GUIDELINES ON CAPITAL COMPONENTS

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1.0 Introduction

1.1 Regulatory capital requirements seek to ensure that risk exposures of a Labuan bank are backed by an adequate amount of high quality capital which absorbs losses on a going concern basis. This ensures the continuing ability of a Labuan bank to meet its obligations as they fall due while also maintaining the confidence of customers, depositors, creditors and other stakeholders in their dealings with the institution. Capital requirements also seek to further protect depositors and other senior creditors in a gone concern situation by promoting an additional cushion of assets that may be used to meet claims in liquidation.

1.2 The Labuan Banking Capital Adequacy Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which Labuan banks are required to operate. The framework has been developed based on internationally-agreed standards on capital adequacy promulgated by the Basel Committee on Banking Supervision (BCBS).

1.3 This document sets out the general requirements concerning regulatory capital adequacy, and the components of eligible regulatory capital. It shall be read together with the Guidelines on Risk Weighted Assets which details out the requirements for computing risk-weighted assets.

2.0 Applicability

2.1 The Guidelines is applicable to all Labuan banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA).

2.2 Under the Guidelines, the term “Labuan bank(s)” refers collectively to all Labuan banking licensees as specified under paragraph 2.1.

2.3 With the implementation of the Guidelines, the requirements under the following Guidelines will be superseded after the effective date under paragraph 4.1(ii):

(i) Guidelines on Risk-Weighted Capital Adequacy issued on 23 April 1997;

(ii) Guidelines on Risk-Weighted Capital Adequacy issued on 29 September 1997;

(iii) Guidelines on Risk-Weighted Capital Ratio (RWCR) for Subsidiary Banks issued on 10 March 2006; and

(iv) Guidelines on RWCR for Subsidiary Banks issued on 7 July 2009.

3.0 Legal Provision

3.1 The Guidelines is issued pursuant to Section 4A of the Labuan Financial Services Authority Act 1996 (LFSAA) to clarify the minimum prudential standards to be observed by Labuan banks licensed under Part VI of LFSSA.

3.2 Any Labuan banks which fail to comply with the Guidelines may be guilty of an offence punishable under Section 36B and 36G of the LFSAA.

4.0 Effective Date

4.1 The Guidelines will be implemented based on the indicated timeline and would remain effective and applicable unless amended or revoked:

(i) 1 July 2017 to 30 June 2018: one-year parallel run; and

(ii) 1 July 2018: the effective date for the compliance to the requirements.

5.0 Level of Application

5.1 A Labuan bank is required to comply with the Banking Capital Adequacy Framework at the following levels:

i. entity level[1], referring to the global operations of the Labuan bank (i.e. including its overseas branch operations) on a stand-alone basis; and

ii. consolidated level, which includes entities covered under the entity level requirement, and the consolidation[2] of all financial and non-financial subsidiaries, except insurance/takaful subsidiaries which shall be deducted in the calculation of Common Equity Tier 1 Capital[3].

5.2 Where consolidated of the subsidiaries required under paragraph 5.1(ii) is not feasible[4], Labuan bank may instead, seek Labuan FSA's approval to:

i. in the case of financial subsidiary, deduct such investments in accordance with paragraph 26.2; and

ii. in the case of non-financial subsidiary, apply a risk weight of 1250% to such investments in accordance with paragraphs 2.42 of the Guidelines on Risk Weighted Assets.

5.3 A summary of the general treatments referred to in paragraphs 5.1 to 5.2, as well as that applicable for other equity investments, is set out in **Appendix 1**.

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[1] Also referred to as the "solo" or "stand-alone" level.

[2] In accordance with the Malaysian Financial Reporting Standards (MFRS) and the international acceptable accounting standards as stipulated in the Directive on Financial Reporting Standards for Labuan Financial Institutions issued by Labuan FSA.

[3] In accordance with paragraph 26.2.

[4] For example, where non-consolidation for regulatory capital purposes is otherwise required by law.

5.4 For avoidance of doubts, Labuan banks that have been approved by Labuan FSA to conduct Islamic window operations may comply with the requirements under the Guidelines and the Guidelines on Risk Weighted Assets at the level of such windows by considering the conventional capital at parent's or head office's level, meeting the requirements as specified by Labuan FSA.

5.5 The requirements of the Guidelines are not applicable to Labuan banks operating as branches.

PART A GENERAL REQUIREMENTS

6.0 Capital adequacy ratios

6.1 A Labuan bank shall calculate its Common Equity Tier 1 (CET1) Capital, Tier 1 Capital and Total Capital Ratios in the following manner:

$$\text{CET1 Capital Ratio} = \frac{\text{CET1 Capital}}{\text{Total RWA}}$$

$$\text{Tier 1 Capital Ratio} = \frac{\text{Tier 1 Capital}}{\text{Total RWA}}$$

$$\text{Total Capital Ratio} = \frac{\text{Total Capital}}{\text{Total RWA}}$$

6.2 For the purpose of paragraph 6.1:

(a) the numerators of the capital adequacy ratios are defined in accordance with the following:

i. CET1 Capital as defined in paragraph 8.1;

ii. Tier 1 Capital shall be the sum of CET1 Capital and Additional Tier 1 Capital as defined in paragraph 9.1; and

iii. Total Capital shall be the sum of Tier 1 Capital and Tier 2 Capital as defined in paragraph 10.1;

(b) total risk-weighted assets (RWA) shall be calculated as the sum of credit RWA, market RWA, operational RWA, and large exposure risk requirements as determined in accordance with the Guidelines on Risk Weighted Assets.

(c) where applicable, the sum of credit and market RWA in paragraph 6.2(b) shall be further adjusted for investment accounts[5] which are recognised as a risk absorbent.

(d) any exposures which are deducted in the calculation of CET1 Capital, Tier 1 Capital, and Total Capital shall not be subject to any further capital charges in the computation of RWA.

7.0 Minimum capital adequacy requirements

7.1 Labuan banks shall hold and maintain, at all times, the following minimum capital adequacy ratios:

CET1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
4.5%	6.0%	8.0%

7.2 Notwithstanding paragraph 7.1, where Labuan FSA specifies in writing a higher minimum capital adequacy ratio for a Labuan bank after having regard to the specific risk profile of the Labuan bank, the Labuan bank shall hold and maintain such higher minimum capital adequacy ratio.

[5] For the avoidance of doubt, any committed but unfunded investment accounts (where actual cash has yet to be received from the Investment Account Holder) shall not qualify as risk absorbent.

PART B COMPONENTS OF CAPITAL

8.0 Common Equity Tier 1 Capital

8.1 CET1 Capital shall consist of the following:

i. ordinary shares issued by the Labuan bank that meet the criteria specified in paragraph 11.1;

ii. share premium resulting from the issue of ordinary shares;

iii. retained earnings net of any interim and/or final dividend declared[6] and any interim losses. Any quarterly interim profits may be included in CET1 Capital, subject to a review/audit by the Labuan bank's external auditors[7];

iv. other disclosed reserves[8];

v. qualifying minority interest, as determined under paragraph 14.1; and

vi. regulatory adjustments applied in the calculation of CET1 Capital, as determined in Part D.

9.0 Additional Tier 1 Capital

9.1 Additional Tier 1 Capital shall consist of the following:

i. Additional Tier 1 capital instruments issued by the Labuan bank that meet the criteria specified in paragraph 12.1, and are not included in CET1 Capital;

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6 In accordance with the international acceptable accounting standards as stipulated in the Directive on Financial Reporting Standards for Labuan Financial Institutions issued by Labuan FSA.

7 Quarterly financial statements shall be reviewed in a timely manner by the Labuan bank's approved external auditors, and no qualified opinion has been made on any of the Labuan bank's quarterly financial statements in the preceding 12 months.

8 Disclosed reserves including other accumulated comprehensive income, but excluding share premium.

ii. share premium resulting from the issue of instruments referred to in paragraph 9.1(i)[9];

iii. qualifying CET1 and Additional Tier 1 capital instruments issued by consolidated subsidiaries of the Labuan bank and held by third parties, as determined under paragraph 14.2; and

iv. regulatory adjustments applied in the calculation of Additional Tier 1 Capital, as determined in Part D.

10.0 Tier 2 Capital

10.1 Tier 2 Capital shall consist of the following:

i. Tier 2 capital instruments issued by the Labuan bank that meet the criteria specified in paragraph 13.1, and are not included in Tier 1 Capital;

ii. share premium resulting from the issue of instruments referred to in paragraph 10.1(i)[10];

iii. qualifying CET1, Additional Tier 1 and Tier 2 capital instruments issued by consolidated subsidiaries of the Labuan bank and held by third parties, as determined under paragraph 14.3;

iv. loan/financing loss provisions[11] which includes collective impairment provisions and regulatory reserves, to the extent that they are not ascribed to loans/financing classified as impaired, subject to a maximum of 1.25% of total credit RWA determined under the Standardised Approach for credit risk; and

v. regulatory adjustments applied in the calculation of Tier 2 Capital, as determined in Part D.

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[9] Share premium that is not eligible for inclusion in CET1 Capital will only be permitted to be included in Additional Tier 1 Capital if the shares giving rise to the stock surplus are permitted to be included in Additional Tier 1 Capital.

[10] Share premium that is not eligible for inclusion in Tier 1 Capital will only be permitted to be included in Tier 2 Capital if the shares giving rise to the stock surplus are permitted to be included in Tier 2 Capital.

[11] The provisions should be gross of tax effects.

PART C CRITERIA FOR INCLUSION IN CAPITAL

11.0 Ordinary shares

11.1 An ordinary share shall qualify as a CET1 capital instrument if it meets all the following criteria:

i. it is directly issued and paid-up;

ii. it represents the most subordinated claim in liquidation of the Labuan bank;

iii. ordinary shares absorb the first and proportionately greatest share of any losses as they occur, and each ordinary share absorbs losses on a going concern basis proportionately and pari passu with all ordinary shares;

iv. the paid-up amount is neither secured nor covered by a guarantee of the Labuan bank or an affiliated entity[12] or subject to any other arrangement that legally or economically enhances the seniority of the claim;

v. principal is perpetual and never repaid outside of liquidation[13];

vi. shareholders are entitled to a claim on the residual assets that is proportional with their respective share of issued capital, after all senior claims have been repaid in liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim);

vii. distributions are paid out of distributable items (including retained earnings), with the level of distributions not in any way tied or linked to the amount paid up at issuance and is not subject to a contractual cap, except to the extent that the Labuan bank is unable to pay distributions that exceed the level of distributable items;

[12] An affiliate is defined as a company that controls, or is controlled by, or is under common control with, the Labuan bank. Control of a company is defined as (1) ownership, control, or holding with power to vote 10% or more of a class of voting securities of the company; or (2) consolidation of the company for financial reporting purposes.

[13] Except for discretionary repurchases or other means of capital reduction arrangements allowable under relevant laws and regulations. Repayment of principal shall also be subject to the prior written approval of Labuan FSA.

viii. there are no circumstances under which distributions are obligatory, and non-payment is therefore not an event of default;

ix. distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made, thereby precluding any preferential distributions, including in respect of other ordinary shares;

x. the paid-up amount is recognised as equity capital for determining balance sheet insolvency;

xi. the paid-up amount is classified as equity under the international acceptable accounting standards as stipulated in the Directive on Financial Reporting Standards for Labuan Financial Institutions issued by Labuan FSA (referred to as "the acceptable FRSs");

xii. ordinary shares are clearly and separately disclosed on the Labuan bank's balance sheet;

xiii. Labuan bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the statutory contractual terms provide any feature which might give rise to such an expectation;

xiv. the purchase of ordinary share is not directly or indirectly funded by the Labuan bank;

xv. the ordinary share is not purchased by the Labuan bank or its affiliated party over which it exercises control or significant influence; and

xvi. the ordinary share is only issued with the approval of the shareholders of Labuan bank, either given directly by shareholders or, if permitted by law, given by the board of directors or by other persons duly authorised by the shareholders.

11.2 In instances where a Labuan bank issues different classes of ordinary shares with different levels of voting rights (including non-voting shares), all classes of ordinary shares must be identical in all respects except the level of voting rights in order to qualify as a CET1 capital instrument.

11.3 For the purpose of paragraph 11.1(i) where an instrument is paid-up by way of issuance of shares and not by cash (e.g. payment for take-over of another company in the form of ordinary shares), a Labuan bank is required to obtain the prior written approval of Labuan FSA to include the shares issued as regulatory capital.

12.0 Additional Tier 1 capital instruments

12.1 An instrument shall qualify as an Additional Tier 1 capital instrument if it meets all the following criteria:

i. the instrument is issued and paid-up;

ii. the instrument is subordinated to depositors, general creditors and other holders of subordinated debt of the Labuan bank;

iii. the instrument is neither secured nor covered by a guarantee of the Labuan bank or an affiliated entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors, general creditors and other holders of subordinated debt of the Labuan bank;

iv. the instrument is perpetual, and shall therefore not have a maturity date, step-up features or other incentives for the Labuan bank to redeem the instrument[14];

[14] Other incentives to redeem include a call option combined with a requirement or an investor option to convert the instrument into shares if the call is not exercised, or a call option combined with a change in the reference rate where the credit spread over the second reference rate is greater than the initial payment rate less the swap rate. For the avoidance of doubt, conversion from a fixed rate to a floating rate, or vice versa, in combination with a call option without any increase in credit spread will not in itself be viewed as an incentive to redeem.

v. the instrument may be callable at the initiative of the Labuan bank only after a minimum of five years, subject to the following conditions:

a. the exercise of a call option must receive prior written approval of Labuan FSA;

b. the Labuan bank must not do anything which creates an expectation that the call will be exercised; and

c. the call option must not be exercised unless:

i. the called instrument is replaced with capital of the same or better quality, and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Labuan bank[15]; or

ii. the Labuan bank demonstrates to the satisfaction of Labuan FSA that its capital position is and can be sustained well above the minimum capital adequacy requirements as outlined in paragraph 7.0, after the call option is exercised;

vi. any repayment of principal[16], other than through the exercise of a call option, (e.g. through repurchase) must be with the prior written approval of Labuan FSA and the Labuan bank shall not assume or create market expectations that approval will be given;

vii. dividends/coupons must be paid out of distributable items, and such distributions must meet the following conditions:

a. distributions/payments shall be at the full discretion of the Labuan bank at all times[17,18];

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15 Replacement issues can be concurrent with, but not after the instrument is called.

16 Repayments due to tax or regulatory events are permitted subject to the assessment by Labuan FSA that the Labuan bank was not in a position to anticipate the event at issuance.

17 Features such as “dividend pushers” are prohibited. An instrument with a dividend pusher obliges the issuing Labuan bank to make a dividend/coupon payment on the instrument if it has made a payment on another (typically more junior) capital instrument or share.

18 Any waived distributions/payments are non-cumulative i.e. are not required to, and must not, be made up by the Labuan bank at a later date.

b. cancellation of discretionary payments must not constitute an event of default;

c. the Labuan bank must have full access to cancelled payments to meet obligations as they fall due[19]; and

d. cancellation of distributions/payments must not impose restrictions on the Labuan bank except in relation to distributions to ordinary shareholders;

viii. the instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the credit standing of the Labuan bank or any of its affiliated entities;

ix. the instrument cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law governing the provisions of the instrument;

x. the provisions governing the instrument require the instrument to be written-off, or the instrument to be converted into ordinary shares, if the consolidated or entity level CET1 Capital Ratio of the Labuan bank[20] falls below a pre-specified level, which shall be no lower than 5.125%. The aggregate amount to be written-off or converted into ordinary shares for all these instruments, on breaching the trigger level, must at least be the amount needed to immediately restore the consolidated and entity level CET1 Capital Ratio of the Labuan bank to 5.75%. If this is not possible, then the full principal value of the instrument must be written-off or converted into ordinary shares;

xi. the instrument cannot have any features that hinder recapitalisation, such as provisions that require the Labuan bank to compensate investors if a new instrument is issued at a lower price during a specified time frame;

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19 Any structuring of bonus payment to make up for unpaid dividends is also prohibited.

20 As disclosed in its audited financial reports/statements.

xii. if the instrument is issued out of a special purpose vehicle (SPV), proceeds must be immediately available without limitation to the Labuan bank in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 Capital[21];

xiii. the purchase of the instruments is not directly or indirectly funded by the Labuan bank; and

xiv. the instrument is not purchased by the Labuan bank or its affiliated party over which it exercises control or significant influence.

13.0 Tier 2 capital instruments

13.1 An instrument shall qualify as a Tier 2 capital instrument if it meets all the following criteria:

i. the instrument is issued and paid-up;

ii. the instrument is subordinated to depositors and general creditors of the Labuan bank;

iii. the instrument is neither secured nor covered by a guarantee of the Labuan bank or an affiliated entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the Labuan bank;

iv. the instrument has an original maturity of at least five years, and there are no step-up features or other incentives for the Labuan bank to redeem the instrument;

v. the instrument may be callable at the initiative of the Labuan bank only after a minimum of five years, subject to the following conditions:

a. the exercise of a call option must receive prior written approval of Labuan FSA;

[21] For the avoidance of doubt, a capital instrument, issued out of an SPV must satisfy the requirements under paragraph 14.4 to qualify as Additional Tier 1 Capital or Tier 2 Capital (as applicable).

b. the Labuan bank must not do anything which creates an expectation that the call will be exercised[22]; and

c. the call option must not be exercised unless:

i. the called instrument is replaced with capital of the same or better quality, and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Labuan bank[23]; or

ii. the Labuan bank demonstrates that its capital position is well above the minimum capital adequacy requirements, as outlined in paragraph 7.0,after the call option is exercised;

vi. any repayment of principal, other than through the exercise of a call option, (e.g. through repurchase) must be with the prior written approval of Labuan FSA and the Labuan bank shall not assume or create market expectations that approval will be given;

vii. the holder of the capital instrument must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy or liquidation;

viii. the instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the credit standing of the Labuan bank or any of its affiliated entities;

ix. if the instrument is issued out of an SPV, proceeds must be immediately available without limitation to the Labuan bank in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 Capital[21];

x. the purchase of the instruments is not directly or indirectly funded by the Labuan bank; and

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[22] An option to call the instrument after five years but prior to the start of, or during, the period in which the instrument will be gradually derecognised will not be viewed as an incentive to redeem as long as the Labuan bank does not do anything that creates an expectation that the call will be exercised at that point.

[23] Replacement issues may be concurrent with, but not after the instrument is called.

xi. the instrument is not purchased by the Labuan bank or its affiliated party over which it exercises control and significant influence.

13.2 In the final four years of its contractual maturity, a Labuan bank shall gradually derecognise the instrument from Tier 2 Capital on a straight line basis as follows:

Years to maturity (x)	Amount recognised in Tier 2 Capital
$x > 4$	100%
$3 < x \leq 4$	80%
$2 < x \leq 3$	60%
$1 < x \leq 2$	40%
$x \leq 1$	20%

14.0 Minority interest and capital instruments issued out of consolidated subsidiaries and held by third parties

14.1 Where the minority interest arising from the issue of ordinary shares by a fully consolidated banking subsidiary[24,25] of the Labuan bank is recognised in consolidated CET1 Capital of the Labuan bank, the ordinary shares giving rise to the minority interest shall meet the criteria for inclusion in CET1 Capital[26].

14.2 For the purpose of paragraph 14.1, the amount of minority interest that will be recognised in consolidated CET1 Capital under paragraph 8.1(v) shall be calculated as follows:

$$\boxed{A - (B \times C)}$$

[24] A banking subsidiary in this paragraph shall mean to only include a deposit-taking entity that is subject to minimum prudential standards and level of supervision by an authority that subscribes to the Core Principles for Effective Banking Supervision promulgated by the BCBS. For the avoidance of doubt, this excludes the inclusion of any capital issued to third parties by non-banking subsidiaries, such as leasing, factoring or fund management companies.

[25] Where a fully-consolidated subsidiary of a Labuan bank has its own subsidiaries, the calculation of regulatory capital attributable to third parties shall be undertaken in respect of that subsidiary and its subsidiaries as a consolidated group.

[26] For the purpose of this paragraph, any reference to the term “Labuan bank” in paragraph 11.0 shall mean to refer to any “fully-consolidated banking subsidiary of the Labuan bank”.

where:

(a) total qualifying minority interest[27]

(b) surplus CET1 Capital of the subsidiary, calculated as CET1 Capital of the subsidiary[28] minus the lower of the following:

i. 4.5%[29] of the subsidiary's total RWA calculated at the entity level; or

ii. 4.5% of the portion of the Labuan bank's consolidated RWA relating to that subsidiary

(c) percentage of CET1 Capital of the subsidiary held by minority shareholders

14.3 Where Tier 1 capital instruments issued by a fully consolidated subsidiary[25,30] of the Labuan bank and held by third parties are recognised in consolidated Tier 1 Capital of the Labuan bank, the instruments shall meet the criteria for inclusion in CET1 Capital or Additional Tier 1 Capital[31], [32] .

14.4 For the purpose of paragraph 14.3, the amount of such capital that will be recognised in consolidated Tier 1 Capital shall be calculated as follows:

$$\boxed{A - (B \times C)}$$

[27] Including associated reserves, but prior to the application of regulatory adjustments.
[28] Including associated reserves and regulatory adjustments.
[29] Corresponding to the minimum CET1 capital requirement of 4.5%.
[30] For the avoidance of doubt, this includes both banking and non-banking subsidiaries, but excludes insurance/takaful subsidiaries and other subsidiaries which are not consolidated for regulatory purposes.
[31] For the purpose of this paragraph, any references to the term "Labuan bank" in paragraphs 11 and 12 shall mean to refer to any "fully-consolidated subsidiary of the Labuan bank" for purposes of this paragraph. For example, the early redemption of an instrument by a subsidiary shall be subject to the Labuan FSA's approval, in addition to that of the relevant host supervisor.
[32] A Labuan bank may recognise Shariah-compliant capital instruments issued by subsidiaries in other jurisdictions based on the Shariah views in the respective jurisdictions, unless specifically disallowed by Labuan FSA.

where:

(a) total qualifying Tier 1 capital instruments (i.e. CET1 and Additional Tier 1) of the subsidiary issued to third parties[27]

(b) surplus Tier 1 Capital of the subsidiary, calculated as Tier 1 Capital of the subsidiary[28] minus the lower of the following:

i. 6.0%[33] of the subsidiary's total RWA calculated at the entity level; or

ii. 6.0% of the portion of the Labuan bank's consolidated RWA relating to that subsidiary

(c) percentage of Tier 1 Capital of the subsidiary held by third parties

The capital that will be recognised in consolidated Additional Tier 1 Capital under paragraph 9.1(iii) shall exclude amounts recognised in consolidated CET1 Capital as calculated under paragraph 14.2.

14.5 Where total capital instruments issued by a fully consolidated subsidiary[25,30] of the Labuan bank and held by third parties are recognised in consolidated Total Capital of the Labuan bank, the instruments shall meet the criteria for inclusion in CET1 Capital, Additional Tier 1 Capital or Tier 2 Capital[32,34].

14.6 For the purpose of paragraph 14.5, the amount of such capital that will be recognised in consolidated Total Capital shall be calculated as follows:

$$\boxed{A - (B \times C)}$$

where:

(a) total qualifying capital instruments (i.e. CET1, Additional Tier 1 and Tier 2) of the subsidiary issued to third parties[27]

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[33] Corresponding to the minimum Tier 1 capital requirement of 6%.

[34] For the purpose of this paragraph, any references to the term "Labuan bank" in paragraphs 11, 12 and 13 shall mean to refer to any "fully-consolidated subsidiary of the Labuan bank" for purposes of this paragraph.

(b) surplus Total Capital of the subsidiary, calculated as Total Capital of the subsidiary[28] minus the lower of the following:

i. 8.0%[35] of the subsidiary's total RWA calculated at the entity level; or

ii. 8.0% of the portion of the Labuan bank's consolidated RWA relating to that subsidiary

(c) percentage of Total Capital of the subsidiary held by third parties

The capital that will be recognised in consolidated Tier 2 Capital under paragraph 10.1(iii) shall exclude amounts recognised in consolidated CET1 Capital as calculated under paragraph 14.2 and amounts recognised in consolidated Additional Tier 1 Capital as calculated under paragraph 14.4.

14.7 Where the capital instruments issued to third parties out of an SPV are included in entity and consolidated level Additional Tier 1 Capital or Tier 2 Capital of the Labuan bank[36]:

i. the SPV must be domiciled in Malaysia[37];

ii. the SPV must be controlled[38] and managed by the Labuan bank, and would, in accordance with the acceptable FRSs, be fully consolidated;

iii. the SPV must be set up for the sole purpose of the capital issuance for the Labuan bank[39] and does not conduct any other business or activity;

iv. the SPV must not have external creditors at any time[40];

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35 Corresponding to the minimum Total Capital requirement of 8%.

36 For the avoidance of doubt, an Additional Tier 1 and Tier 2 capital instrument issued out of an SPV pursuant to this paragraph is not subject to the treatment set out under paragraphs 14.4 and 14.6.

37 Including Labuan.

38 Use of an independent SPV is allowed in structures that require the use of such SPVs, which includes the issuance of Islamic capital instruments structured using the exchange-based contracts (e.g. *Murabahah* or *Ijarah*).

39 In addition, an SPV may be established to issue tranches of one instrument where the only change in the terms and conditions of the tranches is a variation in distribution or payments to be made on the instrument. An SPV must not issue different forms of an instrument even if they belong to the same category of capital instruments.

40 Nonetheless, this does not preclude miscellaneous creditors (e.g. tax authorities, administrators) to the extent that they are de minimis.

v. the entire proceeds from the capital issuance through the SPV[41] must be immediately available without limitation to the Labuan bank in a form which meets or exceeds all of the criteria for inclusion in Additional Tier 1 or Tier 2 Capital, as applicable; and

vi. the provisions governing the issuance of the instruments issued by the SPV and the Labuan bank must substantially be the same (e.g. maturity), and accordingly, the capital instrument issued by the SPV must meet all the relevant criteria (as required under paragraph 12.1 for Additional Tier 1 Capital and paragraph 13.1 for Tier 2 Capital) for inclusion as if the Labuan bank itself were to issue the instrument[42,43].

14.8 Where the capital instruments are issued to third parties through an SPV via a fully consolidated subsidiary of the Labuan bank[44] and included in the Labuan bank's consolidated Additional Tier 1 Capital or Tier 2 Capital in accordance with the treatment outlined in paragraphs 14.4 and 14.6, such capital instruments shall be subject to the requirements in paragraph 14.7, as if the subsidiary itself had issued the capital instruments directly to the third parties.

14.9 An illustration of the treatment for minority interest and capital instruments issued out of consolidated subsidiaries held by third parties is provided in **Appendix 2**.

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[41] This does not preclude the use of the proceeds to fund assets that relate to the operation of the SPV to the extent that they are de minimis.

[42] For example, if an SPV issues a Tier 2 capital instrument to investors and upstreams the proceeds by investing in a Tier 1 capital instrument issued by the Labuan bank, the transaction will be recognised in Tier 2 Capital.

[43] In the case of issuance of Islamic capital instruments structured using the exchange-based contracts through an SPV (e.g. *Murabahah* or *Ijarah*) or any other indirect structures (e.g. Commodity *Murabahah*), the contracts between the financial institution and the SPV or any parties involved shall be structured in a manner which in combination meets or exceeds the criteria for inclusion in capital. For example, any purchase undertaking shall be designed in a manner that does not legally or economically enhance the seniority of capital issued.

[44] The SPV must be controlled and managed by the fully consolidated subsidiary except as mentioned in footnote 38.

PART D REGULATORY ADJUSTMENTS

15.0 Goodwill and other intangibles

15.1 Goodwill, including any goodwill included in the valuation of significant capital investments in unconsolidated entities, and all other intangibles[45] must be deducted in the calculation of CET1 Capital. The full amount shall be deducted net of any associated deferred tax liability that would be extinguished if the intangible asset becomes impaired or is derecognised under the relevant acceptable FRSs.

15.2 Negative goodwill shall not be added back in the calculation of CET1 Capital.

16.0 Deferred tax assets and liabilities

16.1 Deferred tax assets (DTAs) that rely on the future profitability of the Labuan bank to be realised shall be deducted in the calculation of CET1 Capital[46]. In this regard, a DTA may be netted against its associated deferred tax liability (DTL) only if the DTA and DTL relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority. DTLs permitted to be netted against DTAs shall exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets.

16.2 Net DTLs shall not be added back in the calculation of CET1 Capital.

[45] As defined under the relevant the acceptable FRSs. This shall include mortgage servicing rights, if any.

[46] An over installment of tax or current year tax losses carried back to prior years may give rise to a claim or receivable from the government or local tax authority. Such amounts are typically classified as current tax assets for accounting purposes. As the recovery of such a claim or receivable does not rely on the future profitability of the Labuan bank, it shall be assigned the relevant sovereign risk weighting.

17.0 Property revaluation gains/losses

17.1 The amount of cumulative unrealised gains arising from the changes in the fair value or revaluation of land and buildings[47] shall be treated as follows:

i. cumulative unrealised gains shall be deducted in the calculation of CET1 Capital; and

ii. 45% of the cumulative unrealised gains shall be added back in the calculation of Tier 2 Capital[48].

17.2 The amount of cumulative unrealised losses arising from the changes in fair value or revaluation of land and buildings shall be fully recognised in the calculation of CET1 Capital.

17.3 For the purpose of recognition of cumulative unrealised gains in Tier 2 Capital in accordance with paragraph 17.1(ii) the valuation of land and buildings shall be certified by an independent professional valuer at least once every three years[49] or where there is evidence that the value has been or is likely to be substantially impaired.

18.0 Cumulative gains/losses of financial instruments classified as "available-for-sale" or "designated at fair value"

18.1 55% of cumulative unrealised gains arising from the changes in fair value of financial instruments, other than loans/financing and receivables, classified as "available-for-sale" shall be deducted in the calculation of CET1 Capital.

18.2 For loans/financing and receivables classified as "available-for-sale" or "designated at fair value", the amount of unrealised gains arising from the changes in fair value shall be fully deducted in the calculation of CET1 Capital.

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[47] Referring to the revaluation gains of properties that are subject to the acceptable FRSs. In addition, any recognition of revaluation gains of property in the retained earnings arising from the application of these FRSs are also subject to this treatment.

[48] For the avoidance of doubt, any impairment charge or accumulated amortisation/depreciation against any land and buildings is not netted against unrealised gains from any other land and buildings.

[49] For the avoidance of doubt, recognition of revaluation gains of property in the retained earnings arising from the application of acceptable of FRSs where only subject to a one-off certification by an independent professional valuer.

18.3 The amount of cumulative unrealised losses arising from the changes in fair value of financial instruments, including loans/financing and receivables, classified as "available-for-sale" shall be fully recognised in the calculation of CET1 Capital.

19.0 Cash flow hedge reserve

19.1 The amount of the cash flow hedge reserve[50] that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) shall be derecognised in the calculation of CET1 Capital. In this regard, positive amounts shall be deducted and negative amounts shall be added back in the calculation of CET1 Capital.

20.0 Regulatory reserve for loans/financing

20.1 The amount of regulatory reserve attributable to loans/financing maintained in accordance with paragraph 13.1 of the Guidelines on the Classification and Impairment Provisions for Loans / Financing for Labuan Banks shall be deducted in the calculation of CET1 Capital[51].

21.0 Valuation adjustments

21.1 The amount arising from the valuation adjustments computed in accordance with paragraphs 4.14 and 4.15 of the Guidelines on Risk Weighted Assets that exceed the valuation adjustments made under the acceptable FRSs shall be deducted in the calculation of CET1 Capital.

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[50] This treatment specifically identifies and removes the element of the cash flow hedge reserve that gives rise to artificial volatility in common equity, as the reserve only reflects the fair value of the derivative and not the changes in the fair value of the hedged future cash flow.

[51] Loan/financing loss provisions are partially recognised in Tier 2 Capital as set out in paragraph 10.1(iv).

22.0 Increase in equity capital resulting from a securitisation transaction

22.1 Any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income resulting in a gain-on-sale, shall be deducted in the calculation of CET1 Capital.

23.0 Cumulative gains/losses due to changes in own credit risk on fair valued liabilities

23.1 All unrealised fair value gains and losses on financial liabilities that are due to changes in the Labuan bank's own credit risk shall be derecognised in the calculation of CET1 Capital. In this regard, positive amounts shall be deducted and negative amounts shall be added back in the calculation of CET1 Capital.

23.2 In addition, all accounting valuation adjustments on derivatives liabilities that are due to changes in the Labuan bank's own credit risk shall be derecognised in the calculation of CET1 Capital. The offsetting between valuation adjustments that are due to changes in the Labuan bank's own credit risk and those arising from the counterparties' credit risk is not allowed.

24.0 Defined benefit pension fund assets and liabilities

24.1 For each defined benefit pension fund that is an asset on the balance sheet, the asset shall be deducted in the calculation of CET1 Capital net of any associated deferred tax liability which would be extinguished if the asset becomes impaired or derecognised under the acceptable FRSs. The amount of defined benefit pension fund liabilities, as included on the balance sheet, shall be fully recognised in the calculation of CET1 Capital.

24.2 A Labuan bank shall seek a prior written approval of Labuan FSA before the assets in the fund to which the Labuan bank has unrestricted and unfettered access can be used to offset the deduction.

24.3 For the purpose of paragraph 24.2, such offsetting assets shall be risk weighted as if they were owned directly by the Labuan bank[52].

25.0 Investments in own capital instruments

25.1 All direct, indirect[53] and synthetic[54] holdings of a Labuan bank's own capital instruments[55] in the trading and banking book[56], including any own capital instruments which the Labuan bank is contractually obliged to purchase and any other financing[57] provided for the purpose of purchasing own capital instruments, shall be deducted in the calculation of capital. In applying the deductions, Labuan banks must deduct the investment from the same component of capital for which it would qualify[58].

25.2 In instances where a Labuan bank has an indirect exposure to its own capital instrument (e.g. through an investment in a collective investment scheme or holdings of an index security), the Labuan bank shall look through the holdings to determine their underlying holdings of capital[59].

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52 This treatment addresses the concern that assets arising from pension funds may not be capable of being withdrawn and used for the protection of depositors and other creditors of a Labuan bank. The concern is that their only value stems from a reduction in future payments into the fund. The treatment allows for Labuan banks to reduce the deduction of the assets if they can address these concerns and show that the assets can be easily and promptly withdrawn from the fund.

53 Indirect holdings are exposures or parts of exposures that, if a direct holding loses its value, will result in a loss to the Labuan bank substantially equivalent to the loss in value of the direct holding. An indirect holding may arise when the Labuan bank invests in an unconsolidated intermediate entity that has an exposure to the capital of the Labuan bank itself.

54 A synthetic holding may arise when a Labuan bank invests in an instrument where the value of the instrument is directly linked to the value of the capital of the Labuan bank itself.

55 Including treasury stock.

56 With the exposure amount in trading and banking book determined in accordance with the definition of exposures under the respective credit or market risk rules. For the avoidance of doubt, the exposure amount for derivatives shall refer to the delta equivalent position and not the notional value of the financial instrument.

57 Both funded and unfunded (e.g. guarantees) exposures.

58 Unless already derecognised under the relevant the acceptable FRSs.

59 If the Labuan bank finds it operationally impractical to look through the holdings of an index security, the Labuan bank may, with the prior written approval of Labuan FSA, use a conservative estimate. The methodology for the estimate shall demonstrate that in no case will the actual exposure be higher than the estimated exposure, and the estimation should be updated at least annually to reflect the best estimates of the exposure. The full value shall be deducted in instances where this requirement cannot be met.

25.3 For the purpose of paragraph 25.1, gross long positions may be netted against gross short positions in the same underlying exposure only if the short positions involve no counterparty risk[60]. In the case of an index security, where a gross long position is netted against a short position, both positions must be in the same underlying index. In such an instance, the short position may involve counterparty risk, which will be subject to the relevant counterparty credit risk charge as calculated in accordance with **Appendix VIII** of Guidelines on Risk Weighted Assets.

26.0 Investments in the capital of unconsolidated financial and insurance/takaful entities

26.1 Investments in the capital instruments of unconsolidated financial[61], and insurance/takaful entities shall:

i. include direct, indirect[62] and synthetic[63] holdings of capital instruments. A Labuan banks shall look through indirect exposures (e.g. through an investment in a collective investment scheme or holdings of an index security) to determine its underlying holdings of capital[59];

ii. refer to the net long positions[60] in both the banking book and trading book[56]. In this regard, the gross long position can be offset against the short position in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year[64];

[60] This includes netting positions in cash instruments and derivatives over the same underlying exposures.

[61] These refer to investments in entities outside the scope of regulatory consolidation, namely those that have not been consolidated at all or have not been consolidated in such a way as to result in their assets being included in the calculation of risk-weighted assets. For the avoidance of doubt, this shall only include investments in financial and insurance/takaful subsidiaries for entity level reporting.

[62] An indirect holding may arise when a Labuan bank invests in an unconsolidated intermediate entity that has an exposure to the capital of an unconsolidated financial or insurance/takaful entity and thus gains an exposure to the capital of that financial or insurance/takaful entity.

[63] A synthetic holding may arise when a Labuan bank invests in an instrument where the value of the instrument is directly linked to the value of the capital of an unconsolidated financial or insurance/takaful entity.

[64] Any counterparty credit risk associated with short positions used to offset long positions shall remain included in the calculation of RWA.

iii. include underwriting positions held longer than five working days after the issuance date of the capital instruments[65]; and

iv. with the prior written approval of Labuan FSA and subject to conditions that Labuan FSA may specify (including the period of exclusion), exclude certain investments where these have been made in the context of resolving or providing financial assistance to reorganise a distressed institution.

26.2 The investments in the capital instruments of unconsolidated financial and insurance/takaful entities, as set forth under paragraph 26.1, shall be deducted in the calculation of capital as follows:

i. where the Labuan banks owns more than 10% of the issued ordinary share capital of a non-affiliated issuing entity, the entire amount of investments in capital instruments;

ii. where the issuing entity is an affiliate of the Labuan banks[12], the entire amount of investments in capital instruments; and

iii. where the Labuan banks does not own more than 10%[66] of the issued ordinary share capital of a non-affiliated issuing entity, the amount of all capital instruments held in excess of 10% of the Labuan banks common equity[67].

In addition, Labuan FSA will also require that all reciprocal cross holdings of capital instruments that are designed to artificially inflate the capital position of a Labuan bank be deducted.

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65 For the avoidance of doubt, underwriting positions held for five working days or less (including pre-issuance underwriting obligations) shall be risk weighted.

66 This includes the scenario where the Labuan bank does not owned any issued ordinary share capital of the issuing entity.

67 The common equity for purposes of calculating the 10% threshold shall be calculated after applying the regulatory adjustments set out in paragraphs 15 to 25 above to the sum of items set out in paragraphs 8.1(i) to (v).

26.3 In applying the deductions under paragraph 26.2, a Labuan bank shall apply the corresponding deduction approach by deducting an investment from the same component of capital for which the capital would qualify if it was issued by the Labuan bank itself. In applying the corresponding deduction approach, if the capital instrument of the entity in which the Labuan bank has invested in does not meet the criteria for inclusion in CET1 Capital, Additional Tier 1 Capital, or Tier 2 Capital of the Labuan bank, the capital is to be considered as an ordinary share for purposes of this regulatory adjustment[68] and thus deducted in the calculation of CET1 Capital.

26.4 The amount of capital holdings which is not deducted under paragraph 26.2(iii) shall continue to be risk weighted[69]. For the application of risk weighting, the amount of the holdings must be allocated on a pro-rata basis between those held below and those held above the threshold.

27.0 Other regulatory adjustments

27.1 In applying the regulatory adjustments against a particular tier of capital and if the Labuan banks does not have enough of that tier of capital to satisfy the deduction, any shortfall shall be deducted in the calculation of the next higher tier of capital[70].

27.2 Where Labuan FSA specifies in writing a specific regulatory adjustment in this framework in respect of a Labuan bank after having regard to the specific risk profile of the Labuan bank, the Labuan bank shall comply with such adjustment.

[68] An investment in an instrument issued by a regulated financial entity is not required to be deducted if that instrument is not deemed as its regulatory capital under the rules of the relevant authority.

[69] Instruments in the trading book shall be treated in accordance with the market risk rules and instruments in the banking book shall be treated in accordance with the credit risk rules.

[70] For example, if a Labuan bank does not have enough Additional Tier 1 Capital to meet the deductions, the shortfall will be deducted in the calculation of CET1 Capital.

PART E OTHER REQUIREMENTS

28.0 Disclosure requirements

28.1 The full terms and conditions[71] of all Additional Tier 1 and Tier 2 capital instruments included in regulatory capital[72] shall be made available for inspection by Labuan FSA at all times.

29.0 Regulatory process and submission requirements

29.1 A Labuan bank is required to obtain the Labuan FSA's written approval prior to issuance of regulatory capital by the Labuan banks, or issuance to third parties out of an SPV and included in entity and consolidated level Additional Tier 1 Capital or Tier 2 Capital. An application must be supplemented with the following:

i. a confirmation of compliance by the Chief Executive Officer / Principal Officer that the proposed capital instruments comply with all the criteria for inclusion in capital as set out in paragraphs 12 and 13[73];

ii. indicative issue and offering documents (e.g. prospectus, offering circular, pricing supplement, information memorandum, trust deed, loan agreement) and as soon as practicable, the final issue and offering documents.

29.2 For the purpose of paragraph 29.1, a Labuan bank shall seek Labuan FSA's approval for either an individual issuance or an issuance programme. Approval for an issuance programme allows subsequent issuances under the programmed to be deemed approved for recognition to the extent that the criteria for inclusion in capital continues to be met. A Labuan bank is however required to notify Labuan FSA prior to subsequent issuances under the approved programme.

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[71] Including any other relevant pricing supplements.

[72] For the avoidance of doubt, the terms and conditions of capital instruments issued by subsidiaries and held by third party investors shall also be disclosed to the extent that such capital is recognised at the consolidated level.

[73] This should include an annexe that sets out to demonstrate compliance with the applicable requirements by making references to the relevant parts of the offering documents.

29.3 A Labuan bank must seek Labuan FSA's written approval prior to any subsequent modification of the terms and conditions of an instrument that may affect its eligibility as regulatory capital.

29.4 A Labuan bank shall notify Labuan FSA of any capital instrument issued out of foreign subsidiaries to third parties that is included in consolidated CET1 Capital, Additional Tier 1 Capital or Tier 2 Capital. This shall be supplemented with, where available, a copy of the approval letter from the host supervisor confirming inclusion of the capital instrument in the foreign subsidiary's regulatory capital, and copies of the indicative or where available, final issue and offering documents. Likewise, for Labuan bank which operates as subsidiary belonging to foreign parent, it must notify Labuan FSA if it issues a capital instrument which is included in its parents' consolidated Additional Tier 1 Capital or Tier 2 Capital.

29.5 In addition to the requirements set forth under paragraphs 29.1 and 29.4, where a Labuan bank is required to provide Labuan FSA with an external legal opinion confirming that the instrument complies with all relevant criteria for inclusion in capital from a law firm of Labuan FSA's choice, the Labuan bank shall provide Labuan FSA with such legal opinion and the related expenses shall be borne by the Labuan bank.

29.6 A Labuan bank is required to obtain Labuan FSA's written approval prior to making any planned reduction in its capital[74], including capital instruments issued out of consolidated subsidiaries and held by third parties recognised under paragraphs 8.1(v), 9.1(iii) and 10.1(iii). The Labuan bank is required to demonstrate, through its capital plans that the planned reduction of capital results in capital levels remaining well above the minimum capital adequacy requirements and consistent with its risk profile and business plans.

[74] This includes a share buy-back or an early redemption, repurchase or repayment of a capital instrument, including through the exercise of a call option.

29.7 Regulatory applications shall be directed to:

Director
Supervision and Monitoring Department
Labuan Financial Services Authority (Labuan FSA)
Level 17, Main Office Tower,
Financial Park Complex
87000 Federal Territory of Labuan, Malaysia

Telephone no: 087 591 200
Facsimile no: 087 453 442 / 413 328
Email: *sed@labuanfsa.gov.my*

30.0 Statistical reporting requirements

30.1 A Labuan bank shall submit periodic reports on its capital adequacy ratios using the reporting templates provided by Labuan FSA.

Labuan Financial Services Authority

30 December 2016 (Revised)

23 April 1997 (1st Issued)

APPENDICES

Appendix 1 General treatment of equity investments

<table>
<tr><th colspan="2" rowspan="2">Type of Investment</th><th colspan="2">Treatment</th></tr>
<tr><th>At the entity level</th><th>At the consolidated level</th></tr>
<tr><td rowspan="2">Banks and other financial entities excluding insurance/takaful companies</td><td>Subsidiaries</td><td>Paragraph 26</td><td>Consolidate, or deduct from CET1 Capital if allowed under paragraph 5.2</td></tr>
<tr><td>Others</td><td colspan="2">Paragraph 26</td></tr>
<tr><td rowspan="2">Insurance/takaful companies</td><td>Subsidiaries</td><td colspan="2" rowspan="2">Paragraph 26</td></tr>
<tr><td>Others</td></tr>
<tr><td rowspan="2">Other commercial entities</td><td>Subsidiaries</td><td>Risk-weight at 1250%[75]</td><td>Consolidate, or risk-weight at 1250%[75] if allowed under paragraph 5.2</td></tr>
<tr><td>Others</td><td colspan="2">Risk-weight in accordance with Guidelines on Risk Weighted Assets</td></tr>
</table>

[75] In accordance with paragraph 2.42 of Guidelines on Risk Weighted Assets.

Appendix 2 Illustrative example on minority interest and capital instruments issued out of consolidated subsidiaries held by third parties

A banking group consists of two legal entities that are both banking institutions. Bank P is the parent and Bank S is the subsidiary and their unconsolidated balance sheets are set out below:

Bank P balance sheet		**Bank S balance sheet**	
Assets		**Assets**	
Loans to customers	100	Loans to customers	150
Investment in CET1 of Bank S	7		
Investment in the AT1 of Bank S	4		
Investment in the T2 of Bank S	2		
Liabilities and equity		**Liabilities and equity**	
Depositors	70	Depositors	127
Tier 2	10	Tier 2	8
Additional Tier 1	7	Additional Tier 1	5
Common equity	26	Common equity	10

The balance sheet of Bank P shows that in addition to its loans to customers, it owns 70% of the ordinary shares of Bank S, 80% of the Additional Tier 1 Capital of Bank S and 25% of the Tier 2 Capital of Bank S. The ownership of the capital of Bank S is therefore as follows:

Capital issued by Bank S			
	Amount issued to parent (Bank P)	**Amount issued to third parties**	**Total**
Common Equity Tier 1 (CET1)	7	3	10
Additional Tier 1 (AT1)	4	1	5
Tier 1 (T1)	11	4	15
Tier 2 (T2)	2	6	8
Total (TC)	13	10	23

The consolidated balance sheet of the banking group is set out below:

Consolidated balance sheet	
Assets	
Loan to customers	250
Liabilities and equity	
Depositors	197
Tier 2 issued by subsidiary to third parties	6
Tier 2 issued by parent company	10
Additional Tier 1 issued by subsidiary to third parties	1
Additional Tier 1 issued by parent company	7
Common equity issued by subsidiary to third parties (i.e. minority interest)	3
Common equity issued by parent company	26

For illustrative purposes, Bank S is assumed to have risk-weighted assets of 100. In this example, the minimum capital requirements of Bank S and the subsidiary's contribution to the consolidated requirements are the same since Bank S does not have any loans to Bank P. This means that it is subject to the following minimum capital requirements and has the following surplus capital:

Minimum and surplus capital of Bank S		
	Minimum capital	**Surplus**
CET1	4.5 (= 4.5% of 100)	5.5 (=10 – 4.5)
T1	6.0 (= 6.0% of 100)	9.0 (=10 + 5 – 6.0)
TC	8.0 (= 8.0% of 100)	15.0 (=10 + 5 + 8 – 8.0)

The following table illustrates how to calculate the amount of capital issued by Bank S to include in consolidated capital, following the calculation method set out in paragraph 14:

Bank S: amount of capital issued to third parties included in consolidated capital					
	Total amount issued (a)	**Amount issued to third parties (b)**	**Surplus (c)**	**Surplus attributable to third parties (i.e. amount excluded from consolidated capital) (d) =(c) * (b)/(a)**	**Amount included in consolidated capital (e) = (b) – (d)**
CET1	10	3	5.5	1.65	1.35
T1	15	4	9.0	2.4	1.60
TC	23	10	15.0	6.52	3.48

The following table summarises the components of capital for the consolidated group based on the amounts calculated in the table above. Additional Tier 1 is calculated as the difference between Common Equity Tier 1 and Tier 1, and Tier 2 is the difference between Total Capital and Tier 1.

	Total amount issued by parent (all of which is to be included in consolidated capital)	**Amount issued by subsidiaries to third parties to be included in consolidated capital**	**Total amount issued by parent and subsidiary to be included in consolidated capital**
CET1	**26**	**1.35**	**27.35**
AT1	7	0.17	7.17
T1	**33**	**1.60**	**34.60**
T2	10	2.30	12.30
TC	**43**	**3.48**	**46.48**