco de España, of sufficient freely available reserves to cover them, (ii) they shall be of unspecified maturity, (iii) their redemption is only possible if the credit co-operative bank has no own fund deficit - the endowment capital of branches of foreign credit intitutions excluding cumulative preferential shares no voting right (perpetual) shares regulated in section 5 of chapter IV of the Law of limited companies when give no cumulative rights to pay-outs and participaciones preferentes in the meaning of second additional provision of Law 13/1985, 25th of May (participaciones preferentes: instrument similar to no voting right shares -perpetual, non cumulative)	The effective and express reserves, including "Fondo de participación" and reserve fund of "cuotas participativas" of savings banks and their Confederation. Effective and express reserves are those charged to profits and those resulting from share premium accounts.
Sweden	Equity: paid up share capital, share premium, shareholders contributions. Excluding cumulative preferential shares.	Reserves excluding revaluation reserves
United Kingdom	1. *Ordinary shares* Main Features • Statutory subordination through the Companies Act and the Insolvency Act. • Dividends are discretionary and non-cumulative • Ability to absorb losses while bank still trading • Undated Conditions for eligibility Allotted, called up and fully paid share capital (net of any own shares the bank holds). Fully paid means that the proceeds of the issue have been received by the bank and are available to absorb losses. This is	Accumulated profits retained by the bank after payment of all dividends and tax, and other reserves (apart from revaluation reserves) Main Features • Ability to absorb losses while bank still trading Conditions for eligibility • Following the introduction of IFRS the following prudential filters need to be applied to reserves: • Deduct unrealised gains or, where applicable, add back in unrealised losses, on: - cash flow hedges of financial instruments measured at cost

	stricter than the Companies Act definition of fully paid, which only requires an undertaking to pay. 2. *Preference shares (as defined in the Companies Act)* Main Features • Statutory subordination through the Companies Act and the Insolvency Act. • Typically carry no (or limited) voting rights. Conditions for eligibility • Directly issued • Ability to absorb losses while bank still trading • Firm must be able to eliminate the dividend • The dividend must be non cumulative • The shares cannot be redeemable at the option of the holder but can be redeemable at the option of the issuer with the FSA's prior consent. • The shares must have no other provisions which require future redemption of the issue • The shares must be perpetual (they have no maturity date) • The marketing of these instruments must be in line with their prudential treatment. • They must have no feature that creates or increases market expectations of or pressure for redemption (e.g. a step-up) • Preference shares which do not fulfil all the above conditions may qualify for Tier 2 (Additional Own Funds). • Limited to 50% of total tier 1 capital 3. *Permanent Interest Bearing Shares* (a sub-set of deferred shares which comply with the Building Societies Order and the BCD) Main features • Issued by Building Societies (Mutual mortgage lending organisations) which are unable to issue ordinary shares. Conditions for eligibility • Similar to preference shares above, but may contain innovative features (such as step ups) *4. Partnership Capital Account* Main features • This account is an account into which capital contributed by the partners is paid and from which under the terms of the partnership agreement capital can only be withdrawn if an equal amount is transferred to another such account by other partners. Conditions for eligibility • Same as preference shares above	or amortised cost - debt instruments held in the available-for-sale financial assets category- own financial liabilities which are not attributable to changes in a benchmark interest rate • Deduct any defined benefit assets • Bank may substitute a defined benefit liability with its deficit reduction amount. • Net losses on equities held in the available-for-sale financial assets category

The table represents unofficial English translations of the original laws of the countries.