



## MODULE 6

Guidance to completing the Balance Sheet module of BSL/2

**Glossary**

**The following abbreviations are used within the document:**

CD	-	<b>Certificate of Deposit</b>
CP	-	<b>Commercial Paper</b>
FRN	-	<b>Floating Rate Note</b>
PSE	-	<b>Public Sector Entity</b>

## Overview

### **Introduction**

- 1.1 Module 6 is designed to provide the Commission with an assessment of a bank's balance sheet and off-balance sheet activities including, for subsidiaries only, its capital resources.
- 1.2 Branches are only required to complete the Assets and Liabilities sheets of Module 6.
- 1.3 Throughout Module 6, areas where data should be input are indicated visually in the sheets by the use of white boxes – no data should be entered elsewhere and every box should be completed, entering zero where appropriate.
- 1.4 For branches only, an Off Balance sheet worksheet has been included. This is a TOTALS only version of the Off Balance sheet worksheet used by subsidiaries from Module 1 and Module 2.
- 1.5 A checklist worksheet has been added at the end of the Modules 6 to 9 workbook.

## SECTION 2 CAPITAL

### Types of capital

- 2.1 For supervisory purposes, capital is split into two categories: Tier 1 and Tier 2. These categories reflect the varying quality of capital that different instruments provide.
- 2.2 Tier 1 capital is a bank's highest quality capital. Tier 1 may be issued or internally generated capital:
- Issued capital includes ordinary shares and preference shares;
  - Internally generated capital arises from accruing profit to reserves or by capitalising dividends.
- 2.3 Further guidance on Tier 1 capital can be found in Appendix A.
- 2.4 Tier 2 capital can be split between perpetual (sometimes referred to by other regulators as Upper Tier 2) and dated instruments. Perpetual Tier 2 capital includes:
- Issued: hybrid capital instruments e.g. perpetual subordinated debt that is able to absorb losses and cumulative preference shares. To qualify as perpetual Tier 2 capital these instruments should be cumulative i.e. dividend or interest payments may not be cancelled, but may be deferred.
  - Internally generated: includes general/collective provisions and certain revaluation reserves.
- 2.5 Dated Tier 2 capital (i.e. it has a maturity date), should have a minimum maturity of over five years and interest should be paid as it falls due. It normally takes the form of term subordinated debt. Such debt is classed as a lower form of capital because its loss absorbency features only come into effect in the event of insolvency, and in general there is less funding flexibility, since a deferral of an interest payment can be an event of default. **The maximum extent to which dated Tier 2 Capital can be relied upon is limited to 50% of Tier 1 capital.**
- 2.6 In order to avoid a sudden diminution in the amount of capital available to a bank, Tier 2 dated capital should be amortised on a straight-line basis in its final five years to maturity. Where a bank has an option to repay Tier 2 dated capital early, the Commission does not normally assume early repayment for the purposes of amortisation, unless failure to exercise the option incurs a significant increase in the interest paid on the debt (a "step-up").

**Detailed guidance**

<b>Item</b>	<b>Description</b>	<b>Guidance</b>
<b>A</b>	<b>Tier 1 Capital</b>	
A.1	Ordinary shares / Common Stock	Ordinary shares, i.e. allotted, called up and fully paid share capital. This should be recorded net of any of its own shares that a bank holds. "Fully paid" means the proceeds of the issue have been received by the bank and are available to absorb losses.
A.2	Perpetual non-cumulative preferred stock	Perpetual non-cumulative preference shares, including such shares redeemable both at the option of the issuer and with the Commission's prior consent; and such shares that are convertible into ordinary shares.
<b>A.3</b>	<b>Reserves:</b>	
A.3.1	Share Premium Account	Share premium relating to A.1
A.3.2	Disclosed Prior Year Reserves	Reserves disclosed in the audited year end accounts less any dividends paid out of such reserves.
A.3.3	FX Translation Differences	Impact of exchange rate movements on reserves held on currencies other than sterling.
A.3.4	Current Year's profit verified by external auditor	Report profits only where they have been certified by external auditor. This remains the case for year-end accounts – profits may only be included if either the audit is complete and signed off or a separate certification is supplied.
	<b>Total Reserves</b>	<b>Automatically completed, being the sum of A.3.1 to A.3.4.</b>
A.4	Current Year Losses	Always report current year losses (as a negative figure).
A.5	Minority Interests in Tier 1	Minority interests arise when a company owns a subsidiary via a majority shareholding. The company's consolidated accounts usually include all of the assets of the subsidiary so it would be misleading to include only that part of the subsidiary's share capital and reserves that is owned by the company. The capital subscribed by the minority shareholders is therefore included in the consolidated capital base.
<b>A.6</b>	<b>Total</b>	<b>Automatically completed as the sum of A.1, A.2, Total reserves, A.4 and A.5.</b>
<b>A.7</b>	<b>Less: (adjustments to capital)</b>	
A.7.1	Goodwill and other intangible assets	All goodwill and other intangible fixed assets should be shown here and deducted from Tier 1 capital.

Item	Description	Guidance
A.7.2	Securitisations - gains on sale	Banks must deduct from Tier 1 capital any increase in reserves resulting from a current securitisation transaction, such as that associated with expected future margin income resulting in a gain on sale.
	<b>Total deductions:</b>	<b>Automatically completed, being the sum of A.7.1 and A.7.2.</b>
	<b>TOTAL</b>	<b>Automatically completed, being A.6 less Total deductions.</b>

Item	Description	Guidance
<b>B</b>	<b>Tier 2 Capital</b>	
B.1	Fixed Asset Revaluation Reserve	Reserves arising from the revaluation of tangible fixed assets, or fixed asset investments, are reserves created when such assets are revalued to bring them in line with replacement costs. Valuations must be from an independent professional valuer.
B.2	Reserves/fair value gains of securities not held for trading	The Commission does not recognise reserves relating to available-for-sale instruments as being eligible for inclusion in capital. However, gains arising from items accounted for at “fair value through profit and loss” but which are not held for trading should be reported here. Examples could include derivatives in the banking book.
B.3	General Provisions	Provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses that subsequently materialise and therefore qualify for inclusion within Tier 2 capital. Provisions ascribed to identified deterioration of particular assets or known liabilities, whether individual or grouped, should be excluded. However, <b>general provisions/general loan-loss reserves eligible for inclusion in Tier 2 capital will be limited to a maximum of 1.25 % of weighted risk assets</b> – the excess will be deducted automatically in B.8.1.

Item	Description	Guidance
B.4	Hybrid Debt/Equity instruments	<p>This heading includes a range of instruments which combine characteristics of equity capital and of debt. They should meet the following requirements:</p> <ul style="list-style-type: none"> <li>• They are unsecured, subordinated and fully paid-up;</li> <li>• They are not redeemable without the prior consent of the Commission;</li> <li>• They are available to participate in losses without the bank being obliged to cease trading (unlike conventional subordinated debt);</li> <li>• Although the capital instrument may carry an obligation to pay interest that cannot permanently be reduced or waived (unlike dividends on ordinary shareholders' equity), it should allow service obligations to be deferred (as with cumulative preference shares) where the profitability of the bank would not support payment.</li> </ul> <p>Cumulative preference shares, which have these characteristics, would be eligible for inclusion in this category, as would perpetual subordinated debt. Debt capital instruments which do not meet these criteria may be eligible for inclusion in item B.5.</p>
B.5	Subordinated term debt	<p>Report unsecured subordinated debt capital instruments with a minimum original fixed term to maturity of over five years and limited life redeemable preference shares.</p> <p>Also report here perpetual unsecured subordinated debt capital instruments and preference shares which do not meet the criteria for inclusion in item B.4.</p> <p>During the last five years to maturity, a cumulative discount (or amortisation) factor of 20% per year must be applied to reflect the diminishing value of these instruments as a continuing source of support (see B.8.2).</p> <p>Unlike instruments included in item B.4, these instruments are not normally available to participate in the losses of a bank which continues trading. For this reason these instruments will be <b>limited to a maximum of 50% of Tier 1 capital</b> (any excess will be calculated automatically and shown as a deduction in B.8.3).</p>
B.6	Minority interests in Tier 2	<p>In a similar fashion to A.5, report here minority interests that by their nature fall within Tier 2 capital – for example, reserves attributable to minority shareholders.</p>
<b>B.7</b>	<b>Total</b>	<b>Automatically completed, being the sum of B.1 to B.6.</b>

<b>B.8</b>	<b>Less: (adjustments to capital)</b>		
B.8.1	Excess General Provisions	<b>Automatically completed, being the amount by which General Provisions (B.3) exceeds total credit risk RWA</b>	
B.8.2	Amortisation on Tier 2 subordinated debt	Report the total of all discounts required for the amortisation of term debt (see B.5) in accordance with the following table (arranged by residual maturity):	
		Over 4 years.	0% of nominal.
		3 years plus to 4 years.	20% of nominal.
		2 years plus to 3 years.	40% of nominal.
		1 year plus to 2 years.	60% of nominal.
		Less than 1 year.	80% of nominal.
B.8.3	Excess Tier 2 subordinated debt	<b>Automatically completed, being the amount by which Subordinated Debt after amortisation (B.5 minus B.8.2) exceeds 50% of Tier 1 Capital</b>	
B.8.4	Excess Tier 2	<b>Automatically completed, being the amount by which Tier 2 capital after all other deductions (B.7 minus B.8.1, B.8.2 and B.8.3) exceeds Tier 1 Capital.</b>	
	<b>Total deductions:</b>	<b>Automatically completed, being the sum of B.8.1 to B.8.4.</b>	
	<b>TOTAL</b>	<b>Automatically completed, being B.7 less total deductions.</b>	

Item	Description	Guidance
<b>C</b>	<b>Deductions from Capital</b>	
C.1	Investment in Subsidiaries	<p><b>Automatically completed from Item E.6.9 in the Assets sheet of Module 6.</b></p> <p>Investments in subsidiary and associated companies. Such companies include:</p> <ul style="list-style-type: none"> <li>(a) The reporting bank’s ultimate parent;</li> <li>(b) All subsidiaries of that ultimate parent;</li> <li>(c) All companies with whom the reporting bank has entered into a joint venture, together with the joint venture itself and any subsidiaries of it;</li> <li>(d) All companies where the reporting bank is a significant shareholder and holds over 20% of that company’s share capital; and</li> <li>(e) All companies where the reporting bank exercises management control.</li> </ul>
C.2	Capital connected loans	<p><b>Automatically completed from Item E.5.7 in the Assets sheet of Module 6.</b></p> <p>Lending of a capital nature to subsidiary and associated companies other than that reported in C.1.</p>
C.3	Holdings of banks’ capital instruments	<p><b>Automatically completed from Items E.4.4 and E.6.10 in the Assets sheet of Module 6.</b></p> <p>Holdings of capital instruments issued by banks and other regulated financial services businesses.</p>
C.4	Securitisations - Equity Tranches	<p><b>Automatically completed from Items E.4.6 and E.6.12 in the Assets sheet of Module 6.</b></p> <p>Holdings of equity tranches of securitisations.</p>
C.5	Off balance sheet items of a capital nature	<p><b>Automatically completed from Items M.1 to M.9b of Module 1 (SAC) or Module 2 (SSA)</b></p> <p>Deductions required regarding off-balance sheet items, as set out further in the appropriate credit risk module.</p>
C.6	IRB deductions, including deductions for excess expected losses	<p>Report here the total deductions required regarding excess expected losses compared to provisions and other IRB deductions.</p>

Item	Description	Guidance
C.7	Other	<p>Include here any amount reported in line E.6.10 plus any significant (minority and/or majority) investments in commercial entities (those which exceed materiality levels). For such commercial entities the amount that should be deducted from banks' capital is determined by the following materiality levels:</p> <p>(a) 15% of the bank's capital for individual investments in commercial entities; and</p> <p>(b) 60% of the bank's capital for the aggregate of such investments.</p> <p>The amount to be deducted will be that portion of the investment that exceeds the materiality level.</p>
	<b>TOTAL</b>	<b>Automatically completed, being the sum of C.1 to C.7.</b>

Item	Description	Guidance
<b>D</b>	<b>Capital after deductions</b>	
D.1.1	Tier 1 Capital	<b>Automatically completed, being the total from Table A.</b>
D.1.2	Deductions pro rata	<b>Automatically completed from the total of capital deductions (from Table C) minus the amount deducted from Tier 2 capital (D.2.2).</b>
<b>D.1</b>	<b>Net Tier 1 capital</b>	<b>Automatically completed, being D.1.1 minus D.1.2.</b>
D.2.1	Tier 2 Capital	<b>Automatically completed, being the total from Table B.</b>
D.2.2	Deductions pro rata	<b>Automatically completed, being the total of capital deductions (from Table C) divided by 2, limited to ensure that this deduction does not exceed the amount of Tier 2 capital (D.2.1).</b>
<b>D.2</b>	<b>Net Tier 2 capital</b>	<b>Automatically completed, being D.2.1 minus D.2.2.</b>
	<b>ADJUSTED CAPITAL BASE (Tiers 1&amp;2)</b>	<b>Automatically completed, being D.1 plus D.2.</b>

## SECTION 3 BALANCE SHEET ASSETS

### Categorisation

3.1 The designation of an asset as marketable means:

- Prices are regularly quoted for the asset;
- The asset is regularly traded;
- The asset is readily sold, including by repo, either on an exchange, or in a deep and liquid market, for payment in cash; and
- Settlement is made according to a prescribed timetable, rather than a negotiated timetable.

### Detailed guidance

Item	Description	Guidance
<b>E.1 Cash</b>		
E.1.1	Notes and coins	Notes and coins held by the bank.
E.1.2	Cash items in the course of collection	The amount of cheques, drafts and other items drawn on other banks that will be paid for the account of the reporting institution immediately upon presentation and that are in the process of collection.
E.1.3	Gold	Gold held by the bank.
E.1.4	<b>SUBTOTAL</b>	<b>Total for “E.1 Cash”, automatically completed as the sum of E.1.1 to E.1.3.</b>
<b>E.2 Loans to banks</b>		
E.2.1	Loans to Parent	Loans to parent banks of the reporting bank.
E.2.2	Loans to other group entities	Loans to entities in the same group as the reporting bank. An entity is considered to be in the same group as the reporting bank if it is a subsidiary of the ultimate parent of the reporting bank or the ultimate parent of the reporting bank is a subsidiary of that group entity.
E.2.3	Loans to other banks	Loans to all other banks.

Item	Description	Guidance
<b>E.2.4</b>	<b>SUBTOTAL</b>	<b>Total for “E.2 Loans to banks”, automatically completed as the sum of E.2.1 to E.2.3.</b>
<b>E.3</b>	<b>Marketable Assets</b>	
E.3.1	Government debt	Holdings Government debt issues that are marketable.
E.3.2	Public Sector Entity debt	Holdings of PSE debt issues that are marketable.
E.3.3	Parent issued CDs, CP and FRNs	Marketable holdings of CDs, CP and FRNs that are issued by the parent bank of the reporting bank.
E.3.4	Other group - bank issued CDs, CP and FRNs	Marketable holdings of CDs, CP and FRNs that are issued by banks in the same group as the reporting bank other than its parent bank.
E.3.5	Other bank issued CDs, CP and FRNs	Marketable holdings of CDs, CP and FRNs that are issued by other banks.
E.3.6	Other CP	Holdings of marketable CP issued by corporates.
E.3.7	Debt to parent	Marketable holdings of debt not covered by E.3.3 issued by parent banks of the reporting bank.
E.3.8	Other group bank debt	Marketable holdings of debt not covered by E.3.4 issued by banks in the same group as the reporting bank.
E.3.9	Other bank debt	Marketable holdings of debt not covered by E.3.5 issued by other banks.
<b>E.3.10</b>	<b>SUBTOTAL</b>	<b>Total for “E.3 Marketable Assets”, automatically completed as the sum of E.3.1 to E.3.9</b>
<b>E.4</b>	<b>Other Marketable Assets</b>	
E.4.1	Debt - group non-banking entities	Marketable holdings of debt issued by non-banking companies in the same group as the reporting bank.

<b>Item</b>	<b>Description</b>	<b>Guidance</b>
E.4.2	Debt - Corporate	Marketable holdings of debt issued by other non-banking companies.
E.4.3	Debt - Securitisation exposures - non equity	Marketable holdings of securitisation tranches, other than equity tranches.
E.4.4	Bank equity holdings	Marketable holdings of capital instruments, including equity, issued by banks.
E.4.5	Corporate equity holdings	Marketable holdings of equity issued by non-banking companies.
E.4.6	Securitisation exposures - equity tranche holdings	Marketable holdings of the equity tranches of securitisations.
	<b>SUBTOTAL</b>	<b>Total for “E.4: Marketable Assets”, automatically completed as the sum of E.4.1 to E.4.6</b>
<b>E.5</b>	<b>Loans and Advances</b>	
E.5.1	Loans to group non-banking entities	Loans to non banking companies in the same group as the reporting bank.
E.5.2	Loans to Sovereigns	Loans to sovereign governments and central banks.
E.5.3	Loans to Public Sector Entities	Loans to public sector entities.
E.5.4	Corporate Loans	All loans to companies other than those qualifying for reporting elsewhere.
E.5.5	Retail Loans	Loans to individuals and small businesses.
E.5.6	Residential mortgages	Loans secured by charges over residential property.
E.5.7	Capital Connected Loans	Loans of a capital nature.
<b>E.5.8</b>	<b>SUBTOTAL</b>	<b>Total for “E.5: Loans and Advances”, automatically completed as the sum of E.5.1 to E.5.7.</b>

<b>E.6</b>	<b>Non-marketable Investments</b>	
E.6.1	Government Debt	Non marketable holdings of debt issued by sovereigns.
E.6.2	Public Sector Entity debt	Non marketable holdings of debt issued by PSEs.
E.6.3	Debt to parent	Non marketable holdings of debt issued by parent banks of the reporting bank.
E.6.4	Other group bank debt	Non marketable holdings of debt issued by banks in the same group as the reporting bank.
E.6.5	Other bank debt	Non marketable holdings of debt issued by other banks.
E.6.6	Debt - group non-banking entities	Non marketable holdings of debt issued by non-banking companies in the same group as the reporting bank.
E.6.7	Debt - corporate	Non marketable holdings of debt issued by other non-banking companies.
E.6.8	Debt - securitisation exposures - non capital	Non marketable holdings of securitisation tranches, other than equity tranches.
E.6.9	Capital investment in subsidiaries and other associated companies	<p>Investments in subsidiary and associated companies. Such companies include:</p> <ul style="list-style-type: none"> <li>(a) The reporting bank's ultimate parent;</li> <li>(b) All subsidiaries of that ultimate parent;</li> <li>(c) All companies with whom the reporting bank has entered into a joint venture, together with the joint venture itself and any subsidiaries of it;</li> <li>(d) All companies where the reporting bank is a significant shareholder and holds over 20% of that company's share capital; and</li> <li>(e) All companies where the reporting bank exercises management control.</li> </ul>
E.6.10	Capital investment in other banks	Holdings of capital instruments issued by banks and other regulated financial services businesses.
E.6.11	Corporate equity	Non-marketable holdings of capital instruments, including equity, issued by non-banking companies.

E.6.12	Securitisation exposures - equity tranches	Marketable holdings of the equity tranches of securitisations.
<b>E.6.13</b>	<b>SUBTOTAL</b>	<b>Total for “E.6:Non-marketable Investments”, automatically completed as the sum of E.6.1 to E.6.12.</b>
<b>E.7</b>	<b>Other Financial</b>	
E.7.1	Items in suspense	Report all items in suspense.
E.7.2	Settlement Balances	Report all settlement balances due to the bank.
E.7.3	Debtors and Prepayments, interest receivable.	Report debtors and prepayments, and also interest receivable.
E.7.4	Operating leases	Report capitalised assets relating to operational leases.
E.7.5	All past due assets	Report all past due assets here (more than 90 days).
E.7.6	Other assets	Report all other assets.
<b>E.7.7</b>	<b>SUBTOTAL</b>	<b>Total for “E.7: Other Financial”, automatically completed as the sum of E.7.1 to E.7.6.</b>
<b>E.8</b>	<b>Other</b>	
E.8.1	Premises owned and occupied by the reporting bank	The reporting bank’s own premises should be included along with any property being developed for occupation. Also report here property owned by the registered person that is occupied by employees.
E.8.2	Other land and property owned by the reporting bank	Report here any other land and property owned by the reporting bank.
E.8.3	Plant, equipment, leasehold premises, and motor vehicles	Report here all other tangible fixed assets of the reporting bank.

E.8.4	Intangible assets including goodwill	Report here all intangible fixed assets of the reporting bank, including goodwill.
<b>E.8.5</b>	<b>SUBTOTAL</b>	<b>Total for “E.8: Other”, automatically completed as the sum of E.8.1 to E.8.4.</b>
	<b>TOTAL ASSETS</b>	<b>Total of amounts reported above, automatically completed as the sum of the subtotals of E.1 to E.8.</b>

## SECTION 4 BALANCE SHEET LIABILITIES

### Detailed guidance

Item	Nature of Item	Guidance
<b>F.1</b>	<b>Deposits</b>	
F.1.1	Swiss fiduciary deposits	Deposits placed with the reporting bank (normally from group banks) as “Swiss fiduciary deposits” should be reported here
F.1.2	Structure products issued (deposits)	Structured products which are issued by the bank and fall under the definition of “deposit” in the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended. Note structured products have to be “capital certain” to qualify as deposits (i.e. they must be issued with an undertaking to return to the customer an amount at least equal to their original investment).
F.1.3	All other depositors	All deposits not falling within items F.1.1 to F.1.2
<b>F.1.4</b>	<b>SUBTOTAL</b>	<b>Automatically completed, being the sum of F.1.1 to F.1.3</b>
<b>F.2</b>	<b>CDs and Other Debt</b>	
F.2.1	Certificates of deposit issued	Report here CDs issued by the reporting bank.
F.2.2	Structure products issued (non-deposits)	Structured deposits issued by the bank not reported in item F.1.2
F.2.3	Promissory notes, bills and other short term paper issued	Report here all other short term paper (less than one year) issued by the reporting bank.

<b>Item</b>	<b>Nature of Item</b>	<b>Guidance</b>
F.2.4	Non - Capital term debt issued	Report here all other debt issued by the reporting bank, other than where the debt is eligible for inclusion as regulatory capital.
<b>F.2.5</b>	<b>SUBTOTAL</b>	<b>Automatically completed, being the sum of F.2.1 to F.2.4.</b>
<b>F.3</b>	<b>Creditors &amp; Accruals etc</b>	
F.3.1	Interest payable	Report interest accrued but not paid.
F.3.2	Creditors and accruals	Report amounts owed to all creditors of the bank.
F.3.3	Current taxation	Report taxation accrued for the current year but not paid.
F.3.4	Other taxation	Report all other amounts accrued for taxation but not paid.
F.3.5	Settlement balances	Report here settlement amounts due to be paid.
F.3.6	Items in suspense	Report all amounts payable in suspense here.
F.3.7	Revenue reserves, own funds and unverified profits	Report revenue reserves, own funds and unverified profits
F.3.8	Other liabilities	Report any liability item not falling within one of the other above categories.
<b>F.3.9</b>	<b>SUBTOTAL</b>	<b>Automatically completed, being the sum of F.3.1 to F.3.8.</b>
<b>F.3.10</b>	<b>SUBTOTAL LIABILITIES</b>	<b>Automatically completed, being the sum of F.1.4, F.2.5 and F.3.9</b>  <b>This is called TOTAL LIABILITIES for branches</b>