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Adopted by Regulation No. 12 of the Governor of Eesti Pank of 2 July 2002 (RTL[2] 2002, 80, 1236) which entered into force on 27 July 2002.

Prudential Ratios of Credit Institutions

Amended by the following Acts:

20.09.2002 No. 15 (RTL 2002, 112, 1623) entered into force 05.10.2002;

30.12.2002 No. 22 (RTL 2003, 3, 36) entered into force 09.01.2003;

17.03.2003 No. 5 (RTL 2003, 39, 577) entered into force 01.04.2003.

In connection with the expiry of the testing period of reports on capital adequacy and large exposures and on the basis of subsections 71 (3), 79 (1), 85 (9), 85^1 (2) and 91 (1) of the Credit Institutions Act (RT I 1999, 23, 349; 2000, 35, 222; 40, 250; 2001, 48, 268; 93, 565; 102, 672), Eesti Pank resolves:

1. To approve the “Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis” (Annex 1), “Principles of Compiling Capital Adequacy Reports of Credit Institutions on Solo and Consolidated Basis” (Annex 2) and “Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis” (Annex 3), “Principles of Calculating Investments of Credit Institutions and Procedure for

Reporting on Solo and Consolidated Basis” (Annex 4) and “Principles of Calculating Liquidity of Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis” (Annex 5).

[RTL 2002, 112, 1623; 05.10.2002]

2. Credit institutions shall submit reports approved pursuant to clause 1 of this Regulation to the Financial Supervision Authority within the terms specified in Annexes 2-5 to this Regulation.

[RTL 2002, 112, 1623; 05.10.2002]

3. The right to explain the prudential ratios of credit institutions lies with the Financial Supervision Authority.

4. [omitted from this text]

Annex 1

Approved by

Regulation No. 5

of the Governor of Eesti Pank

of 17 March 2003

Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis

Chapter I General Part

1. General

1.1 These “Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis” (hereinafter principles) are based on the following European Union directives: 1) Directive Relating to the Taking up and Pursuit of the Business of Credit Institutions (2000/12/EC, addition 2000/28/EC), 2) Directive on the Capital Adequacy of Investment Firms and Credit Institutions (93/6/EEC, additions 98/31/EC and 98/33/EC). In addition thereto, guidance documents of the Basel Committee on Banking Supervision and concepts used in international practice have been observed.

1.2 The capital adequacy ratio is a proportion which expresses the covering of risks related to the activities of a credit institution by the own funds of the credit institution.

1.3 A credit institution must monitor daily the compliance of the capital adequacy ratio and own funds with the established rules on solo and consolidated basis.

1.4 In order to determine the capital adequacy ratio, capital requirements against credit risk, interest position and equity position risk, commodity risk, settlement risk and foreign exchange risk and on credit exposures included in the trading book and exceeding the limit on large exposures shall be calculated. A capital requirement expresses the rate according to which the risk must be covered by own funds.

1.5 Pursuant to § 82 of the Credit Institutions Act, a credit institution and the companies belonging to the same consolidation group as the credit institution shall have a risk management strategy approved by the competent management body.

1.6 A credit institution shall inform the Financial Supervision Authority of risk management strategies and amendments thereto in writing prior to the implementation thereof.

1.7 The management and accounting systems of a credit institution and the companies belonging to the same consolidation group as the credit institution shall ensure the accuracy of the calculations of the capital adequacy ratio and the preparation of reports arising from these principles.

2. Definitions

2.1 "Subordinated debt" is defined pursuant to § 72^1 of the Credit Institutions Act. "Subordinated debt" shall mean a claim against a credit institution which, in the event of the dissolution of the credit institution or the declaration of the credit institution as bankrupt, is satisfied after the justified claims of all other creditors have been satisfied. In the event of bankruptcy of a credit institution, a claim arising out of a subordinated debt shall be satisfied pursuant to the provisions of § 131 of the Credit Institutions Act.

Pursuant to subsection 72[1] (2) of the Credit Institutions Act, subordinated debt may be included in the own funds of a credit institution if it meets the following conditions:

1) the credit institution does not issue a guarantee for the performance of such obligation;

2) the provisions do not include a condition pursuant to which the credit institution would, under certain circumstances, be required to repay the loan before the agreed due date, except in the case of the dissolution of the credit institution.

2.2 “Specific equity position risk” shall mean risk due to movements in the market value of an equity which is influenced by factors associated with the issuer.

2.3 “General equity position risk” shall mean risk due to movements in the market value of an equity which is influenced by factors associated with the market as a whole.

2.4 “Zone A” shall include all states which are full members of the Organisation for Economic Co-operation and Development (OECD), and states which have entered into special loan agreements with the International Monetary Fund (IMF) on the basis of the General Agreements to Borrow (GAB) of the IMF. Any country which reschedules its external sovereign debt is, however, precluded from Zone A for a period of five years.

2.5 "Zone A credit institutions" shall mean all private and public undertakings authorised in Zone A countries which conform to the definition of credit institution within the meaning of the Credit

Institutions Act, including their branches. (See also the definition of “credit institution” in clause 2.17 of this Chapter.)

2.6 "Zone B" shall comprise all countries not in Zone A (see also the definition of “Zone A” in clause 2.4 of this Chapter).

2.7 "Zone B credit institutions" shall mean all private and public sector undertakings authorised outside Zone A which conform to the definition of credit institution, including their branches (see also the definition of “credit institution” in clause 2.17 of this Chapter).

2.8 “Exchange-traded derivatives” shall mean derivative instruments the terms of which are regulated in the rules of a derivatives exchange and which are subject to daily margin requirements.

2.9 “Over-the-counter or OTC derivative instruments” shall mean derivative instruments which are not exchange-traded derivatives (see also the definition of “recognised exchanges” in clause 2.28 of this Chapter).

2.10 “Financial institutions” shall mean undertakings other than credit institutions the principal and permanent activity of which is to acquire holdings or to carry on one or more of the following activities:

1) lending;

2) leasing transactions;

3) money transmission services:

4) issue and administration of non-cash means of payment;

5) guarantees and commitments and other transactions involving off-balance-sheet items;

6) trading for their own account or for the account of clients in:

a) foreign exchange,

b) financial futures and options,

c) exchange and interest rate instruments,

d) transferable securities,

e) other money market instruments;

7) services related to the issue and sale of securities;

8) services related to advising clients on issues concerning investments and economic activities, and services related to the merger, division or acquisition of companies;

9) money broking;

10) portfolio management;

11) safekeeping and administration of securities.

2.11 “Financial instruments” shall mean all instruments which simultaneously increase the financial assets of one person and the financial obligations or own capital instruments of another person.

2.12 “Specific interest rate risk” shall mean risk due to movements in the market value of a debt instrument which is influenced by factors associated with the issuer.

2.13 “Commodity” shall mean a good which is traded in or can be traded on secondary market, for example agricultural produce, minerals (incl. oil) and precious metals (except gold in bullion form which is traded on international markets).

2.14 “Trading book” shall consist of the following positions:

1) Positions in financial instruments, commodities and commodity derivatives which are held for resale and/or which are taken on with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices, or from other price or interest-rate variations, and positions in financial instruments, commodities and commodity derivatives, arising from matched principal broking, and positions taken in order to hedge other positions of the trading book.

2) Positions arising from unsettled transactions, franchises and over-the-counter (OTC) derivative instruments, and from repurchase agreements and securities and commodities lending which are based on securities or commodities included in the trading book as defined in sub-clause 1 of this clause. The positions described above must either meet the following conditions a), b) and d) or conditions c) and d):

a) the positions are marked to market daily;

b) the agreement provides for the claims of the credit institution to be automatically and immediately offset against the claims of the client in the event of the latter's defaulting;

c) the agreement in question is entered into in the course of the principal and permanent economic or professional activities of both parties;

d) such agreements are confined to their accepted and appropriate use and artificial transactions are excluded.

3) Positions in the form of fees, commission, interest, dividends and margin on exchange-traded derivatives which are directly related to the instruments included in the trading book.

All positions in securities, commodities and derivative instruments which are marked to market daily in accordance with the risk management system shall be included in the trading book.

2.14.1 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to treat positions arising from reverse repurchase agreements and securities and commodities borrowing in the same way as the positions listed in sub-clause 2 of clause 2.14 of this Chapter.

2.15 “Position risk associated with the trading portfolio” shall consist of general risk and specific risk. General risk is the risk arising from general movements in the market. Specific risk is the risk arising from factors related to the issuer of an instrument or, in the case of a derivative, the issuer of the underlying.

2.16 “Settlement risk in the trading portfolio” shall mean risk due to unsettled transactions.

2.17 Pursuant to subsection 3 (1) of the Credit Institutions Act, “credit institution” shall mean a company the principal and permanent activity of which is to receive cash deposits and other repayable funds from the public and to grant loans for its own account and provide other financing.

2.18 “Connected counterparties” shall, pursuant to § 84 of the Credit Institutions Act, mean the managers of the credit institution, the head of the internal audit unit or the chairman of the audit committee, and the controller and persons with economic interests equivalent to those thereof, shareholders who are natural persons and have qualifying holdings in the credit institution and members of management boards or of substituting bodies of shareholders who are legal persons and have qualifying holdings in the credit institution.

2.19 “Credit risk” shall mean risk due to the non-performance of contractual obligations by the other party to a contract.

2.20 “Multilateral development banks” shall include the International Bank for Reconstruction and Development (IBRB), International Finance Corporation (IFC), Inter-American Development Bank (IADB), Asian Development Bank (AsDB), African Development Bank (AfDB), the Council of Europe Resettlement Fund, Nordic Investment Bank (NIB), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), European Investment Fund (EIF) and the Inter-American Investment Corporation.

2.21 “Group of connected persons” shall, pursuant to subsection 85 (3) of the Credit Institutions Act, include:

1) two or more persons who constitute a single risk to a credit institution or the consolidation group thereof because one of the persons, either directly or indirectly, has control over the activities of the other or others, or

2) two or more persons between whom there is no relationship specified in sub-clause 1) of this clause but who constitute a single risk to a credit institution or the consolidation group thereof because they are so interconnected that, if one of the persons were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

2.22 “Option” shall mean a contract under which the seller of the option has the obligation and the purchaser (holder) of the option has the right to purchase (call option) or sell (put option) assets at a fixed price on the maturity date of the contract (European type option) or at any time from entry into the contract until the maturity date of the contract (American type option). Option-like instruments (e.g. warrants) shall be treated in the same way as options.

2.23 “Warrant” shall mean a security which gives the holder the right to purchase assets at a fixed price until the warrant's expiry date or on the expiry date.

2.24 “Reverse repurchase agreement” shall mean an agreement in which the reporting credit institution purchases securities or commodities or rights relating to securities or commodities subject to a commitment to resell them (or substituted securities or commodities of the same description) at a specified price at an agreed time in the future.

2.25 “Repurchase agreement” shall mean an agreement in which the reporting credit institution transfers securities or commodities or rights relating to securities or commodities subject to a commitment to repurchase them (or substituted securities or commodities of the same description) at a specified price at an agreed time in the future.

2.26 "Securities of the same kind" shall include:

1) debt securities issued by the same issuer in the same issue and in the same currency with the same yield and maturity, or

2) equities which are issued by the same issuer and which, according to the articles of association or the company rules, confer the same voting power and right to the issuer's assets when these assets are distributed.

2.27 "Transaction with derivative instruments/Derivative instrument" shall mean a financial instrument:

1) the value of which changes in concert with the value of interest rates, securities, commodities, the exchange rate of foreign currencies, price index or rates index, credit rating or credit index or other similar underlying assets,

2) which does not require an initial investment or requires only a small initial investment compared to other contracts which react to market changes in a similar manner, and

3) under which the rights and obligations of the parties to the contract shall be settled in the future.

2.28 "Recognised exchanges" shall mean exchanges which are recognised by the competent authorities of the home country of the exchange and which:

1) function regularly;

2) have rules, issued or approved by the appropriate authorities of the home country of the exchange, which define the conditions for the operation of the exchange, the conditions of access to the exchange as well as the conditions that must be satisfied by the traded instruments;

3) have a clearing mechanism that provides for contracts of off-balance-sheet instruments to be subject to daily marginal requirements approved the competent authorities.

2.29 “General market interest rate risk” shall mean risk due to movements in the market value of a debt instrument which is influenced by factors associated with the market as a whole.

2.30 “Market risk” shall mean the interest position and equity position risk associated with the trading book plus the commodity risk and foreign exchange risk associated with the entire business.

2.31 “Convertible security” shall mean a security which, at the option of the holder, can be exchanged for another security, usually the equity of the issuer.

2.32 “Securities” shall be treated pursuant to § 2 of the Securities Market Act (RT I 2001, 89, 532; 2002, 23, 131; 63, 387; 102, 600; 105, 612). Each of the following is a security, even without a document being issued therefor:

1) a share or other similar tradable right;

2) a bond, convertible bond or other tradable debt obligation issued, except a security referred to in clause 5) of this list;

3) a subscription right or other tradable right granting the right to acquire securities specified in clause 1) or 2) of this list;

4) an investment fund unit;

5) a debt obligation issued for a term of up to one year, which is usually traded on the money market (money market instrument);

6) a derivative instrument;

7) a tradable depositary receipt.

2.33 “Underwriting commitments” shall mean agreements under which, prior to the subscription term, a credit institution becomes committed to subscribing a known quantity of securities which are not subscribed from an issue at an agreed price on a fixed date. The objective of such agreements is to ensure the subscription of issued securities. Underwriting commitments are included in the trading book because risk associated with such agreements exists only for a short period of time.

2.34 “Agreements of securities or commodities lending” shall mean agreements on the basis of which a credit institution transfers securities or commodities against appropriate collateral subject to a commitment that the counterparty (borrower) will return equivalent securities or commodities at the end of an agreed term or when requested to do so by the reporting credit institution (transferor of securities or commodities).

2.35 “Agreements of securities or commodities borrowing” shall mean agreements on the basis of which a counterparty transfers securities or commodities against appropriate collateral subject to a commitment that the credit institution (borrower) will return equivalent securities or commodities at the end of an agreed term or when requested to do so by the counterparty (transferor of securities or commodities).

3. Indicators for relief

3.1 A credit institution may apply to the Financial Supervision Authority for prior written consent to relieve the credit institution from the obligation to calculate capital requirements against interest position and equity position risk, commodity, settlement and credit risk associated with the trading book on solo basis or to relieve one, several or all of the companies belonging to the same consolidation group as the credit institution from the obligation to calculate capital requirements on consolidated basis. The Financial Supervision Authority shall grant its consent subject to the indicators for relief listed in clause 3.2 of this Chapter. If consent is granted, the credit institution shall calculate the capital requirements against risks associated with the trading book pursuant to Chapters II and III of these principles.

3.2 The following conditions must be met in order to be relieved from the obligation:

1) the trading-book business of the institution or company does not exceed 5 % of its total business on more than five consecutive banking days;

2) the total trading-book positions of the institution or company do not exceed 15 million euro according to the exchange rate set by Eesti Pank on more than five consecutive banking days;

3) the trading-book business of the institution or company does not in any circumstances exceed 6 % of its total business;

4) the total trading-book positions of the institution or company do not in any circumstances exceed 20 million euro according to the exchange rate set by Eesti Pank.

3.3 If the value of the trading book exceeds 6 % of total business and 20 million euro according to the exchange rate set by Eesti Pank, the capital requirements against interest position and equity position risk, commodity, options, settlement and credit risks of the trading book shall be calculated pursuant to Chapters IV-VIII of these principles. If, on more than five consecutive banking days, the value of the trading book exceeds 5 % of total business or 15 million euro according to the exchange rate set by Eesti Pank, the capital requirements against interest position and equity position risk, commodity, options, settlement and credit risks of the trading book shall be calculated pursuant to Chapters IV-VIII of these principles.

3.4 In order to calculate the ratio between the business associated with the trading book and the total business referred to in clause 3.2 of this Chapter, the size of the combined on- and off-balance-sheet business shall be used. In order to determine the size of the combined on- and off-balance-sheet business, all trading book positions, except derivative instruments included in the trading book, and other off-balance-sheet instruments, shall be valued at their market prices. Derivative instruments shall be valued based on their market prices or nominal values when the value of the trading book or size of off-balance-sheet business is determined.

3.5 The indicators which are the basis for relief from the obligation as specified in clause 3.2 of this Chapter and the value of the trading book shall be calculated daily.

4. Internal control systems

4.1 A credit institution and the companies belonging to the same consolidation group as the credit institution shall apply such risk measurement systems and reporting as to allow management bodies and persons designated by them to constantly monitor existing positions.

4.2 The internal control systems, management and accounting procedures of a credit institution and the companies belonging to the same consolidation group as the credit institution shall ensure compliance of the activities with the requirements of these principles.

5. Use of internal models upon calculation of capital requirements on market risk

5.1 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to calculate its capital requirements against market risk using its own internal model. The Financial Supervision Authority shall grant its consent subject to the following criteria:

1) the risk management system and employee qualifications of the credit institution ensure the that the selected model is implemented in accordance with all requirements;

2) the model has successfully undergone a testing period; and

3) stress testing is carried out on the model on a regular basis.

5.2 When trading in over-the-counter derivative instruments, a derivative pricing model approved by the management body of the credit institution and/or a company belonging to the same consolidation group as the credit institution shall be used. The Financial Supervision Authority has the right to verify the existence of a pricing model and the efficiency thereof.

5.3 A credit institution shall use monitoring systems which allow the continuous monitoring of risks related to derivative instruments. Credit institutions shall establish internal restrictions on risks arising from derivative instruments.

5.4 A credit institution shall notify the Financial Supervision Authority in writing of any restrictions established on risks related to instruments included in a model and amendments thereto prior to the implementation of such restrictions or amendments.

5.5 A credit institution shall notify the Financial Supervision Authority in writing of any plans to introduce new derivative instruments and submit detailed information concerning such instruments.

6. Frequency and terms of reporting

6.1 The reporting period of capital adequacy reports shall be a month on solo basis and a quarter on consolidated basis.

6.2 A credit institution shall submit a capital adequacy report on solo basis to the Financial Supervision Authority by the fifth banking day of the month following the reporting period and within an interim report on consolidated basis not later than one month after the end of the reporting period.

7. Accuracy of data

In reports, sums shall be indicated in thousands of Estonian kroons rounded to a full number. Foreign currency must be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. Foreign currency not quoted by Eesti Pank shall be converted into Estonian kroons according to the quotation for euro of the European Union of the corresponding country. Precious metals shall be converted into Estonian kroons according to the morning quotation on the London Metal Exchange expressed in US dollars as at the last banking day of the reporting period.

8. Preservation of data

Source data used for the calculation of capital adequacy and own funds shall be preserved for at least five years.

Chapter II Credit risk

1. General

1.1 The capital requirement against credit risk shall be calculated based on assets, off-balance-sheet items and derivative instruments.

1.2 If a credit institution has not been granted the consent of the Financial Supervision Authority to relieve the credit institution from the obligation to calculate capital requirements against risks associated with the instruments of the trading book referred to in clause 3 of Chapter I of these principles, the instruments included in the trading book shall be excluded upon the calculation of the capital requirement against credit risk, unless otherwise prescribed by these principles.

2. Assets

2.1 General

2.1.1 The following shall not be taken into account for the purposes of calculating credit risk:

1) assets which have already been deducted in the calculation of own funds pursuant to Chapter XI of these principles;

2) the difference between the market value and contractual value of derivative instruments reported as assets.

2.1.2 In the weighting of doubtful claims, such part of the claims that have been written off shall be taken into account. This means that the net value of those claims shall be credit risk weighted.

2.1.3 Where an asset is secured by a collateral the credit risk weighting of which is lower than the credit risk weighting of the asset, the lower credit risk weighting arising from the collateral may only be applied to that part of the asset which is fully secured. Credit risk weighting for that part of the asset which is not secured shall be determined based on the counterparty to the transaction or the type of the asset.

2.1.4 Assets shall be divided into four risk categories according to the credit risk weighting assigned to the counterparty to the transaction or the type of assets. In the case of leasing, the risk category of the object of leasing shall be determined based on the counterparty to the contract.

2.1.5 Credit risk weighted assets shall be calculated by multiplying the value of assets by the credit risk weighting applicable to the counterparty to the transaction or the type of assets.

value of assets
x
credit risk weighting applicable to counterparty to the transaction or type of assets

2.2 Risk classification of assets

Assets shall be divided into the following risk categories according to the credit risk assigned to the counterparty to the transaction or the type of assets:

2.2.1 Category I, weighting 0%

1) Cash and equivalent items. Gold in bullion form traded on international markets also belongs to this category.

2) Claims on Zone A central governments and central banks.

3) Claims carrying the explicit guarantees of Zone A central governments and/or central banks.

4) Claims on the European Communities.

5) Claims carrying the explicit guarantees of the European Communities.

6) Claims on Zone B central governments and central banks denominated and funded in the national currencies of the borrowers.

7) Claims carrying the explicit guarantees of Zone B central governments and/or central banks denominated and funded in the national currency common to the guarantor and the borrower.

8) Asset items secured by collateral in the form of Zone A central government or central bank securities or securities issued by the European Communities.

9) Claims secured by cash deposits placed with the lending credit institution or by certificates of deposit or similar instruments issued by and lodged with the latter.

10) Claims on the Estonian central government (incl. state agencies and government agencies) and the central bank of Estonia.

11) Claims carrying the explicit guarantees of the Estonian central government (incl. state agencies and government agencies) and the central bank of Estonia.

12) Claims secured by collateral in the form of securities issued by the Estonian central government or central bank of Estonia.

2.2.2 Category II, weighting 20%

1) Claims on Estonian credit institutions, except claims constituting such institutions' own funds.

2) Claims carrying the explicit guarantees of Estonian credit institutions.

3) Claims on Zone A credit institutions, except claims constituting such institutions' own funds.

4) Claims carrying the explicit guarantees of Zone A credit institutions.

5) Claims secured by cash deposits placed with Zone A credit institutions or by certificates of deposit lodged with the latter.

6) Claims on multilateral development banks.

7) Claims carrying the explicit guarantees of multilateral development banks and asset items secured by collateral in the form of securities issued by multilateral development banks.

8) Claims on Zone A regional governments and local authorities.

9) Claims carrying the explicit guarantees of Zone A regional governments or local authorities.

10) Claims on demand on Latvian and Lithuanian credit institutions.

11) Cash items in the process of collection.

2.2.3 Category III, weighting 50%

1) Claims with a maturity of up to one year on Zone B credit institutions, except claims constituting such institutions' own funds. Securities issued by Zone B credit institutions which constitute such institutions' own funds shall be weighted under Category IV.

2) Claims with a maturity of up to one year carrying the explicit guarantees of Zone B credit institutions.

3) Claims secured by mortgages of the first ranking on residential property which is or will be occupied or let by the borrower. Category III may only be assigned to such part of the claim fully secured by a mortgage that does not exceed two-thirds of the market value of the real property. This does not include loans secured by mortgages of the first ranking given to companies engaged in the purchase and sale of real estate or claims secured by pledges on structures. Such loans and claims shall be weighted under Category IV.

4) Accrued income and prepayments of expenditure to be charged. Category III shall only be assigned to such accrued income and prepayments of expenditure to be charged in the case of which the credit institution is not able to determine the risk category of the counterparty to the transaction. All other accrued income and prepayments of expenditure to be charged shall be weighted on the basis of the risk category of the counterparty to the transaction.

5) Claims on the Estonian national social security fund and the Estonian health insurance fund.

6) Claims carrying the explicit guarantees of the Estonian national social security fund or the Estonian health insurance fund.

7) Claims on agencies administered by the Estonian state and government agencies and claims carrying the explicit guarantees of such agencies.

8) Claims on Estonian local governments and local government agencies and claims carrying the explicit guarantees of such agencies.

2.2.4 Category IV, weighting 100%

1) Claims on legal persons founded by the Republic of Estonia which are not listed above.

2) Privatisation vouchers of the Republic of Estonia.

3) claims with a maturity of more than one year on Zone B credit institutions.

4) Claims on Zone B central governments and central banks, except claims falling in Category I.

5) Claims on Zone B regional governments and local authorities.

6) Shares, participation and other claims constituting components of the own funds of other credit and financial institutions which are not deducted from the own funds of the reporting credit institution.

7) Claims on the private sector which do not fall in Categories I-III.

8) Tangible assets.

9) All other assets which do not fall in Categories I-III and which are not deducted from the own funds of the reporting credit institution.

3. Off-balance-sheet transactions

3.1 General

3.1.1 Off-balance-sheet transactions shall be divided into two groups according to the credit risk associated therewith. Off-balance-sheet items where credit risk equals the total value of the contract fall into Group I. Derivative instruments where the extent of credit risk depends on the maturity of the contract and fluctuations in the interest rate, foreign exchange rate and price of the security, precious metal or commodity underlying the instrument fall into Group II.

3.1.2 The following shall not be taken into account for the purposes of calculating credit risk:

1) contracts traded on recognised exchanges;

2) foreign-exchange derivatives (except contracts concerning gold) with an original maturity of fourteen calendar days or less;

3) where a credit institution calculates capital requirements against trading book risks, instruments included in the trading book on which the capital requirement against specific risk is calculated.

3.1.3 Where an off-balance-sheet item is secured by a collateral and the credit risk weighting of the collateral is lower than the credit risk weighting of the off-balance-sheet item, the lower credit risk weighting arising from the collateral may only be applied to that part of the off-balance-sheet item which is fully secured.

3.2 Off-balance-sheet transactions Group I

3.2.1 General

3.2.1.1 Off-balance-sheet items fall in Group I of off-balance-sheet transactions according to the list set out in clauses 3.2.2.1 to 3.2.2.4 of this Chapter.

3.2.1.2 In order to determine a credit risk weighted off-balance-sheet item, the value of the off-balance-sheet item shall be multiplied by the risk weighting of the transaction and the credit risk weighting of the counterparty to the transaction. The credit risk weighting of the counterparty to a transaction shall be determined pursuant to the risk classification of assets.

value of off-balance-sheet item
x
risk weighting of transaction
x
credit risk weighting of counterparty to transaction

3.2.2 Classification of Group I off-balance-sheet items

Group I off-balance-sheet items shall be divided into the following risk categories according to transaction risk:

3.2.2.1 Full risk, weighting 100%

1) Financial guarantees

This includes financial guarantees issued and standby letters of credit having the character of financial guarantees and documentary payments.

The credit risk weighting of the counterparty to a transaction shall be determined, based on the risk classification of assets, for the party for whose benefit the financial guarantee is issued.

2) Acceptances

This includes possible obligations arising from discounted acceptances. Sureties shall also be recorded here.

The credit risk weighting of the counterparty to a transaction shall be determined, based on the risk classification of assets, for the party for whose benefit the acceptance or surety is issued.

3) Transactions with recourse

This includes bonds or other assets sold to third parties pursuant to contracts, where the credit institution shall, pursuant to the contract, bear the risk of the borrower/issuer of bonds becoming insolvent or the risk that the value of the bond or other assets decreases for some other reason.

The credit risk weighting of the counterparty to a transaction shall be determined according to the weighting attached to the assets which are the object of the sale according to the risk classification of assets.

4) Forward purchase agreements concerning assets

This includes contracts whereby the credit institution undertakes to purchase securities or other assets at a stipulated date and under fixed conditions in the future and the credit institution has no obligation to resell such assets.

The credit risk weighting of the counterparty to a transaction shall be determined according to the weighting attached to the assets which are the object of the transaction according to the risk classification of assets.

5) Forward forward deposits

This includes contracts whereby the credit institution undertakes to deposit financial assets at a specified date in the future and the counterparty shall pay an agreed amount of interest on such assets in the future.

The credit risk weighting of the counterparty to a transaction shall be determined according to the weighting that would be attached to the claim for the party receiving the deposit according to the risk classification of assets.

6) Partly-paid securities

This includes such part of the nominal value or purchase price of securities which is subscribed by the credit institution but still unpaid and which shall be paid if the issuer of the security submits a corresponding request.

The credit risk weighting of the counterparty to a transaction for the unpaid portion of the securities shall be determined according to the risk weighting that would be attached to the issuer of the security pursuant to the risk classification of assets.

7) Other off-balance-sheet items carrying full risk

3.2.2.2 Medium risk, weighting 50%

1) Possible commitments associated with business and professional activity the maturity of which exceeds one year.

This includes contracts which are not financial guarantees, i.e. the performance of a client's non-monetary obligations is guaranteed. Guarantees issued for a client's payment of compensation to a third party in case goods delivered or services provided do not meet the conditions specified in the contract shall be recorded here. This includes, among other things tender guarantees, completion of customs formalities or other transactions and also standby letters of credit not having the character of financial guarantees.

The credit risk weighting of the counterparty to a transaction shall be determined based on where, pursuant to the risk classification of assets, the claim would fall for the party for whose benefit the guarantee associated with business and professional activity is issued.

2) Documentary payments

This includes various documentary payments not having the character of financial guarantees, e.g. various documentary letters of credit.

The credit risk weighting of the counterparty to a transaction shall be determined based on where, pursuant to the risk classification of assets, the claim would fall for the party for whose benefit the collateral is issued.

3) Asset repurchase agreements

This includes contracts whereby the credit institution purchases securities or other assets and which include or may include, at the request of the other party, an obligation to sell back the securities or other assets at a stipulated date and under fixed conditions in the future. The contracts shall be indicated in the agreed sell-back price or, in the absence thereof, the presumed sell-back price of the securities or other assets.

The credit risk weighting of the counterparty to a transaction shall be determined according to the weighting attached to the purchased securities or other assets according to the risk classification of assets.

4) Arranging issues of securities

This includes agreements whereby the credit institution assumes an obligation to underwrite issues of securities to be issued in the future.

The credit risk weighting of the counterparty to a transaction shall be determined based on where the issuer would fall pursuant to the risk classification of assets. .

5) Other irrevocable obligations with a maturity of more than one year

This includes a credit institution's agreements to lend unconditionally, e.g. credit lines and overdraft facilities, where a client so requests on the basis of a corresponding agreement.

The credit risk weighting of the counterparty to a transaction shall be determined according to the weighting that would be attached to the claim for the recipient of the loan according to the risk classification of assets.

6) Other off-balance-sheet items carrying medium risk

3.2.2.3 Medium/low risk, weighting 20%

Possible commitments associated with business and professional activity the maturity of which is one year or less.

This includes contracts which are not financial guarantees, i.e. the performance of a client's non-monetary obligations is guaranteed. Guarantees issued for a client's payment of compensation to a third party in case goods delivered or services provided do not meet the conditions specified in the contract shall be recorded here.

The credit risk weighting of the counterparty to a transaction shall be determined, based on the risk classification of assets, for the party for whose benefit the collateral is issued.

3.2.2.4 Low risk, weighting 0%

All other obligations with an original maturity of up to one year or contracts which the credit institution may cancel at any time. This includes contracts which may be extended without entry into a new contract provided that the following conditions are met with:

1) the credit institution has the right to terminate the contract not later than one year after entry into the contract or in accordance with the conditions for the extension of the contract set out in clause 2), and

2) the client's solvency shall be checked upon the extension of the contract in the same manner as it is checked upon entry into a new contract and a separate written document shall be prepared for the extension of the contract.

3.3 Off-balance-sheet transactions Group II

3.3.1 General

3.3.1.1 Derivative instruments fall in Group II of off-balance-sheet transactions according to the list set out in Annex I of these principles.

3.3.1.2 In the case of the derivative instruments which fall into Group II of off-balance-sheet transactions, the credit risk of the credit institution shall not be the total value of the contract but the potential costs of replacing the contract in the event of counterparty default. Such costs depend on the maturity of the contract and fluctuations in the price of the assets underlying the contract.

3.3.1.3 The credit risk weighting of the counterparty to a derivative instruments transaction shall be determined based on the risk classification of assets, except the 100 % weightings as provided for there may be replaced by 50 % weightings.

3.3.1.4 The nominal value of foreign exchange derivatives is the amount of foreign currency underlying the derivative instrument and received by the credit institution. The nominal value of interest rate derivatives is the contractual value of the security or deposit underlying the instrument. The nominal value of security derivatives is the contractual value of the security underlying the instrument. The nominal value of commodity derivatives is the contractual value of the commodity underlying the instrument.

3.3.1.5 If the nominal value of a swap decreases as a result of repayments, the amount remaining on the reporting date shall be deemed to be the nominal value.

Swaps, the nominal value of which is decreasing as a result of repayments and where the cash flows arising from payments between the parties differ, may have different nominal values for the parties to the transaction. In such case, the higher value shall be the nominal value.

3.3.1.6 In order to calculate the credit equivalents of derivative instruments, the mark to market method or simplified approach may be used. If a credit institution calculates capital requirements against specific risks on derivative instruments included in the trading book, the institution shall use the mark to market method. The mark to market method shall also be used in the case of transactions listed in clause 3 of Annex I to these principles.

3.3.1.7 In order to use the simplified approach or change the approach used, a credit institution shall apply for the prior written consent of the Financial Supervision Authority.

3.3.2 Mark to market method

3.3.2.1 In order to determine the credit risk weighting of a derivative instrument on the basis of the mark to market method:

1) the replacement cost of the derivative instrument shall be obtained. Replacement cost means the costs incurred in the event of counterparty default if the credit institution has to enter into a new similar contract with a new price, i.e. at current market value. Thus, replacement cost shall be calculated by deducting the purchase price of a contract from the market value of the contract.

Replacement cost shall be taken into account in the calculation of credit equivalents only it has positive value;

2) potential future credit exposure shall be determined;

3) the credit equivalent shall be determined.

Future credit exposure	-	Nominal value	x	Credit conversion factor
Credit equivalent	-	Replacement cost	+	Future credit exposure
Credit risk weighted derivative instrument – Credit equivalent x Credit risk weighting of counterparty to transaction				

3.3.2.2 When determining replacement cost, the market value of the derivative instrument shall be treated as the last selling price of the last banking day of the reporting period or, if this is not possible, as the average of the last buying and selling prices of the last banking day of the reporting period. If a derivative instrument is not quoted publicly, its market value shall be treated as the book value according to the general market rate and/or the exchange rate quoted on the last banking day of the reporting period accordingly. In the case of derivative instruments tied to the Estonian kroon, a rate set by the credit institution itself based on the principle of conservatism may be used. The market value of a swap shall be treated as the current value of a new, replacement contract discounted using the commercial interest associated with the underlying assets on the last day of the reporting period.

3.3.2.3 Market value shall not be considered in the case of contracts of forward and swap transactions concluded with Eesti Pank and, therefore, such contracts have no replacement cost.

3.3.2.4 In the case of single-currency interest rate swaps involving cash flow exchanges associated with floating interest rate, only the replacement cost will be calculated.

3.3.2.5 In order to obtain a figure for potential future credit exposure, the nominal value of a derivative instrument shall be multiplied by the appropriate credit conversion factor from the table in clause 3.3.2.6 of this Chapter.

3.3.2.6 Credit conversion factors for derivative instruments when using the mark to market method.

Residual maturity	Interest-rate contracts (1)	Contracts concerning foreign-exchange rates and gold (2)	Contracts concerning securities (3)	Contracts concerning precious metals except gold (4)	Contracts concerning other commodities (5)
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year, less than five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

3.3.2.7 Forward transactions, swaps, purchased options and other similar derivatives which do not fall within categories 1-4 indicated in this table shall be treated as contracts concerning other commodities (column 5).

3.3.2.8 For contracts with multiple exchanges of principal, the amount of the instalment shall be multiplied by the appropriate credit conversion factor and the number of remaining payments still to be made according to the contract.

3.3.2.9 For contracts that are structured to settle unmatched risks following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be equal to the time until the next reset date. In the case of interest-rate contracts that meet these criteria and have a remaining maturity of over one year, the percentage shall be no lower than 0.5 %.

3.3.2.10 The maturity of a derivative instrument shall be calculated according to residual maturity (i.e. the period of time from the reporting date until the maturity date of the contract).

3.3.3 Original exposure approach

3.3.3.1 In order to determine the credit risk weighting of a derivative instrument using the original exposure approach, the credit equivalent of the derivative instrument shall be multiplied by the credit risk weighting allocated to the relevant counterparty.

Credit equivalent - Nominal value x Credit conversion factor
Credit risk weighted derivative instrument – Credit equivalent x Credit risk weighting of counterparty to transaction

3.3.3.2 In order to obtain a credit equivalent, the nominal value of a derivative instrument shall be multiplied by the appropriate factor from the table in clause 3.3.3.3 of this Chapter.

3.3.3.3 Credit conversion factors for derivative instruments when using the original exposure approach.

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates
One year or less	0.5%	2%
More than one year but not exceeding two years	1.0%	5% (2%+3%)
Additional allowance for each additional year	1.0%	3%

3.3.3.4 The maturity of interest-rate contracts shall be indicated as residual maturity (i.e. the period of time from the reporting date until the maturity date of the contract) and the maturity of contracts concerning foreign-exchange rates as original maturity (i.e. the period of time from the date of commencement of the transaction until the maturity date of the transaction).

3.4 Contractual netting

3.4.1 In the case of off-balance-sheet transactions, contractual netting is permitted to be used in the calculation of potential future credit exposure. In such cases, instead of the nominal value of every single contract, the difference between the claims and obligations arising from interconnected contracts may be taken into account in the treatment of derivative instruments.

3.4.2 Bilateral contracts for novation between a credit institution and its counterparty and other similar bilateral netting agreements are recognised as risk-reducing contractual netting.

3.4.3 Netting by novation means that mutual claims and obligations of the two parties to the contract which are in a certain currency and transferable on a certain date are automatically amalgamated with other claims and obligations in the same currency and with the same value date. Thereby a legally binding, single new contract (contract for novation) extinguishing all former contracts is created and eventually the difference between the claims and obligations arising from all contracts is transferred. Such contracts are mainly used in the case of foreign-exchange and interest-rate contracts and they are normally used for the netting of assets of the same type.

3.4.4 In addition to the provisions of clause 3.4.3 of this Chapter, a credit institution may carry out the netting of mutual obligations pursuant to other legal bilateral netting agreements (e.g. one-time agreements).

3.4.5 Contractual netting is recognised as risk-reducing under the following conditions:

1) a credit institution must have a contractual netting agreement with its counterparty which creates a single legal obligation, covering all included transactions, such that, in the event of a counterparty's failure to perform owing to default, bankruptcy, liquidation or any other similar circumstance, the credit institution would have the right to receive or an obligation to pay only the sum of differences between nominal and market value of certain transactions which are covered by contract;

2) a credit institution must have written and reasoned legal opinions prepared by an independent expert to the effect that, in the cases described in sub-clause 1) of this clause, the credit institution's claims and obligations would be limited to the net sum, as described in sub-clause 1). Any such decision must be made under the following legislation:

a) the law of the home country of the counterparty and, if a foreign branch of an undertaking is involved, also under the law of the country in which the branch is located,

b) the law that governs the individual transactions included, and

c) the law that governs any contract or agreement necessary to effect the contractual netting.

3) A credit institution must have procedures in place to ensure that the legal validity of its contractual netting is kept under review in the light of possible changes in the relevant laws.

3.4.6 A credit institution must be able to make available, at any time, to the Financial Supervision Authority the written and reasoned legal opinions prepared by an independent expert as described in sub-clause 2) of clause 3.4.5 of this Chapter together with a covering letter from the lawyers of the credit institution confirming that the conditions specified in clause 3.4.5 of this Chapter are met.

3.4.7 The Financial Supervision Authority must be satisfied, if necessary after consulting the other competent authorities concerned, that the contractual netting is legally valid. If any of the competent authorities are not satisfied that the contractual netting is legally valid, the contractual netting agreement will not be recognised as risk-reducing for either of the counterparties.

3.4.8

Contracts which contain clauses whereby a non-defaulting counterparty could make payments to the defaulter in part or have a walkaway clause are not recognised as risk-reducing.

3.4.9 Contractual-netting agreements covering foreign-exchange derivatives with an original maturity of fourteen calendar days or less, written options or similar off-balance-sheet items shall be recognised as risk-reducing. Since such contracts bear only a negligible or no credit risk, they may be excluded from the calculation of the capital requirement against credit risk.

3.4.10 If, depending on the positive or negative market value of the contracts specified in clause 3.4.9 of this Chapter, their inclusion in the calculation of capital requirements can result in an increase or decrease of the capital requirements, such contracts shall be included in the calculation of the capital requirements. The described treatment must be consistent and any changes thereto must be reasoned and documented.

3.4.11 Finding the credit equivalents of contracts for novation

3.4.11.1 In the calculation of capital requirements against risks arising from derivative instruments included in a contract for novation, the net amounts fixed by contracts for novation shall be taken into account and, thereafter, the capital requirements shall be determined according to the approach used for similar derivative instruments which are not included in netting agreements.

3.4.11.2 In the application of the mark to market method, the contract for novation is used in order to find the replacement cost, the nominal value of the transaction or the underlying . In the application of the original exposure approach, the contract for novation is used in order to find the nominal value of the transaction. The calculation principles are set out in clauses 3.3.2 and 3.3.3 of this Chapter.

3.4.12 Finding the credit equivalents of other contractual netting agreements

3.4.12.1 mark to market method in the case of netting agreements

3.4.12.1.1 The replacement cost for the contracts included in a netting agreement can be found on the basis of the hypothetical net replacement cost of the agreement and, thereafter, the same calculation principles described in clause 3.3.2 of this Chapter which are applied in the case of derivative instruments not included in a netting agreement apply. The net replacement cost obtained as a result of netting shall be included in the calculation of capital requirements only if it has positive value.

3.4.12.1.2 Having found the sum of the potential future credit exposure based on the net value of the contract or underlying, the sum must be reduced, before calculating the credit equivalent, according to the following formula:

$X_{red} = 0.4 \times X_{gross} + 0.6 \times Y \times X_{gross}$,

where:

X_{red} = the reduced figure of potential future credit exposure for all contracts with a given counterparty included in a legally valid bilateral netting agreement,

X_{gross} = the sum of the figures of potential future credit exposure for all contracts with a given counterparty and which are included ina legally valid bilateral netting agreement, and are calculated by multiplying their nominal amounts by the credit conversion factors set out in clause 3.4.12.2.3 of this Chapter,

Y = "net-to-gross ratio" which is the quotient, of the net replacement cost (numerator) and the gross replacement cost (denominator), of all contracts included in a legally valid bilateral netting agreement with a given counterparty. Net replacement cost is the net sum of the replacement costs of the transactions included in a netting agreement, taking into account the signs. In order to determine the gross replacement cost, absolute values of the replacement costs of all netted transactions shall be summed up.

3.4.12.1.3 For the calculation of the potential future credit exposure according to the formula set out in clause 3.4.12.1.2 of this Chapter, identical transactions included in the netting agreement may be taken into account as a single contract with a nominal value equivalent to the book value of net receipts. Perfectly matching contracts are forward foreign-exchange contracts or similar contracts in which the nominal value is equivalent to cash flows if the cash flows fall due on the same value date and fully or partly in the same currency.

3.4.12.2 Original exposure approach in the case of netting agreements

3.4.12.2.1 In the application of the original exposure approach, identical contracts included in netting agreements are treated as a single contract with a nominal value equivalent to the book value of net receipts. The calculation principles to be used for the calculation of the credit equivalent are described in clause 3.3.3 of this Chapter.

3.4.12.2.2 In the case of non-identical contracts included in netting agreements, the nominal amounts thereof are multiplied by the credit conversion factors given in the table set out in clause 3.4.12.2.3 of this Chapter in order to calculate the credit equivalent.

3.4.12.2.3 Credit conversion factors for all other contracts in the case of the original exposure approach

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates
One year or less	0.35%	1.50%

More than one year but not exceeding two years	0.75%	3.75%
Additional allowance for each additional year	0.75%	2.25%

3.4.12.2.4 The maturity of interest-rate contracts shall be indicated as residual maturity (i.e. the period of time from the reporting date until the maturity date of the contract) and the maturity of contracts concerning foreign-exchange rates as original maturity (i.e. the period of time from the date of commencement of the transaction until the maturity date of the transaction).

Chapter III Foreign-Exchange Risk

1. General

In the calculation of foreign-exchange risk, all on- and off-balance-sheet assets and obligations affected by changes in exchange rates shall be taken into account. Gold in bullion form which is traded on international markets is treated in a manner similar to foreign currencies. The Estonian kroon and the euro shall not be treated as foreign currencies.

2. Calculation of net open currency positions

2.1 Net open position in each currency shall be calculated separately.

2.2 In the calculation of net open positions, composite currencies shall be broken down into the component currencies according to the quotas in force.

2.3 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to treat any currencies which are subject to a legally binding intergovernmental agreement as a single currency.

2.4 The net open position shall consist of the following components:

1) the net spot position - i. e. all asset items, less all liability items, in the currency in question;

2) the net forward position - i. e. all amounts to be received under forward transactions in the given currency, less all amounts to be paid under forward transactions in the same currency, including futures and forward positions in swaps not included in the spot position;

3) guarantees in the same currency and similar instruments that are certain to be called;

4) the delta-weighted net value of the foreign-currency options. The delta-weighted value shall be calculated in accordance with Chapter VI of these principles;

5) the market value of other (excl. foreign-currency and gold) options affected by changes in the exchange rate of the currency in question.

2.5 The following may be excluded from the calculation of net open positions:

1) positions which are of a non-trading nature and which an institution has deliberately taken in order to hedge against the adverse effect of the exchange rate on its capital adequacy[1].

2) positions which have already been deducted in the calculation of own funds of the credit institution pursuant to Chapter XI of these principles.

2.6 The exclusion of positions specified in sub-clause 1 of clause 2.5 of this Chapter and any variation of the terms of their exclusion shall require the prior written consent of the Financial Supervision Authority.

2.7 Holdings in foreign credit and financial institutions which have not been deducted in the calculation of own funds of the credit institution pursuant to clause 10.3 of Chapter XI of these principles shall be taken into account in the calculation of net open currency positions in the currency in which the own capital of such institutions is fixed.

2.8 In the case of foreign-exchange risk, the open net foreign exchange position is a short position if liability items in the currency in question exceed asset items in the currency in question and a long position if asset items in the currency in question exceed liability items in the currency in question.

3. Calculation of overall net open foreign exchange position

3.1 Net short and long open positions in each currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. Foreign currency not quoted by Eesti Pank shall be converted into Estonian kroons according to the quotation for euro of the European Union of the corresponding country. Position in gold shall be converted into Estonian kroons according to the morning quotation on the London Metal Exchange expressed in US dollars as at the last banking day of the reporting period.

3.2 Net short and long open positions in foreign currencies shall then be summed separately. The net position in gold (as an absolute value) shall then be added to the higher absolute value of these two totals and, thereby, the credit institution's overall open net foreign exchange position shall be determined. Gold shall be treated in a more conservative fashion since it is subject to price fluctuations far exceeding fluctuations in the exchange rates of most foreign currencies.

4. Limits

4.1 Limits on net open currency positions

Currencies	Limit on net open currency position expressed as a percentage of net own funds
Zone B currencies (except Latvia and Lithuania)	5
Latvian lats and Lithuanian litas	10
Zone A currencies	15

4.2 The overall open net foreign exchange position shall not exceed 30 % of the net own funds of a credit institution.

4.3 If a credit institution calculates the capital requirement against options risk using the simplified approach as described in clause 2 of Chapter VI of these principles, the market value of foreign currency options shall be included in the calculation of net open currency positions in order to monitor the limits[2].

4.4 A credit institution's holdings in credit and financial institutions calculated pursuant to clause 2.7 of this Chapter shall not be taken into account in the calculation of the limits set out in clauses 4.1 and 4.2 of this Chapter.

4.5 With the prior written consent of the Financial Supervision Authority, positions obtained for covering the foreign-exchange risk arising from investments in foreign subsidiaries may be excluded from the calculation of net open currency positions in order to monitor the limits.

4.6 A credit institution shall monitor and observe the limits set out in clauses 4.1 and 4.2 of this Chapter on a daily basis. Net open currency positions and the overall open net foreign exchange position shall be brought into compliance with the requirements of Eesti Pank by the end of each banking day.

5. Calculation of capital requirement

5.1 The capital requirement against foreign-exchange risk shall not be calculated if the overall open net foreign exchange position as calculated pursuant to clause 3 of this Chapter does not exceed 2% of the net own funds of the credit institution. If the overall open net foreign exchange position exceeds 2% of the net own funds of the credit institution, the capital requirement against foreign-exchange risk shall be 10% of the overall open net foreign exchange position.

5.2 Net own funds shall be calculated pursuant to Chapter XI of these principles.

5.3 With the prior written consent of the Financial Supervision Authority, positions obtained for covering the foreign-exchange risk arising from positions deducted from the net own funds pursuant to Chapter XI of these principles may be excluded from the calculation of net open currency positions in order to calculate the capital requirement.

5.4 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to provide lower capital requirements against positions in correlated currencies.

5.5 A pair of currencies may be deemed to be closely correlated only if the likelihood of a loss occurring on equal and opposite positions in such currencies over ten consecutive banking days, which is 4% or less of the value of the matched position in question, has a probability of at least 99%, when an observation period of three years is used, or 95%, when an observation period of five years is used. The likelihood of a loss is calculated on the basis of daily exchange-rate data for the preceding three or five years.

5.6 The capital requirement on the matched net position in two correlated currencies is 5% and on unmatched net positions in two correlated currencies - 10%.

6. Other risks

Besides foreign-exchange risk, the instruments referred to in this Chapter may be associated with interest position and equity position risk, credit risk and/or commodity risk. In such case, the capital requirement against these risks shall be calculated also.

7. An example of the calculation of the overall open net foreign exchange position and the corresponding capital requirement

7.1 The net own funds of credit institution A are 3000 EEK. The converted net open currency positions of credit institution A are the following:

Long open positions in foreign currencies		Short open positions in foreign currencies		Positions in gold	
USD	80 EEK	JPY	-90 EEK	XAU	+25 EEK
GBP	70 EEK	AUD	-70 EEK	XAU	-10 EEK
		CAD	-40 EEK		

7.2 Calculation of the overall open net foreign exchange position without taking account of correlating currencies.

7.2.1 The overall open net foreign exchange position shall be calculated as follows:

1) The overall long open net foreign exchange position is +150 EEK (USD 80 + GBP 70).

2) The overall short open net foreign exchange position is -200 EEK (JPY (-90) + AUD (-70) + CAD (-40)).

3) The absolute value of the open net position in gold is 15 EEK (XAU 25 + XAU (-10)).

4) The overall open net foreign exchange position is: 200 + 15 = 215 EEK.

7.2.2 Since 2% of the net own funds of credit institution A (3000 EEK) is 60 EEK, which is less than the overall open net foreign exchange position (215 EEK), credit institution A shall calculate the capital requirement against foreign-exchange risk. The capital requirement against foreign-exchange risk of credit institution A is: 215 x 10% = 21.5 EEK.

7.3 Calculation of the overall open net foreign exchange position taking into account correlating currencies.

7.3.1 Provided that currencies USD and CAD correlate and that credit institution A has obtained the prior written consent of the Financial Supervision Authority to provide lower capital requirements against positions in correlated currencies, the overall open net foreign exchange position and the capital requirement against foreign-exchange risk shall be calculated taking into account correlating currencies.

7.3.2 The overall open net foreign exchange position shall be calculated as follows:

1) The overall long open net foreign exchange position is +110 EEK (GBP 70 + the unmatched long open net position in USD and CAD is 40 (USD 80 + CAD (-40)).

2) The overall short open net foreign exchange position is -160 EEK (JPY (-90) + AUD (-70) + the unmatched short open net position in USD and CAD is 0 (USD 80 + CAD (-40)).

3) The matched open net position in correlating currencies is 40 EEK (the matched open net position in USD and CAD is 40 (USD 80 + CAD (-40)).

4) The absolute value of the open net position in gold is 15 EEK (XAU 25 + XAU (-10)).

5) The overall open net foreign exchange position is: 160 + 15 = 175 EEK.

7.3.3 Since 2% of the net own funds of credit institution A (3000 EEK) is 60 EEK, which is less than the overall open net foreign exchange position (215 EEK), credit institution A shall calculate the capital requirement against foreign-exchange risk. Since credit institution A treated USD and CAD as correlating currencies in the calculation of the open net foreign exchange position, the institution’s capital requirement against foreign-exchange risk consists of the capital requirement on the overall open net foreign exchange position and the capital requirement on the matched and unmatched net positions in correlating currencies. The capital requirement against foreign-exchange risk of credit institution A is: (175 x 10%) + (40 x 5%) = 19.5 EEK.

Chapter IV Interest Position Risk and Equity Position Risk of Trading Book

1. General

1.1 A credit institution shall calculate the capital requirement against interest position and equity position risk if the credit institution has not been granted the consent of the Financial Supervision Authority to relieve the credit institution from the obligation to calculate capital requirements against interest position and equity position risk, settlement and credit risk associated with the trading book referred to in clause 3 of Chapter I of these principles.

1.2 The interest position and equity position risk associated with the trading book shall not be calculated on positions which have been deducted in the calculation of own funds pursuant to Chapter XI of these principles.

2. Calculation of positions

2.1 General

2.1.1 Credit institutions may net positions in securities of the same type and/or in identical derivative instruments. In the case of netting, positions in derivative instruments shall be treated as positions in the assets underlying the derivative instruments.

2.1.2 No netting shall be allowed between positions in convertible securities and positions in instruments to which such securities can be converted in the future, unless a method approved by the Financial Supervision Authority is used under which the likelihood of a particular convertible security‘s being converted is taken into account or a capital requirement to cover any loss which the conversion of the security might entail is established.

2.2 Futures, forwards and forward commitments to buy or sell debt instruments or equities

2.2.1 Futures, forwards and forward commitments to buy or sell debt instruments or equities shall be treated as combinations of long and short positions.

2.2.2 The instruments specified in clause 2.2.1 of this Chapter are divided into two positions as follows:

1) first position the maturity of which, in the case of a future, shall be the maturity date of the future and, in the case of a forward, shall be the settlement day of the forward;

2) second position the maturity of which shall be the maturity of the underlying.

2.2.3 If the maturity date of a position referred to in clause 2.2.2 of this Chapter is more than a year away, the value of the position shall be deemed to be the real or market value of the underlyings. If the maturity date of a position is less than a year away, the value of the position may be deemed to be its nominal value.

2.2.4 The purchase of an interest-rate future or a debt instrument future contract shall be treated as a combination of a short position the maturity of which is the maturity date of the future and a long position the maturity of which is the maturity of the underlyings. The purchase of an equity future is a combination of a short position the maturity of which is the maturity date of the future and the long position of the ordinary share. The short position of the equity future shall be included in the calculation of interest position risk and the long position shall be included in the calculation of equity position risk.

2.2.5 The sale of an interest-rate future or a debt instrument future contract shall be treated as a combination of a long position the maturity of which is the maturity date of the future and a short position the maturity of which is the maturity of the underlyings. The sale of an equity future is a combination of a long position the maturity of which is the maturity date of the future and the short position of the equity. The long position of the equity future shall be included in the calculation of interest position risk and the short position shall be included in the calculation of equity position risk.

2.2.6 The selling of a forward-rate agreement is a combination of a long position with a maturity date equal to the maturity of the contract, and a short position with maturity equal to the settlement date.

2.2.7 The purchasing of a forward-rate agreement is a combination of a short position with a maturity date equal to the maturity of the contract, and a long position with maturity equal to the settlement date.

2.2.8 A forward commitment to buy a debt instrument shall be treated as a combination of a short position with a maturity date equal to the settlement day of the commitment, and a long position with maturity equal to the maturity date of the debt instrument. A forward commitment to buy equities shall be treated as a combination of a short position with a maturity date equal to the settlement day of the commitment, and a long position of the equity. The short position of a forward commitment to buy equities shall be included in the calculation of interest position risk and the long position shall be included in the calculation of equity position risk.

2.2.9 A forward commitment to sell a debt instrument shall be treated as a combination of a long position with a maturity date equal to the settlement day of the commitment, and a short position with maturity equal to the maturity date of the debt instrument. A forward commitment to sell equities shall be treated as a combination of a long position with a maturity date equal to the settlement day of the commitment, and a short position of the equity. The long position of a forward commitment to sell equities shall be included in the calculation of interest position risk and the short position shall be included in the calculation of equity position risk.

2.3 Options, warrants and instruments similar to options

Positions in options, warrants and instruments similar to options and capital requirements against risks associated with them shall be calculated pursuant to Chapter VI of these principles.

2.4 Interest-rate swaps

2.4.1 An interest-rate swap under which an institution receives floating-rate interest and pays fixed-rate interest shall be treated as a combination of a long position in a floating-rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument with the same maturity as the swap itself.

2.4.2 An interest-rate swap under which an institution receives fixed-rate interest and pays floating-rate interest shall be treated as a combination of a short position in a floating-rate instrument of maturity equivalent to the period until the next interest fixing and a long position in a fixed-rate instrument with the same maturity as the swap itself.

2.5 Equity swaps

2.5.1 An equity swap under which equities are swapped shall be treated as a combination of a long position in the equities received and a short position in the equities given.

2.5.2 An equity swap under which an institution receives fixed-rate interest or floating-rate interest shall be treated as a combination of the long position in a fixed-rate or floating rate instrument with the same maturity as the swap itself or maturity equivalent to the period until the next interest fixing and the short position of the ordinary share. The long position shall be included in the calculation of interest position risk and the short position shall be included in the calculation of equity position risk.

2.5.3 An equity swap under which an institution pays fixed-rate interest or floating-rate interest shall be treated as a combination of the short position in a fixed-rate or floating rate instrument with the same maturity as the swap itself or maturity equivalent to the period until the next interest fixing and the long position of the ordinary share. The short position shall be included in the calculation of interest position risk and the long position shall be included in the calculation of equity position risk.

2.6 Use of sensitivity models upon calculation of positions

2.6.1 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to use sensitivity models to calculate positions. The Financial Supervision Authority shall grant its consent subject to the following criteria:

1) the credit institution's financial instruments must be marked to market;

2) the credit institution manages the interest-rate risk on the derivative instruments on a discounted-cash flow basis, and

3) the sensitivity model has successfully undergone a testing period.

2.6.2 Positions generated using a sensitivity model may be included in maturity-based calculations (clause 3.4 of this Chapter) and in duration-based calculations (clause 3.5 of this Chapter).

2.6.3 A sensitivity model may be used in the calculations of positions in both derivative instruments and debt instruments. Positions generated using a sensitivity model must have the same sensitivity to interest-rate changes as the underlying cash flows. Interest rates used to assess sensitivity must have the same flexibility as the interest rate of underlying assets, with at least one sensitivity point in each of the maturity bands set out in the table of clause 3.4.1 of this Chapter. Movements in sample interest rates shall be independent.

2.7 Netting of positions in derivative instruments which are debt instruments in calculation of general risk

2.7.1 If a sensitivity model is not used to calculate general risk in the course of calculating positions, any positions in derivative instruments derived from the same underlying assets may be netted provided that the following conditions are met:

1) the positions are stated in the same currency[3] and have the same nominal value;

2) the interest rates[4] do not vary by more than 15 basing points (0.15 %);

3) the next interest-fixing date for floating-rate positions or residual maturity for fixed-rate positions corresponds with the following limits:

a) less than one month from the reporting date hence: same day;

b) between one month and one year from the reporting date hence: within seven days;

c) over one year from the reporting date hence: within thirty days.

2.7.2 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to net positions in derivative instruments which are debt instruments described in clause 2.7.1 of this Chapter in the calculation of general risk.

2.8 Repurchase agreements and securities lending

The transferor of securities or guaranteed rights relating to title to securities in a repurchase agreement and the lender of securities in an agreement of securities lending shall include these securities in the calculation of its capital requirement, provided that such securities are included in the trading book, pursuant to the provisions of this Chapter.

2.9 Underwriting commitments

2.9.1 “Underwriting commitments” shall mean agreements under which, prior to the term of subscription of securities, a credit institution assumes an obligation to subscribe a predetermined maximum quantity of unsubscribed securities of the securities issue with a fixed price on an agreed date. The objective of such agreements is to ensure the subscription of issued securities. Underwriting commitments are included in the trading book because risk associated with such agreements exists only for a short period of time.

2.9.2 Since the risks associated with underwriting commitments depend on the period of time that has passed since the date of entry into force of the agreement, such agreements shall be taken into account in the calculation of the capital requirement on specific and general risk as reduced net positions.

2.9.3 The reduced net positions in underwriting commitments shall be calculated as follows:

1) the net positions shall be calculated by deducting the underwriting positions arising from underwriting commitments concluded by the credit institution for the benefit of third parties from the underwriting positions arising from commitments concluded by third parties for the benefit of the credit institution;

2) the calculated net positions shall be reduced by the reduction factors set out in the table of clause 2.9.4 of this Chapter.

2.9.4 Reduction factors for underwriting commitments

Banking day	Reduction factor
Commitments which entered into force on the same banking day	100%
Commitments which entered into force one banking day earlier	90%
Commitments which entered into force two to three banking days earlier	75%
Commitments which entered into force four banking days earlier	50%
Commitments which entered into force five banking days earlier	25%
Commitments which entered into force more than five banking days earlier	0%

3. Calculation of capital requirement against interest position risk

3.1 General

3.1.1 In the calculation of interest position risk, the following instruments which are related to interest rate risk and which are included in the trading book shall be deemed to be debt instruments:

1) debt instruments, long-term debt securities, etc;

2) non-convertible preferred securities;

3) convertible securities, incl. preferred shares and preferred debt instruments and debt instruments with embedded options;

4) mortgage-backed securities and other secured assets;

5) certificates of deposit;

6) bills of exchange;

7) commercial papers;

8) euro bonds, medium-term bonds, etc;

9) floating-rate bonds, floating rate certificates of deposit (FRCDs) etc;

10) forward foreign-exchange contracts;

11) derivative instruments derived from underlying assets which are instruments or interest rates specified above;

12) other interest rate-related instruments which are similar to the financial instruments described above.

3.1.2 Qualifying debt instruments are debt instruments which, according to the risk classification of assets set out in Chapter II of these principles, fall into category II or are subject to weighting at 20%.

3.1.3 A credit institution shall calculate the capital requirements on the debt instruments included in the trading book against general and specific risk in each individual currency[5] separately.

3.1.4 Positions must be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

3.2 Specific risk

3.2.1 The capital requirement on debt instruments against specific risk shall be calculated as follows:

1) the positions, as calculated in accordance with clause 2 of this Chapter, shall be divided into the categories set out in the table of clause 3.2.2 of this Chapter and multiplied by the corresponding capital requirements;

2) absolute values of the long and short positions which have been multiplied by capital requirements shall be summed up.

3.2.2 Categories of debt instruments and capital requirements

Categories	Capital requirements
A Debt instruments which, according to the risk classification of assets set out in Chapter II of these principles, fall into category I	0.00%
B Qualifying debt instruments (with residual maturity of up to 6	0.25%

months)	
C Qualifying debt instruments (with residual maturity of 6 to 24 months)	1.00%
D Qualifying debt instruments (with residual maturity of over 24 months)	1.60%
E Other debt instruments	8.00%

3.2.3 The following shall not be taken into account in the calculation of the capital requirement on specific risk:

1) foreign exchange, equity and commodity derivatives;

2) interest-rate forwards, futures and options;

3) interest-rate swaps where the underlyings are associated with interest rate risk[6];

4) the short position in the case of an obligation to buy a debt instrument in the future;

5) the long position in the case of an obligation to sell a debt instrument in the future.

3.2.4 Regardless of sub-clause 3 of clause 3.2.3 of this Chapter, interest-rate swaps where the interest is based on the debt instrument of a specific issuer shall be included in the calculation of specific risk.

3.3 General risk

3.3.1 The capital requirement against the general risk of debt instruments shall be calculated using either the maturity-based or duration-based method. Different methods may be used in the case of different debt instruments.

3.3.2 In order to use a duration-based method or change the method used, a credit institution shall apply for the prior written consent of the Financial Supervision Authority.

3.4 Maturity-based method

3.4.1 Maturity bands, zones and weightings of debt instruments

Zone	Maturity band			Weighting (in %)	Assumed interest rate change (in %)
	Coupon of 3% or more		Coupon of less than 3%		
(1)	(2)		(3)	(4)	(5)
One	1	0 ≤ 1 month	0 ≤ 1 month	0.00	-
	2	> 1 ≤ 3 months	> 1 ≤ 3 months	0.20	1.00
	3	> 3 ≤ 6 months	> 3 ≤ 6 months	0.40	1.00
	4	> 6 ≤ 12 months	> 6 ≤ 12 months	0.70	1.00
Two	5	> 1 ≤ 2 years	> 1.0 ≤ 1.9 years	1.25	0.90
	6	> 2 ≤ 3 years	> 1.9 ≤ 2.8 years	1.75	0.80
	7	> 3 ≤ 4 years	> 2.8 ≤ 3.6 years	2.25	0.75
Three	8	> 4 ≤ 5 years	> 3.6 ≤ 4.3 years	2.75	0.75
	9	> 5 ≤ 7 years	> 4.3 ≤ 5.7 years	3.25	0.60
	10	> 7 ≤ 10 years	> 5.7 ≤ 7.3 years	3.75	0.65
	11	> 10 ≤ 15 years	> 7.3 ≤ 9.3 years	4.50	0.60

	12	> 15 ≤ 20 years	> 9.3 ≤ 10.6 years	5.25	0.60
	13	> 20 years	> 10.6 ≤ 12.0 years	6.00	0.60
	14		> 12.0 ≤ 20.0 years	8.00	0.60
	15		> 20.0 years	12.50	0.60

3.4.2 The capital requirement on debt instruments against general risk shall be calculated as follows:

1) Positions in debt instruments shall be assigned to the appropriate maturity bands according to the conditions set out in the table of clause 3.4.1 of this Chapter. Maturity shall be determined on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the next interest rate fixation in the case of floating-rate instruments.

2) Positions in debt instruments shall be multiplied by the weighing for the maturity band in question as set out in the table of clause 3.4.1 of this Chapter.

3) The matched and unmatched positions in the maturity bands shall be calculated. To this end, the long position and short position in a band shall be compared. The position with lesser absolute value shall be the matched position in that band. The unmatched position in a band shall be calculated as the sum of the short and long weighted positions, taking into account the signs.

4) The absolute values of the matched positions in all maturity bands shall be summed up.

5) The totals of the unmatched long and short positions for the bands shall be computed separately in each of the zones.

6) The matched and unmatched positions shall be computed for each zone.

7) The matched and unmatched positions between different zones shall be computed:

a) the matched position between the unmatched positions in zones 1 and 2 shall be calculated;

b) if, as a result of the calculation described in clause a), the unmatched position falls in zone 2, the matched position between the unmatched positions in zones 2 and 3 shall be calculated;

c) if, as a result of the calculation described in clause a), the unmatched position falls in zone 1, the matched position between the unmatched positions in zones 1 and 3 shall be calculated.

8) In order to compute the unmatched position, the unmatched positions for zones calculated as a result of the calculations described in sub-clause 6 of this clause shall be summed, taking into account the signs.

3.4.3 The capital requirement against general risk on debt instruments shall be calculated as the sum of:

1) 10% of the sum of the matched positions in all maturity bands;

2) 40% of the matched position in zone 1;

3) 30% of the matched position in zone 2;

4) 30% of the matched position in zone 3;

5) 40% of the matched position between zones 1 and 2 and between zones 2 and 3;

6) 150% of the matched position between zones 1 and 3;

7) 100% of the residual unmatched positions.

3.5 Duration-based method

3.5.1 A debt instrument's yield to maturity shall be calculated on the basis of its market value. In the case of fixed-rate debt instruments, yield to maturity shall equal the discount rate that equates the sum of the present values of the cash flows of the debt instrument with the market value of the debt instrument. In the case of floating-rate debt instruments, residual maturity shall equal the period until he next interest-fixing date.

3.5.2 The modified duration of each debt instrument shall then be calculated on the basis of the following formula:

where

D - duration

Dn – modified duration

r – yield to maturity

Ct – cash flow in time t

n – number of years until maturity date of instrument

3.5.3 Each debt instrument shall be allocated to the appropriate zone on the basis of their modified duration.

Zone (1)	Modified duration in years (2)	Assumed interest rate change (in %) (3)
One	> 0 ≤ 1.0	1.0
Two	> 1.0 ≤ 3.6	0.85
Three	> 3.6 ≤	0.7

3.5.4 The duration-weighted position shall be calculated for each instrument. In order to calculate the duration-weighted position, the position in an instrument shall be multiplied by its modified duration and by the assumed interest-rate change.

3.5.5 Thereafter, the long and short positions for all zones, matched and unmatched positions for all zones and matched and unmatched positions between zones shall be calculated. Such positions shall be calculated in accordance with clause 3.4.2 of this Chapter similarly to the maturity-based method.

3.5.6 The capital requirement against the general risk on debt instruments shall be calculated as the sum of:

1) 10% of the matched position for each zone;

2) 40% of the matched positions between zones 1 and 2 and between zones 2 and 3;

3) 150% of the matched position between zones 1 and 3;

4) 100% of the residual unmatched positions.

3.6 Other debt instrument risks

Besides interest position risk, a debt instrument may be associated with settlement, credit and foreign-exchange risk. In such case, the capital requirements against these risks shall be calculated also. A credit institution shall always be able to explain to the Financial Supervision Authority whether a specific debt instrument is associated with a certain risk and if so, how is it associated with that risk.

4. Calculation of capital requirement against equity position risk

4.1 General

4.1.1 The capital requirement against equity position risk shall be calculated on shares or other holdings in the equity capital of a company and on convertible debt securities which are likely to be converted. Hereinafter such instruments shall be referred to as “equities”. Derivative instruments derived from equities or equity-indices shall be treated as equities or may be broken down into positions in each of their constituent equities.

4.1.2 Highly liquid equities are equities representing a broadly diversified equity-index.

4.1.3 the following indices are deemed to be broadly diversified equity-indices:

Australia	All Ords	USA	S&P 500
Austria	ATX	Holland	EOE25
Belgium	BEL20	Spain	IBEX35
Japan	Nikkei225	Sweden	OMX
Canada	TSE35	Switzerland	SMI
France	CAC40	Great Britain	FTSE 100
Germany	DAX	Great Britain	FTSE mid-250

4.1.4 Prior to the calculation of capital requirements against specific and general risk, equity positions shall be divided by markets (countries). The market (country) shall be determined based on the state where the issuer of equities is registered.

4.1.5 Capital requirements against specific and general risk shall be calculated separately for each market (country).

4.1.6 The gross position of a market (country) shall be the sum of the absolute values of all the equity positions of the given market (country). The net position of a market (country) shall be the sum of all the equity positions of the given market (country), taking into account the signs. In the calculation of the net position of a market (country), equity-index futures which represent broadly diversified equity-indices shall not be taken into account.

4.2 Specific risk

4.2.1 The capital requirement against specific risk on equities shall be the gross equity position multiplied by 8 %. In the calculation of specific risk, equity-index futures which represent broadly diversified equity-indices shall not be taken into account.

4.2.2 A credit institution may apply a capital requirement of 4% on gross positions in highly liquid equities, provided that the equity positions meet the following conditions:

1) no position in highly liquid equities shall comprise more than 5% of the gross position of the given market;

2) position in highly liquid equities which comprises 5-10% of the gross position of the market, provided that the gross position in such highly liquid equities does not exceed 50% of the gross position of the given market.

4.2.3 The overall capital requirement against specific risk is the sum of the absolute values of gross equity positions multiplied by the capital requirement determined pursuant to clause 4.2.1 or 4.2.2 of this Chapter, as appropriate.

4.3 General risk

4.3.1 The capital requirement against general risk on equities shall be the net position of a market (country) multiplied by 8%.

4.3.2 If a net equity position exceeds 20% of the gross position of a market (country), the net adjusted position of the market (country) shall be calculated. In order to find the net adjusted position, the absolute value of the part of the net equity position exceeding 20% of the gross position of a market (country) shall be added to the net position of a market (country).

4.3.3 The overall capital requirement against general risk is the sum of the absolute values of the net positions of all markets or net adjusted positions of all markets multiplied by the capital requirements set out in clause 4.3.1 of this Chapter.

4.4 Other equity risks

Besides position risk, equities may be associated with settlement, credit and foreign-exchange risks. In such case, the capital requirement against these risks shall be calculated also. A credit institution shall always be able to explain to the Financial Supervision Authority whether a specific equity is associated with a certain risk and if so, how is it associated with that risk.

Chapter V Commodity Risk

1. General

1.1 “Commodity” shall mean a good which is traded in or can be traded on secondary market, for example agricultural produce, minerals (incl. oil) and precious metals (except gold in bullion form which is traded on international markets).

1.2 The capital requirement against commodity risk shall be calculated on commodities and commodity derivatives. Gold in bullion form traded on international markets and derivatives of such gold shall be excluded from the calculation of the capital requirement on commodity risk. Positions in gold or gold derivatives which are excluded from the calculation of commodity risk shall be considered as being subject to foreign-exchange risk and included in the calculation of the capital requirement on foreign-exchange risk.

1.3 In order to find each position in commodities or commodity derivatives, the assets underlying the commodities or commodity derivatives shall be expressed in terms of the standard unit of measurement (barrel, kilogram, meter, etc.); thereafter, the positions shall be multiplied by the spot price in each commodity. Positions denominated in a foreign currency must be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

1.4 If commodities or commodity derivatives are associated with interest position or foreign-exchange risk, capital requirements against such risks shall be calculated in addition to the capital requirements against commodity risk.

2. Calculation of positions in commodities and commodity derivatives

2.1 The following positions shall be considered as positions in the same commodity:

1) positions in different sub-categories of commodities in cases where the sub-categories are deliverable against each other;

2) positions in similar commodities if they are close substitutes and if a minimum correlation of 0.9 between price movements can be clearly established over a minimum period of one year.

2.2 Commodity futures and forward commitments to buy or sell individual commodities shall be taken into account at their nominal value expressed in terms of the standard unit of measurement and multiplied by the spot price. The maturity date of commodity futures and forward commitments shall equal the maturity of the agreement.

2.3 Commodity swaps where one leg is a fixed price and the other the market price shall be taken into account as a series of positions, with one position corresponding with each payment on the swap. The positions would be long positions if the credit institution is paying a fixed price and receiving a floating price and short positions if the credit institution is receiving a fixed price and paying a floating price. Commodity swaps where the legs are in different commodities are to be treated as positions in different commodities.

2.4 Options on commodities or on commodity derivatives shall be treated as if they were positions equal in value to the amount of the underlying to which the option refers, multiplied by its delta. The values of positions in options shall be calculated pursuant to Chapter VI of these principles. The delta-adjusted positions in options may be netted against any positions in the identical underlying commodity or commodity derivative.

2.5 Warrants relating to commodities shall be treated in the same way as commodity options.

2.6 The transferor of commodities or guaranteed rights relating to title to commodities in a repurchase agreement and the lender of commodities in a commodities lending agreement shall calculate its capital requirement against commodity risk pursuant to this Chapter.

3. Calculation of capital requirements

3.1 The capital requirement against commodity risk shall be calculated using either the maturity-based method or simplified approach. Capital requirements shall be calculated for each commodity separately. Different approaches may be used in the case of different commodities.

3.2 In order to use the simplified approach or change the method used, a credit institution shall apply for the prior written consent of the Financial Supervision Authority.

3.3 Maturity-based method

3.3.1 All positions in a commodity shall be assigned to the appropriate maturity bands according to the table set out in clause 3.3.2 of this Chapter. Physical stocks shall be assigned to the first maturity band.

3.3.2 Maturity bands of commodity positions

Maturity band
0 <= 1 month
>1 <= 3 months
>3 <= 6 months
>6 <= 12 months
>1 <= 2 years
>2 <= 3 years
over 3 years

3.3.3 Positions in the same commodity maturing on the same date may be netted against each other. Positions may also be netted provided that they are positions in contracts maturing within ten days of each other and the contracts are traded on markets which have daily delivery dates.

3.3.4. The positions in each maturity band shall be expressed in terms of the standard unit of measurement and multiplied by the spot price of the commodity, and then converted into Estonian kroons. The sum of the long positions and the sum of the short positions in each maturity band shall then be worked out.

3.3.5 The position with lesser absolute value shall be the matched positions in a maturity band, while the residual long or short position shall be the unmatched position for the same band[7].

3.3.6 The matched and unmatched positions between bands shall be determined in a manner similar to that set out in clause 3.3.5 of this Chapter, starting with the first band. That part of the position that cannot be thus matched shall be the residual unmatched position.

3.3.7 The capital requirement for each commodity shall be calculated as the sum of:

1) 3% of the matched positions in each maturity band and the matched positions between all maturity bands;

2) 0.6% of the sum of the absolute values of all unmatched positions between all maturity bands;

3) 15% of the absolute value of the residual unmatched positions.

3.3.8 The overall capital requirement against commodity risk shall be the sum of the capital requirements on all commodities calculated pursuant to clause 3.3.7 of this Chapter.

3.4 Simplified approach

3.4.1 The difference between a credit institution's long and short positions in a commodity is the net position in the given commodity and the sum of the absolute values of long and short positions in a commodity shall be the gross position in the given commodity.

3.4.2 The capital requirement for each commodity shall be calculated as the sum of:

1) 15% of the absolute value of the long or short net position;

2) 3% of the gross position.

3.4.3 The overall capital requirement against commodity risk shall be the sum of the capital requirements on all commodities calculated pursuant to clause 3.4.2 of this Chapter.

3.5 An example of the calculation of a capital requirement using the maturity-based method

3.5.1 Positions in a commodity shall be assigned to maturity bands as follows:

Maturity band	Long position	Short position	Matched position	Unmatched position	Matched positions between bands	Unmatched positions between bands
0 <= 1 month	300	-100	100	200	0	200
>1 <= 3 months	0	-250	0	-250	200	-50
>3 <= 6 months	100	0	0	100	50	50
>6 <= 12 months	0	0	0	0	0	50
>1 <= 2 years	150	-150	150	0	0	50
>2 <= 3 years	250	0	0	250	0	300
over 3 years	0	-400	0	-400	300	-100[7]
Total:			250		550	700[8]

3.5.2 Capital requirements shall be calculated as follows:

1) the matched positions in each maturity band and the matched positions between all maturity bands shall be multiplied by 3% ((250 + 550) x 3% = 24);

2) the sum of the absolute values of all unmatched positions between all maturity bands shall be multiplied by 0.6% (700 x 0.6% = 4.2);

3) the absolute value of the residual unmatched positions shall be multiplied by 15% (100 x 15% = 15).

3.3.3 The overall capital requirement against commodity risk is 24 + 4.2 + 15 = 43.2.

Chapter VI Options Risk

1. General

1.1 The capital requirement against options risk shall be calculated for options, warrants and instruments similar to options[9].

1.2 Options risk consists of the following risks:

1) delta risk means the sensitivity of an option's price to changes in the market value of the assets underlying the option;

2) gamma is a measure of the change in delta for a change in the underlying assets;

3) vega means the sensitivity of an option's price to the volatility of the price of the underlying assets;

4) rho means the sensitivity of an option’s price to changes in interest rates;

5) theta is a measure of the passage of time affecting the value of an option;

6) dividend risk means the risk of changes in dividends on which the value of an option is based.

1.3 Credit institutions may net positions in identical options.

1.4 Capital requirements against options risk shall be calculated using either the simplified approach or the delta-plus method.

1.5 In order to use a method other than those specified in clause 1.4 of this Chapter, a credit institution shall apply for the prior written consent of the Financial Supervision Authority.

1.6 If, in addition to the risks included in the delta-plus method, rho, theta and dividend risks are also associated with options, capital requirements shall be calculated against such risks as well.

2. Simplified approach

2.1 A credit institution may calculate capital requirements using the simplified approach only if the institution’s trading book includes only purchased options.

2.2 The capital requirements calculated using the simplified approach shall be added to the capital requirements calculated against foreign-exchange risk, interest position risk, equity position risk or commodity risk based on the underlying assets of the option.

2.3 According to the type of the underlying assets of an option, the value of the underlying assets shall be multiplied by one of the following coefficients:

1) in the case of options associated with foreign currencies, the capital requirement is 10%;

2) in the case of options associated with debt instruments, the sum of the capital requirements calculated on the debt instrument against specific risk and general risk pursuant to clauses 3.2 and 3.3 of Chapter IV of these principles. The capital requirement against general risk shall be 8%;

3) in the case of options associated with interest rate and interest rate indices, 8%;

4) in the case of options associated with ordinary shares, the sum of the capital requirements calculated on the specific equity against specific risk and general risk pursuant to clauses 4.2 and 4.3 of Chapter IV of these principles;

5) in the case of options associated with commodities, 15%.

2.4 In the case of covered or naked options that are purchased, the capital requirement shall be the lowest of the prices calculated pursuant to the following clauses:

1) the market value of the underlyings to which the option refers multiplied by a coefficient specified in clause 2.3;

2) the market value of the option.

2.5 In the case of covered options that are purchased, the capital requirement shall be the difference in the prices calculated pursuant to the following clauses:

1) the market value of the underlyings to which the option refers multiplied by a coefficient specified in clause 2.3;

2) if the option is in the money, the amount the option is in the money.

2.6 In order to calculate the amount the option is in the money, the number of units of underlying assets shall be multiplied by the difference between the strike price of the option and the market price of the underlying assets or future price of the underlying assets.

2.7 A purchased put option shall be in the money if the strike price of the option exceeds the market price of the underlying assets (in the case of options with a residual maturity of up to six months) or the future price of the underlying assets (in the case of options with a residual maturity of more than six months).

2.8 A purchased call option shall be in the money if the strike price of the option is less than the market price of the underlying assets (in the case of options with a residual maturity of up to six months) or the future price of the underlying assets (in the case of options with a residual maturity of more than six months).

2.9 If a credit institution is unable to obtain reliable information concerning the future price of underlying assets, the difference between the market price and the future price of the underlying assets shall be deemed to be zero in the calculation of the capital requirement.

3. An example of the calculation of a capital requirement using the simplified approach

3.1 A credit institution has a long position in 100 shares with the market price of 10 EEK per share and a put option with the strike price of 11 EEK, which includes the paid option premiums.

3.2 The capital requirement shall be calculated as follows:

1) the market price of the underlying assets shall be multiplied by the sum of the specific and general risk[10] of the underlying assets (10 x 100) EEK x (8%+8%) = 160 EEK;

2) the amount the option is in the money is calculated (11 - 10) x 100 = 100 EEK;

3) the capital requirement is the difference between the price calculated pursuant to the two previous clauses 160 EEK – 100 EEK = 60 EEK.

4. Delta-plus method

4.1 General

In order to calculate delta, gamma and vega, the methodology used for supervision purposes by the exchange concerned shall be used in the case of exchange-traded options and an internal model approved by the Financial Supervision Authority shall be used in the case of OTC options.

4.2 Delta risk

4.2.1 In order to calculate the delta-weighted value of underlyings, the value of the underlying to which the option refers shall be multiplied by its delta.

4.2.2 The delta-weighted values of underlyings shall be included in the risk calculations described in Chapters III, IV and V of these principles based on the risk relating to the underlyings to which the options refer as follows:

1) if the underlyings of options are debt instruments, the delta-weighted value of the underlyings shall be included in the calculation of interest position risk referred to in Chapter IV of these principles;

2) if the underlyings of options are equities, the delta-weighted value of the underlyings shall be included in the calculation of ordinary share position risk referred to in Chapter IV of these principles;

3) if the underlying assets of options are commodities, the delta-weighted value of the underlying assets shall be included in the calculation of commodity risk referred to in Chapter V of these principles;

4) if the underlying assets of options are foreign currency or gold in bullion form traded on international markets, the delta-weighted value of the underlying assets shall be included in the calculation of foreign exchange risk referred to in Chapter III of these principles.

4.2.3 Options the underlyings of which are interest rates or debt instruments shall be divided into two positions in a manner similar to that set out in Chapter IV of these principles as follows:

1) first position, the maturity date of which shall be the entry into force of the contract of the underlyings;

2) second position, with a maturity date equal to the maturity date of the contract of the underlyings.

4.2.3.1 A purchased call option and a sold put option shall be treated as a combination of a delta-weighted long position with a maturity date equal to the maturity date of the contract of the underlyings and a delta-weighted short position the maturity of which is equal to the maturity date of the option.

4.2.3.2 A sold call option and a purchased put option shall be treated as a combination of a delta-weighted short position with a maturity date equal to the maturity date of the contract of the underlyings and a delta-weighted long position the maturity of which is equal to the maturity date of the option.

4.2.3.3 Options the underlyings of which are floating rate instruments with caps and floors shall be treated as a combination of floating rate instruments and a series of European type options.

4.3 Gamma risk

4.3.1 The capital requirement on an options position against gamma or "gamma impact" shall be calculated pursuant to the following formula:

Gamma impact = ½ x n x Gamma x VU^2, where

n – the number of units of underlyings

VU – variation in the market value of the underlyings

4.3.2 Variation in the market value of the underlyings (VU) shall be calculated as follows:

1) for interest rate options if the underlying is a bond, the market value of the underlying shall be multiplied by the appropriate risk weight set out in the column "Weighting" of the table of the maturity-based approach set out in clause 3.4 or the column "Assumed interest rate change" of the table of the duration-based method set out in clause 3.5 of Chapter IV of these principles, according to the selected approach;

2) for interest rate options if the underlying is an interest rate, the market value of the underlying shall be multiplied by the assumed interest rate change set out in the column "Assumed interest rate change" of the table of the maturity-based approach set out in clause 3.4 or the column "Assumed interest rate change" of the table of the duration based method set out in clause 3.5 of Chapter IV of these principles, according to the selected approach;

3) for options on ordinary shares, the market value of the underlying should be multiplied by 8%;

4) for foreign exchange and gold in bullion options, the market value of the underlying should be multiplied by 8%;

5) for options on commodities, the market value of the underlying should be multiplied by 15%.

4.3.3 For the purpose of the calculation of the capital requirement against gamma on options, the following positions shall be treated as the same underlying:

1) bonds that belong to the same maturity band according to the table of the maturity-based approach set out in clause 3.4 of Chapter IV of these principles;

2) equities issued by persons registered in the same country;

3) each foreign currency separately and gold in bullion form traded on international markets;

4) each individual commodity, taking into consideration the conditions set out in clause 2.1 of Chapter V of these principles.

4.3.4 The overall capital requirement of a credit institution against gamma shall be calculated as follows:

1) the gamma impacts of options shall be calculated for each underlying separately;

2) these individual gamma impacts will be summed taking into account the signs, resulting in a net gamma impact for each underlying;

3) the capital requirement shall be the sum of those net gamma impacts of options that are negative.

4.4 Vega risk

4.4.1 The capital requirement on an options position against vega or “vega impact” shall be calculated pursuant to the following formula:

$$\text{Vega impact} = n \times \text{vega} \times \tfrac{1}{4} \times s, \text{ where}$$

n – the number of units of the underlying

σ – volatility of the market value of the underlying

4.4.2 The overall capital requirement of a credit institution against vega shall be calculated as follows:

1) the vega impacts of options shall be calculated for each underlying separately. The underlying shall be determined according to the principles set out in clause 4.3.3 of this Chapter;

2) these individual vega impacts will be summed taking into account the signs, resulting in a net vega impact for each underlying;

3) the capital requirement shall be the sum of the absolute values of the net vega impacts for all options.

Chapter VII Settlement Risk in Trading Book

1. The capital requirement against settlement risk shall be calculated where transactions relating to securities or commodities included in the trading book are unsettled during five or more banking days after their due delivery dates, and where price changes that occur during the delay in the transaction could involve a loss for the reporting credit institution. Repurchase and reverse repurchase agreements and securities or commodities lending and securities or commodities borrowing shall not be taken into account in the calculation of the capital requirement.

2. The capital requirement against settlement risk shall be calculated using the methods set out in clauses 4 and 5 of this Chapter.

3. In order to use the method set out in clause 5 of this Chapter, a credit institution shall explain the reasons for the request to use the said method and apply for the prior written consent of the Financial Supervision Authority.

4. Method A shall be used to calculate the amount of possible loss which is the negative price difference calculated on the basis of the agreed settlement price of the transaction and the market value of the security or commodity as on the reporting date. A negative price difference shall occur for the seller of securities where the settlement price of the transaction exceeds the market value of the security or commodity as on the reporting date and a negative price difference shall occur for the purchaser of securities where the market value of the security or commodity as on the reporting date exceeds the settlement price of the transaction. The absolute value of the calculated negative price difference shall be multiplied by the appropriate capital requirement as set out in the table of clause 6 of this Chapter.

5. If Method B is used, the settlement price of the transaction shall be multiplied by the appropriate capital requirement as set out in the table of clause 6 of this Chapter. Method B may be used if a transaction is unsettled during up to forty-six banking days after its due date. If a transaction is unsettled during forty-six or more banking days after the due date, Method A shall be used to calculate settlement risk.

6. Capital requirements against settlement risk

Number of banking days after settlement date	Capital requirement of Method A (in %)	Capital requirement of Method B (in %)
5 to 15	8	0.5
16 to 30	50	4.0
31 to 45	75	9.0
46 and more	100	100 (of the price difference)

Chapter VIII Credit risk in Trading Book

1. Unregulated transfers

1.1 The capital requirement against credit risk in the trading book shall be calculated if:

1) securities or commodities have been paid for before they have been received or securities or commodities have been delivered before receiving payment for them; and

2) in the case of cross-border transactions, one day or more has elapsed since the making of payment or delivery of securities or commodities.

1.2 The capital requirement against credit risk in the trading book shall be 8 % of the value of the securities or commodities or cash owed to the credit institution multiplied by the credit risk weighting applicable to the relevant counterparty. The credit risk weighting applicable to the counterparty to the transaction shall calculated pursuant to the provisions of Chapter II of these principles.

2. Repurchase agreements, reverse repurchase agreements, borrowing and lending of securities or commodities

2.1 In the case of repurchase agreements and agreements of securities or commodities lending based on securities or commodities included in the trading book, the credit institution shall calculate the difference between the market value of the securities or commodities and the amount of money received or the market value of the collateral. The capital requirement against credit risk associated with the trading book shall be 8% of the positive difference multiplied by the credit risk weighting applicable to the relevant counterparty. The credit risk weighting applicable to the counterparty to the transaction shall calculated pursuant to the provisions of Chapter II of these principles.

2.2 In the case of reverse repurchase agreements and agreements of securities borrowing based on securities or commodities included in the trading book, the credit institution shall calculate the difference between the amount of money lent or the market value of the collateral and the market value of the securities or commodities it has received. The capital requirement against credit risk associated with the trading book shall be 8% of the positive difference multiplied by the credit risk weighting applicable to the relevant counterparty. The credit risk weighting applicable to the counterparty to the transaction shall calculated pursuant to the provisions of Chapter II of these principles.

2.3 Accrued interest shall be included in calculating the market value of amounts lent or borrowed and the securities used as collateral.

3. OTC derivative instruments

The capital requirement against credit risk on OTC derivative instruments shall be calculated based on the “mark to market” method described in clause 3.3.2 of Chapter II of these principles.

4. Other risks

Besides credit risk in the trading book, the instruments referred to in this Chapter may be associated with interest position and equity position risk, foreign-exchange risk and commodity risk. In such case, the capital requirements against these risks shall be calculated also.

Chapter IX Credit Exposures of Trading Book Exceeding Limits of Large Exposures

1. General

1.1 A credit institution shall calculate the capital requirement on credit exposures of the trading book exceeding the limits of large exposures.

1.2 Credit exposures included in the trading book shall be calculated pursuant to the “Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis” approved by Regulation No. 12 of the Governor of Eesti Pank of 2 July 2002 “Prudential Ratios of Credit Institutions”.

1.3 The limits set out in clause 4.1 of the “Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis” may be exceeded if the excess of exposures of a credit institution to a client or a group of connected persons arises entirely on the trading book[11].

2. Calculation of capital requirements on credit exposures of the trading book exceeding the limits on large exposures

2.1 Capital requirements on credit exposures of the trading book exceeding the limits on large exposures shall be calculated by selecting the positions of those instruments of the total trading exposure to the client or group of persons in question which attract the highest specific-risk capital requirements in accordance with the procedure established in clauses 3.2 and 4.2 of Chapter IV of these principles and the sum total of which equals the amount of the excess specified in clause 4.1 of the “Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis”.

2.2 Where the excess has persisted for less than ten days, the capital requirement shall be 200% on the components exceeding the limits specified in clause 4.1 of the “Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis”.

2.3 Where the excess has persisted for more than ten days, the capital requirement shall be calculated as follows:

1) positions exceeding the limits on large exposures shall be determined pursuant to clause 2.1 of this Chapter;

2) the capital requirements against specific risk associated with these positions shall be calculated pursuant to the procedure set out in clauses 3.2 and 4.2 of Chapter IV of these principles;

3) the resulting capital requirements against specific risk shall be assigned to the table set out in clause 2.4 of this Chapter based on the amount of excess and multiplied by the appropriate factor.

2.4 Factors for excess

Excess (% of net own funds):	Factor
up to 40%	200%
40% to 60%	300%
60% to 80%	400%
80% to 100%	500%
100% to 250%	600%
exceeding 250%	900%

2.5 The overall capital requirement on credit exposures of the trading book exceeding the limits on large exposures shall be the sum of the capital requirements calculated pursuant to clause 2.3 of this Chapter.

3. Limits on trading book positions exceeding the limits on large exposures

3.1 Where ten days or less has elapsed since the excess occurred, the trading-book exposure to the client or group of connected clients in question must not exceed 500% of the credit institution's net own funds.

3.2 Where trading book exposures exceed the limits on large exposures and such excesses have persisted for more than ten days, they must not, in aggregate, exceed 600% of the credit institution's net own funds.

Chapter X Calculation of Capital Requirements on Consolidated Basis

1. General

1.1 The requirements arising from these principles apply to the consolidation group of a credit institution on consolidated basis.

1.2 In the calculation of capital adequacy on consolidated basis, net own funds shall be calculated pursuant to Chapter XI of these principles on the basis of reporting consolidated line-by-line.

2. Credit risk

The capital requirement against credit risk shall be calculated on the basis of reporting consolidated line-by-line pursuant to Chapter II of these principles.

3. Interest position and equity position risk and commodity risk associated with trading book

3.1 The capital requirement against interest position and equity position risk and commodity risk of the trading book on consolidated basis shall be the sum of the capital requirements of the companies belonging to the consolidation group of a credit institution calculated on solo basis pursuant to Chapters IV-VI of these principles.

3.2 The parent undertaking of a consolidation group of a credit institution may apply to the Financial Supervision Authority for prior written consent to relieve the parent undertaking from the obligation to calculate capital requirements against interest position and equity position risk, commodity, settlement and credit risk associated with the trading books of one, several or all of the companies belonging to the consolidation group. The Financial Supervision Authority shall grant its consent subject to the indicators for relief listed in clause 3.2 of Chapter I of these principles. If consent is granted, the trading book positions of the companies in respect of which the parent undertaking of the consolidation group of the credit institution obtained a relief shall be included in the calculation of the capital requirements against credit risk pursuant to clause 2 of this Chapter.

4. Settlement risk and credit risk in the trading book

The capital requirement against settlement risk and credit risk in the trading book shall be calculated on the basis of reporting consolidated line-by-line pursuant to Chapters VII and VIII of these principles.

5. Foreign-Exchange Risk

5.1 Calculation of capital requirements

5.1.1 The capital requirement against foreign-exchange risk on consolidated basis shall be the sum of the capital requirements of the following companies belonging to the consolidation group against foreign-exchange risk calculated pursuant to Chapter III of these principles:

1) the parent undertaking of the consolidation group of a credit institution;

2) subsidiary undertakings over which the parent undertaking actually exercises dominant influence.

5.1.2 The capital requirement of the parent undertaking of the consolidation group of a credit institution against foreign-exchange risk shall be calculated on the basis of reporting on solo basis. In the calculation of the capital requirement, holdings in foreign credit and financial institutions specified in clause 2.7 of Chapter III of these principles shall not be taken into account.

5.1.3 The capital requirement of the subsidiary undertakings referred to in sub-clause 2) of clause 5.1.1 of this Chapter against foreign-exchange risk shall be calculated on the basis of reporting consolidated line-by-line of the subsidiary undertakings.

5.1.4 With the prior written consent of the Financial Supervision Authority, positions obtained for covering the foreign-exchange risk arising from investments in foreign subsidiaries may be excluded from the calculation of net open currency positions in order to calculate the capital requirement.

5.2 Limits

5.2.1 Net open currency positions shall not exceed the limits set out in clauses 4.1 and 4.2 of Chapter III of these principles. In order to monitor and observe the limits on consolidated basis, net open currency positions shall be calculated pursuant to Chapter III of these principles on the basis of reporting consolidated line-by-line.

5.2.2 In the calculation of net open currency positions in order to monitor the limits, the book value of the own capital of the foreign subsidiaries included in consolidation shall be taken into account as a short position. Own capital shall be included in the calculation of the net open position in the currency in which the own capital is fixed.

5.2.3 If a credit institution or a company belonging to the same consolidation group as the credit institution calculates the capital requirement on options risk using the simplified approach as described in clause 2 of Chapter VI of these principles, the market value of foreign currency options shall be included in the calculation of net open currency positions in order to monitor the limits.

5.2.4 With the prior written consent of the Financial Supervision Authority, positions obtained for covering the foreign-exchange risk arising from investments in foreign subsidiaries included in consolidation may be excluded from the calculation of net open currency positions in order to monitor the limits.

Chapter XI Own Funds and Calculation of Capital Adequacy

1. Own funds

1.1 Own funds shall consist of Tier 1, Tier 2 and Tier 3 own funds. Tier 1 and Tier 2 own funds together constitute gross own funds. In order to calculate net own funds, certain deductions will be made from gross own funds.

1.2 Tier 3 own funds shall be treated as own funds only for the purposes of calculation of capital adequacy and a credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to be able to include Tier 3 own funds in own funds.

2. General principles of Tier 1 own funds (Tier 1)

Tier 1 own funds shall consist of issued and internally generated capital. The issued capital which is included in Tier 1 own funds must be of an unspecified term (ensuring a permanent source of financing until the credit institution becomes insolvent or terminates its activities) and of a non-cumulative nature (no fixed costs are associated with the capital). Capital included in Tier 1 own funds may be internally generated only at the expense of profit and it must be freely available to cover the general losses of the credit institution without any need to suspend the activities. Only actually existing sums may be indicated among the share capital and reserves of a credit institution. Tier 1 own funds shall be calculated as the sum of the items listed in clause 3 of this Chapter less the items listed in clause 4 of this Chapter.

3. Composition of Tier 1 own funds

3.1 Paid-up share capital

Paid-up share capital shall include:

1) the amount indicated in the balance sheet in the capital item “Share capital”, less any subscribed but unpaid shares and issued preferred shares;

2) the amount indicated in the balance sheet in the capital item “Share premium account”, less any subscribed but unpaid share premium.

3.2 General banking reserve

The amount indicated in the balance sheet in the capital item “General banking reserve” shall be included under general banking reserve. Where the formation of a general banking reserve is accompanied by a potential income tax liability, the amount of the income tax liability shall be deducted.

3.3 Other reserves

Amounts indicated in the balance sheet in the capital item “Other reserves”, which are in accordance with the general principles of Tier 1 own funds set out in clause 2 of this Chapter, shall be included under other reserves.

3.4 Retained profits/losses from previous years

The amount indicated in the balance sheet in the capital item “Retained profits or losses from previous years”, less any known potentially payable dividends, shall be included under retained profits/losses from previous years. Losses shall be taken into account under any circumstances; profits shall be taken into account only if approved by an independent auditor. A credit institution may include the profits its subsidiaries retained from the previous year on consolidated basis before auditing the entire consolidation group, provided that the profits of the subsidiary have been approved by an independent auditor and the auditor of the subsidiary is subject to the same requirements as the auditor of the credit institution. Profits of the subsidiaries that have been included may not exceed the profits of the consolidation group of the credit institution.

3.4.1 Before the inclusion of the profits described in clause 3.4 of this Chapter in the own funds on solo basis, a credit institution must submit documents certifying that an audit has been carried out to the Financial Supervision Authority and apply for the written consent of the Financial Supervision Authority to record gross profit or a part of the profit as own funds.

3.4.2 Before the inclusion of the profits of the consolidation group or subsidiary described in clause 3.4 of this Chapter in the own funds on consolidated basis, a credit institution must submit documents certifying that an audit has been carried out and indicating the results of the said audit to the Financial Supervision Authority and apply for the written consent of the Financial Supervision Authority to record gross profit or a part of the profit as own funds.

3.5 Profits in the current reporting period

The profits indicated in the balance sheet in the capital item “Profits (losses) of reporting period”, less any taxes and planned dividends, shall be included under the profits in the current reporting period. Profits for the current reporting period shall be taken into account as own funds only if approved by an independent auditor. Should the credit institution work with a loss during periods following the approval of profits, interim profit as shown on the balance sheet shall be taken into account.

3.5.1 Before the inclusion of the profits described in clause 3.5 of this Chapter in the own funds, a credit institution must submit documents certifying that an audit has been carried out to the Financial Supervision Authority and apply for the written consent of the Financial Supervision Authority.

3.6 Minority participation (in consolidated accounts only)

The amount indicated in the consolidated balance sheet in the obligations item “Minority participation”, less the “Proportion of minority participation in profit” and minority participation on preferred shares indicated in the composition of Tier 2 own funds, shall be included under minority participation.

3.7 Unrealised exchange differences (in consolidated accounts only)

The amount indicated in the consolidated balance sheet in the capital item “Unrealised exchange differences” shall be included under unrealised exchange differences.

3.8 Negative goodwill (in consolidated accounts only)

The amount indicated in the consolidated balance sheet in the item “Negative goodwill” shall be included under negative goodwill.

4. Deductions to be made in calculating Tier 1 own funds

In the calculation of Tier 1 own funds, the amounts specified in clauses 4.1-4.3 shall be deducted.

4.1 Own shares

The amount indicated in the balance sheet in the capital item “Own shares”, excluding preferred shares, shall be included under own shares.

4.2 Intangible assets

The amount indicated in the balance sheet in the asset item “Intangible assets” shall be included under intangible assets.

4.3 Losses in current reporting period

The losses indicated in the balance sheet in the capital item “Profits (losses) of reporting period” shall be included under losses in the current reporting period. Losses in the current reporting period shall be included whether approved by an auditor or not.

5. General principles of Tier 2 own funds (Tier 2)

5.1 Tier 2 own funds are divided into upper Tier 2 own funds and lower Tier 2 own funds. Only sums of principal amounts of obligations actually paid in are included as Tier 2 own funds.

5.2 A credit institution shall submit to the Financial Supervision Authority the contract of any subordinated loan to be included in Tier 2 own funds together with a legal assessment stating that the terms of the contract comply with the terms of subordinated loans included in own funds as provided for in § 72^1 of the Credit Institutions Act.

5.3 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to repay, before the agreed due date, a subordinated loan that has been included in Tier 2 own funds. The Financial Supervision Authority shall grant its consent subject to the following criteria:

1) repayment of the loan before the agreed due date shall take place on the initiative of the borrower, and

2) the own funds of the credit institution will be sufficient to comply with the prudential ratios after repayment.

6. General principles of upper Tier 2 own funds

6.1 Upper Tier 2 own funds shall consist of subordinated loans which are in compliance with § 72^1 of the Credit Institutions Act, cumulative preferred shares and of other similar obligations and instruments of a capital nature. Upper Tier 2 own funds must be of an unspecified term, notice concerning repayment thereof shall be given at least five years in advance, and they must be available without restrictions for covering any normal banking risks prior to determining losses.

6.2 Tier 2 own funds of an unspecified term, regarding which notice of repayment has been given, shall be deemed to be of a specified term and they shall be handled according to clause 8 of this Chapter.

6.3 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to include other similar obligations and instruments of a capital nature described in clause 6.1 of this Chapter in upper Tier 2 own funds.

7. Composition of upper Tier 2 own funds

7.1 Subordinated loans with an unspecified term

The sum of subordinated loans with an unspecified term (incl. obligations that can be converted into capital) indicated in the balance sheet in the obligations item "Subordinated debt" shall be included under subordinated loans with an unspecified term.

7.2 Cumulative preferred shares with an unspecified term

Cumulative preferred shares with an unspecified term, incl. preferred shares which may be deleted at the request of the issuer and with the consent of the Financial Supervision Authority and preferred shares that can be converted into ordinary shares, indicated in the balance sheet in the capital item "Share capital" shall be included under cumulative preferred shares with an unspecified term. Preferred shares indicated in the balance sheet in the capital item "Own shares" should not be included under cumulative preferred shares with an unspecified term.

7.3 Revaluation reserves

The amount of the revaluation reserve prescribed by law and indicated in the balance sheet in the capital item "Revaluation reserve" shall be included under revaluation reserves.

7.4 Other items of a capital nature with an unspecified term

Other obligations with an unspecified term and similar to those referred to in clauses 7.1 and 7.2 of this Chapter and instruments of a capital nature shall be included under other items of a capital nature with an unspecified term.

7.4.1 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to include the obligations and instruments referred to in clause 7.4 of this Chapter in own funds.

8. General principles of lower Tier 2 own funds

8.1 Lower Tier 2 own funds shall consist of subordinated loans which are in compliance with § 72^1 of the Credit Institutions Act and other similar obligations and instruments of a capital nature. Lower Tier 2 own funds must be of a fixed term and the repayment term set out in the contract must be at least five years and one day.

8.2 During the last five years before the end of the term, all amounts included in lower Tier 2 own funds shall be reduced each year by 20% of the original amount. The reduction shall be calculated on a quarterly basis.

8.3 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to include other similar obligations and instruments of a capital nature described in clause 8.1 of this Chapter in lower Tier 2 own funds.

9. Composition of lower Tier 2 own funds

9.1 Subordinated loans with a fixed term

The sum of subordinated loans with a fixed term (incl. obligations that can be converted into capital) indicated in the balance sheet in the obligations item “Subordinated debt” shall be included under subordinated loans with a fixed term.

9.2 Cumulative preferred shares with a fixed term

Cumulative preferred shares with a fixed term, which may be deleted at the request of the issuer and with the consent of the Financial Supervision Authority and which can be converted into ordinary shares, indicated in the balance sheet in the capital item “Share capital” shall be included under cumulative preferred shares with a fixed term.

9.3 Other items of a capital nature with a fixed term

Other obligations with a fixed term and similar to those referred to in clauses 9.1 and 9.2 of this Chapter and instruments of a capital nature shall be included under other items of a capital nature with a fixed term.

9.3.1 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to include the obligations and instruments referred to in clause 9.3 of this Chapter in own funds.

10. Deductions from gross own funds

10.1 Holdings in the share capital of other credit or financial institutions, which exceed 10% of the share capital or votes in those institutions, and investments in instruments of a capital nature (subordinated claims and other similar financial instruments) to be included in the own funds of such companies. The total amount of holdings and investments described above shall be deducted on the basis of their value as shown on the balance sheet.

10.2 Holdings in the share capital of other credit or financial institutions, which do not exceed 10% of the share capital or votes in those institutions, and investments in instruments of a capital nature to be included in the own funds of such companies. The said holdings and investments shall be summed up and only such part of the total amount of holdings and investments that exceeds 3% of the gross own funds of the reporting credit institution shall be deducted from the own funds of the credit institution.

10.3 A credit institution's holdings and other investments in credit and financial institution included in (line-by-line) consolidation which comply with the requirements set out in clause 10.1 of this Chapter may, with the prior written consent of the Financial Supervision Authority, be not deducted.

10.4 Where holdings in other credit or financial institutions are necessary in connection with the restructuring of the business activities of these companies, the said deduction may, with the prior written consent of the Financial Supervision Authority, be not made.

10.5 Where shares in other credit or financial institutions have been acquired for the purposes of trade and the credit institution calculates capital requirements against trading book risks, the said holdings may, with the prior written consent of the Financial Supervision Authority, be not deducted.

10.6 Holdings in other credit or financial institutions and other investments in instruments of a capital nature to be included in the own funds of such companies which have not been deducted in the calculation of the own funds of a credit institution shall be taken into account in the calculation of the capital requirement against credit risk.

10.7 Shares of investment funds acquired by a credit institution shall not be deducted.

11. General principles and composition of Tier 3 own funds (Tier 3)

11.1 Tier 3 own funds may only be used for covering risks associated with the trading book. Subordinated debts of a fixed term which are indicated in the balance sheet in the obligations item "Subordinated debt" and which meet the conditions set out in § 77 of the Credit Institutions Act shall be included in Tier 3 own funds.

11.2 A credit institution shall submit to the Financial Supervision Authority the contract of any subordinated loan to be included in Tier 3 own funds together with a legal assessment stating that the terms of the contract comply with the terms of subordinated loans included in own funds as provided for in § 77 of the Credit Institutions Act.

11.3 A credit institution shall apply for the prior written consent of the Financial Supervision Authority in order to repay, before the agreed due date, a subordinated loan that has been included in Tier 3 own funds. The Financial Supervision Authority shall grant its consent subject to the following criteria:

1) repayment of the loan before the agreed due date shall take place on the initiative of the borrower, and

2) the own funds of the credit institution will be sufficient to comply with the prudential ratios after repayment.

11.4 A credit institution is required to notify the Financial Supervision Authority in writing of the repayment of subordinated loans and interest related thereto included in Tier 3 own funds if the capital adequacy ratio of the credit institution is less than 120% of the capital adequacy ratio provided for in or established pursuant to subsection 79 (2) of the Credit Institutions Act.

12. Limits on own funds

Limits on own funds are established in § 78 of the Credit Institutions Act.

12.1 The total amount of subordinated debts and cumulative preferred shares included in Tier 2 own funds shall not exceed 50% of Tier 1 own funds.

12.2 The total amount of Tier 2 own funds used for covering the risks of the banking portfolio shall not exceed Tier 1 own funds used for the same purpose.

12.3 The total amount of Tier 2 and Tier 3 own funds together shall not exceed Tier 1 own funds of the credit institution.

12.4 The total amount of Tier 2 and Tier 3 own funds used for covering risks associated with the trading portfolio shall not exceed 250% of the Tier 1 own funds used for covering risks associated with the trading portfolio.

12.5 Any items of a capital nature exceeding the limits set out in clauses 12.1-12.4 shall not be included in the calculation of own funds or the calculation of the capital adequacy ratio.

13. An example of the calculation of capital adequacy

13.1 Capital requirements against trading book risks shall be calculated.

13.2 The overall capital requirement against trading book risks shall be calculated as the sum of the capital requirements calculated against the various risks of the trading book.

13.3 The overall capital requirement against trading book risks as calculated pursuant to clause 13.2 of this Chapter shall be converted to risk-weighted assets. For conversion to risk-weighted assets, the overall capital requirement against trading book risks shall be multiplied by 12.5 (or the reciprocal of minimum capital ratio of 8%).

13.4 Thereafter, the overall open net foreign exchange position[12] and credit risk weighted assets and off-balance-sheet items shall be determined.

13.5 The capital requirement on credit exposures included in the trading book and exceeding the limit on the large exposures shall be calculated. The capital requirement shall be converted to risk-weighted assets based on the treatment presented in clause 13.3 of this Chapter.

13.6 The sum of risk-weighted assets shall be calculated. The sum of risk-weighted assets shall be calculated as the sum of the risk-weighted assets calculated in accordance with clauses 13.3 and 13.5 of this Chapter, overall open net foreign exchange position and credit risk weighted assets and off-balance-sheet items.

13.7 The maximum amount of Tier 2 and Tier 3 own funds used to cover risks shall be calculated, taking into consideration the limits on own funds.

13.8 A scheme for the calculation of capital adequacy:

Tier 1 + used Tier 2 + used Tier 3

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sum of risk-weighted assets

ANNEX 1 to

Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis

Types of off-balance-sheet derivatives

1. Interest-rate contracts:

1.1 single-currency interest rate swaps;

1.2 basis swaps;

1.3 forward rate agreements (FRA);

1.4 interest-rate futures;

1.5 interest-rate options purchased;

1.6 other contracts of a similar nature.

2. Foreign-exchange contracts and contracts concerning gold:

2.1 cross-currency interest-rate swaps;

2.2 forward foreign-exchange contracts;

2.3 currency futures;

2.4 currency options purchased;

2.5 other contracts of a similar nature;

2.6 contracts concerning gold of a nature similar to 2.1 to 2.5.

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3.1 equities;

3.2 precious metals except gold;

3.3 commodities other than precious metals;

3.4 other contracts of a similar nature.

ANNEX II to

Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis

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* Limits on own funds must be taken into account for the purpose of establishing the size of Tier 2 and Tier 3 own funds.

** In the case of the delta-plus method, only capital requirements on the options position against gamma and vega.

[RTL 2003, 39, 577; entered into force 01.04.2003]

ANNEX 2

Approved by Regulation No. 5 of the Governor of Eesti Pank of 17 March 2003

Principles of Compiling Capital Adequacy Reports of Credit Institutions on Solo and Consolidated Basis

1. Report on risk weighted assets

1.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

1.2 Area of report

Assets that are subject to credit risk weighting pursuant to Chapter II of the “Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis” (hereinafter principles of capital adequacy).

1.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such net assets, the asset type identification code and risk weighting of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on risk weighted assets shall be 120 on solo basis and 1200 on consolidated basis.

1.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

1.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

1.6 Structure of report lines

1) type of assets

2) risk weighting

3) net assets

1.7 Explanation to the structure of report lines

1) Identification codes for asset types:

Cash...………. 1
Claims on the central bank……………………………………….. 2
Claims on credit institutions………………………………………. 3
Claims on clients………………………………………………….. 4
Securities with a fixed rate of return………………………………. 5
Shares in subsidiaries……………………………………………… 6
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Other shares……………………………………………………… 8
Tangible assets……………………………………………………. 9
Other assets……………………………………………………. 10
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2) Risk weighting

The credit risk weighting applicable to the counterparty to the transaction or type of assets according to Chapter II of the principles of capital adequacy shall be indicated here. Risk weighting shall be indicated as a coefficient depending on the risk weighting. Risk weighting shall be 0 in the case of:

1) the difference between the market value and contractual value of derivative instruments reported as assets,

2) assets which have already been deducted in the calculation of own funds of the credit institution pursuant to Chapter X of the principles of capital adequacy,

3) trading book instruments, where the reporting credit institution calculates the capital requirements against market risk, unless otherwise provided by the principles of capital adequacy.

3) Net assets

The book value of the type of assets falling within the given risk group shall be indicated here in thousands of Estonian kroons rounded to a full number as at the end of the reporting period.

2. Report on interest position risk

2.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

2.2 Area of report

Trading book instruments which have interest position risk associated with them according to Chapter IV of the principles of capital adequacy and instruments which, when using the delta-plus method, have options risk (delta risk) associated with them according to Chapter VI of the principles of capital adequacy.

On solo basis, the trading book positions of the reporting credit institution shall be indicated in the report. On consolidated basis, the trading book positions of the rest of the companies belonging to the consolidation group (except companies which, with the written consent of the Financial Supervision Authority, are relieved from the calculation of the capital requirements against trading book risks pursuant to clause 3.2 of Chapter X of the principles of calculation of capital adequacy) shall be indicated on solo basis. In a report on consolidated basis, the trading book positions of the reporting credit institution shall not be indicated.

2.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such positions, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted. The code of the report on interest position risk shall be 121 on solo basis and 1210 on consolidated basis.

2.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

2.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

2.6 Structure of report lines

1) registry code

2) type of risk

3) currency code

4) zone

5) risk weighting

6) long position

7) short position

2.7 Explanation to the structure of report lines

1) Registry code

On consolidated basis, the registration number or commercial registry code of the company belonging to the consolidation group, whose trading book includes the instrument indicated on the report line, shall be indicated here. In a report on solo basis, the registry code is 0 (zero).

2) Identification codes of risk types:

Specific risk………………………………………………………….. 1

Maturity-based general risk……………………………………….. 2

Duration-based general risk……………………………………….. 3

3) Currency code

The currency in which the value of assets or the underlying of off-balance-sheet instruments is fixed shall be indicated here. The currency code shall be determined according to the table of currency codes of the international standard ISO 4217 and indicated in capital letters. In the case of specific risk, the identification code of the currency shall be EEK.

4) Zone identification code

Zone 1………………………………………………………………. 1

Zone 2………………………………………………………………. 2

Zone 3………………………………………………………. 3

In the case of general risk, the zone of the instrument shall be indicated here according to clauses 3.4.1 and 3.5.3 of Chapter IV of the principles of capital adequacy. In the case of specific risk, the identification code shall be 0 (zero).

5) Risk weighting

The general risk or specific risk weighting shall be indicated here according to clauses 3.2.2 and 3.4.1 of Chapter IV of the principles of capital adequacy. In the case of the duration-based method of calculating general risk, risk weighting shall be the modified duration multiplied by the assumed interest rate change which is calculated pursuant to Chapter IV of the principles of capital adequacy. Risk weighting shall be indicated as a factor depending on the risk weighting.

6) Long position

The absolute value of the long position in the instrument as at the end of the reporting period shall be indicated here. In the case of options, the absolute value of the delta-adjusted long position shall be indicated. In the case of general risk, the long position shall be indicated in the corresponding currency in thousands of units rounded to a full number. In the case of specific risk, the long position fixed in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period and indicated in thousands of units rounded to a full number.

7) Short position

The absolute value of the short position in the instrument as at the end of the reporting period shall be indicated here. In the case of options, the absolute value of the delta-adjusted short position shall be indicated. In the case of general risk, the short position shall be indicated in the corresponding currency in thousands of units rounded to a full number. In the case of specific risk, the short position fixed in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period and indicated in thousands of units rounded to a full number.

3. Report on equity position risk

3.1 Purpose of report
The obtaining of data required for the calculation of capital adequacy.

3.2 Area of report
Trading book instruments which have various equity position risks associated with them according to Chapter IV of the principles of capital adequacy and instruments which, when using the delta-plus method, have options risk (delta risk) associated with them according to Chapter VI of the principles of capital adequacy.

On solo basis, the trading book positions of the reporting credit institution shall be indicated in the report. On consolidated basis, the trading book positions of the rest of the companies belonging to the consolidation group (except companies which, with the written consent of the Financial Supervision Authority, are relieved from the calculation of the capital requirements against trading book risks pursuant to clause 3.2 of Chapter X of the principles of calculation of capital adequacy) shall be indicated on solo basis. In a report on consolidated basis, the trading book positions of the reporting credit institution shall not be indicated.

3.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such positions and adjustments, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on equity position risk shall be 122 on solo basis and 1220 on consolidated basis.

3.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

3.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within a month following the reporting period.

3.6 Structure of report lines

1) registry code

2) type of risk

3) country code

4) percentage of the capital requirement

5) long position

6) short position

7) adjustment

3.7 Explanation to the structure of report lines

1) Registry code

On consolidated basis, the registration number or commercial registry code of the company belonging to the consolidation group, whose trading book includes the instrument indicated on the report line, shall be indicated here. In a report on solo basis, the registry code is 0 (zero).

2) Identification codes of risk types:

Specific risk……………………………………………………….. 1

General risk………………………………………………………. 2

3) Country code

The country where the issuer of equities is registered shall be indicated here. The country code shall be determined according to the table of two-letter codes for countries and territories of the international standard ISO 3166 and indicated in capital letters.

4) Percentage of the capital requirement

The percentage of the capital requirement against general risk or specific risk according to Chapter IV of the principles of capital adequacy shall be indicated here. Percentage of the capital requirement shall be indicated as a coefficient according to the percentage of the capital requirement.

5) Long position

The absolute value of the long position in the instrument in thousands of Estonian kroons rounded to a full number shall be indicated here. In the case of options, the absolute value of the delta-adjusted long position shall be indicated. Positions denominated in a foreign currency must be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

6) Short position

The absolute value of the short position in the instrument in thousands of Estonian kroons rounded to a full number shall be indicated here. In the case of options, the absolute value of the delta-adjusted short position shall be indicated. Positions denominated in a foreign currency must be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

7) Adjustment

In the case of general risk, the absolute value of the part of the net position in a certain share added to the overall net position of a country by way of adjustment shall be indicated here. The added part shall be determined pursuant to Chapter IV of the principles of capital adequacy. The added part of the net position of a certain share shall be indicated in thousands of Estonian kroons rounded to a full number. The added part of the net position of a certain share denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of specific risk, the value shall be 0 (zero).

4. Report on settlement risk in trading book

4.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

4.2 Area of report

Trading book instruments which have settlement risks associated with them according to Chapter VII of the principles of capital adequacy.

4.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such market prices and contractual market prices, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on settlement risk in the trading book shall be 123 on solo basis and 1230 on consolidated basis.

4.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

4.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

4.6 Structure of report lines

1) calculation method

2) percentage of the capital requirement

3) market price

4) strike price

4.7 Explanation to the structure of report lines

1) Identification codes of calculation methods

Method A ………………………………………………………... 1

Method B ……………………………………………………… 2

The method of calculating settlement risk in the trading book according to Chapter VII of the principles of capital adequacy shall be indicated here.

2) Percentage of the capital requirement

The percentage of the capital requirement according to Chapter VII of the principles of capital adequacy shall be indicated here. Percentage of the capital requirement shall be indicated as a coefficient according to the percentage of the capital requirement.

3) Market price

The market price of the transaction as at the end of the reporting period shall be indicated in thousands of Estonian kroons rounded to a full number. Transactions denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of method B, the value of the market price shall be zero.

4) Strike price

The strike price shall be indicated in thousands of Estonian kroons rounded to a full number. Strike prices denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

5. Report on commodity risk

5.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

5.2 Area of report

Instruments which have commodity risk associated with them according to Chapter V of the principles of capital adequacy and instruments which, when using the delta-plus method, have options risk (delta risk) associated with them according to Chapter VI of the principles of capital adequacy.

On solo basis, the trading book positions of the reporting credit institution shall be indicated in the report. On consolidated basis, the trading book positions of the rest of the companies belonging to the consolidation group (except companies which, with the written consent of the Financial Supervision Authority, are relieved from the calculation of capital requirements against trading book risks pursuant to clause 3.2 of Chapter X of the principles of calculation of capital adequacy) shall be indicated on solo basis. In a report on consolidated basis, the trading book positions of the reporting credit institution shall not be indicated.

5.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such positions, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on commodity risk shall be 124 on solo basis and 1240 on consolidated basis.

5.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

5.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

5.6 Structure of report lines

1) registry code

2) calculation method

3) commodity item

4) maturity band

5) long position

6) short position

5.7 Explanation to the structure of report lines

1) Registry code

On consolidated basis, the registration number or commercial registry code of the company belonging to the consolidation group, whose trading book includes the commodity indicated on the report line, shall be indicated here. In a report on solo basis, the registry code is 0 (zero).

2) Indicators of calculation methods

Maturity-based method………………………………………….. 1

Simplified approach ……………………………………………. 2

The method of calculating commodity risk according to Chapter V of the principles of capital adequacy shall be indicated here.

3) Commodity item

Commodities, the positions in which are considered as positions in the same commodity pursuant to clause 2.1 of Chapter V of the principles of capital adequacy, shall be indicated as one item.

4) Identification codes of maturity bands:

Up to 1 month…………………………………………………….. 28

1 to 3 months…………………………………………………….. 29

3 to 6 months…………………………………………………….. 4

6 to 12 months…………………………………………………….. 5

1 to 2 years ……………………………………………………… 6

2 to 3 years ……………………………………………………… 7

Over 3 years ……………………………………………………… 30

In the case of the maturity-based approach, the maturity band of each commodity according to Chapter V of the principles of capital adequacy shall be indicated here. In the case of the simplified approach, the identification code shall be 0 (zero).

5) Long position

The long position in the instrument in thousands of Estonian kroons rounded to a full number shall be indicated here. In the case of options, the absolute value of the delta-adjusted long position shall be indicated. Net positions denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

6) Short position

The short position in the instrument in thousands of Estonian kroons rounded to a full number shall be indicated here. In the case of options, the absolute value of the delta-adjusted short position shall be indicated. Net positions denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

6. Report on options risk

6.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

6.2 Area of report

Instruments which have options risk associated with them (except delta risk in the case of the delta-plus method) according to Chapter VI of the principles of capital adequacy.

On solo basis, the trading book positions of the reporting credit institution shall be indicated in the report. On consolidated basis, the trading book positions of the companies belonging to the consolidation group (except companies which, with the written consent of the Financial Supervision Authority, are relieved from the calculation of capital requirements against trading book risks pursuant to clause 3.2 of Chapter X of the principles of calculation of capital adequacy) shall be indicated on solo basis. In a report on consolidated basis, the trading book positions of the reporting credit institution shall not be indicated.

6.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. In the case of the simplified approach, the sum of the market values of such underlying assets and differences in the strike price and market price of options, the identification codes of which are the same, shall be indicated as one line. In the case of the delta-plus method, the sum of the net gamma and vega impacts of such options, the underlying assets of which have the same maturity band, market, currency (incl. gold in bullion form) or commodity, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on options risk shall be 125 on solo basis and 1250 on consolidated basis.

6.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

6.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

6.6 Structure of report lines

1) registry code

2) calculation method

3) type of the underlying to which the option refers

4) market value of the underlying

5) percentage of the capital requirement

6) type of option

7) difference between the strike price and market value of the option

8) net gamma impact

9) net vega impact

6.7 Explanation to the structure of the report

1) Registry code

On consolidated basis, the registration number or commercial registry code of the company belonging to the consolidation group, whose trading book includes the option indicated on the report line, shall be indicated here. In a report on solo basis, the registry code is 0 (zero).

2) Indicators of calculation methods

Simplified approach ………………………………………………. 1

Delta-plus method …………………………………………………. 2

The method of calculating options risk according to Chapter VI of the principles of capital adequacy shall be indicated here.

3) Identification codes of the types of the underlying to which the option refers:

Bond …………………………………………………………………... 1
Interest rate and interest-rate index………………………………….. 2

Equity……………………………..………………… 3

Commodity…………………………………….……………… 4

Currency……………………………………………………..5

4) Market value of the underlying

In the case of the simplified approach, the market value of the underlying to which the option refers (sum total) as at the end of the reporting period in thousands of Estonian kroons rounded to a full number shall be indicated here. The market value of an underlying denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of the delta-plus method, the value shall be 0 (zero).

5) Percentage of the capital requirement

In the case of the simplified approach, the percentage of the capital requirement or the sum thereof, on the basis of the type of the underlying to which the option refers, according to clause 2.3 of Chapter VI of the principles of capital adequacy shall be indicated here. The percentage of the capital requirement shall be indicated as a coefficient. In the case of the delta-plus method, the percentage of the capital requirement shall be 0 (zero).

6) Type of option

Naked ………………………………………………………….. 1

Covered ……………………………………………………….. 2

In the case of the delta-plus method, the identification code shall be 0.

7) Difference between the strike price and market value of the option

The difference between the strike price, which includes the paid option premiums, and market value of the options indicated on the report line in thousands of Estonian kroons rounded to a full number shall be indicated here. The amount shall only be indicated if the purchased option is in the money. The difference in prices denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In case the purchased option is not in the money and in the case of the delta-plus method, the value of the difference shall be 0 (zero).

8) Net gamma impact

Net gamma impact in thousands of Estonian kroons rounded to a full number calculated pursuant to clause 4.3 of Chapter VI of the principles of capital adequacy shall be indicated here, separately for each underlying. Net gamma impact denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of the simplified approach, the value of net gamma impact shall be 0 (zero).

9) Net vega impact

Net vega impact in thousands of Estonian kroons rounded to a full number calculated pursuant to clause 4.4 of Chapter VI of the principles of capital adequacy shall be indicated here, separately for each underlying. Net vega impact denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of the simplified approach, the value of net vega impact shall be 0 (zero).

7. Report on credit risk in the trading book

7.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

7.2 Area of report

Trading book instruments which have credit risk associated with them according to Chapter VIII of the principles of capital adequacy.

7.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such values 1 and 2, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on settlement risk in the trading book shall be 126 on solo basis and on 1260 consolidated basis.

7.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

7.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

7.6 Structure of report lines

1) type of transaction

2) value 1

3) value 2

4) risk weighting

7.7 Explanation to the structure of the report

1) Identification codes for types of transactions:

Unregulated transfer ……………………………………………... 1

Repurchase transaction ……………………………………………. 2

Reverse repurchase transaction …………………………………… 3

2) Value 1

In the case of an unregulated transfer, the value of securities or commodities or money owed to the reporting credit institution or companies belonging to the same consolidation group as the credit institution and, in the case of repurchase and reverse repurchase transactions, the market value of the securities underlying the transaction shall be indicated here in thousands of Estonian kroons rounded to a full number. Values denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

3) Value 2

In the case of repurchase and reverse repurchase transactions, the market value of the money or collateral received shall be indicated here in thousands of Estonian kroons rounded to a full number. Values denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. In the case of an unregulated transfer, value 2 shall be 0 (zero).

4) Risk weighting

The credit risk weighting applicable to the counterparty to the transaction according to Chapter II of the principles of capital adequacy shall be indicated here. Risk weighting shall be indicated as a coefficient depending on the percentage of risk weighting.

8. Report on large exposures of trading book

8.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

8.2 Area of report

Instruments included in trading book credit exposures exceeding the limits of large exposures according to Chapter IX of the principles of capital adequacy.

8.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such positions, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted. The code of the report on large exposures of the trading book shall be 127 on solo basis and 1270 on consolidated basis.

8.4 Reporting period
The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

8.5 Term for submission of report
A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

8.6 Structure of report lines

1) type of instrument

2) position

3) duration of excess of exposures

4) percentage of the capital requirement

5) credit conversion factor

8.7 Explanation to the structure of report lines

1) Identification codes of types of instruments:

Equity ………………………………………………………… 1

Debt instrument ………………………………………………… 2

The type of the instrument included in trading book credit exposures exceeding the limits of large exposures shall be indicated here. Derivative instruments shall be classified according to their underlying.

2) Position

The position in the instrument indicated on the report line and included in trading book credit exposures exceeding the limits of large exposures according to clause 2.1 of Chapter IX of the principles of capital adequacy shall be indicated here in thousands of Estonian kroons rounded to a full number as at the end of the reporting period. Exposures denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

3) Identification codes for duration of excess of exposures:

Up to 10 days ………………………………………………..1

10 days and longer …………………………………………..2

4) Percentage of the capital requirement

The percentage of the capital requirement against specific risk shall be indicated here according to clauses 3.2 and 4.2 of Chapter IV of the principles of capital adequacy. Percentage of the capital requirement shall be indicated as a coefficient according to the percentage of the capital requirement.

5) Credit conversion factor

The credit conversion factor shall be indicated here according to clause 2.4 of Chapter IX of the principles of capital adequacy. The credit conversion factor shall be indicated as a coefficient according to the percentage of the credit conversion factor. If the duration of excess is up to 10 days, the value of the factor shall be 0 (zero).

9. Report on net open currency positions

9.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy and limits on net open currency positions.

9.2 Area of report

On- and off-balance-sheet assets and obligations affected by changes in exchange rates according to Chapter III of the principles of capital adequacy (incl. positions which may be excluded from the calculations pursuant to Chapters III and X of the principles of capital adequacy), on- and off-balance-sheet assets and obligations denominated in Estonian kroons and euros of the European Union and instruments associated with options risk according to Chapter VI of the principles of capital adequacy.

On solo basis, the positions of the reporting credit institution shall be indicated in the report. On consolidated basis, the positions of the subsidiaries pursuant to clause 5.1.1 of Chapter X of the principles of calculating capital adequacy and the positions of the consolidation group pursuant to clause 5.2.1 of Chapter X of the principles of capital adequacy shall be indicated in the report. In a report on consolidated basis, the positions of the reporting credit institution shall not be indicated.

9.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. The sum of such net positions, the identification codes of which are the same, shall be indicated as one line. If there are no data in the area of the report, a blank report shall be submitted.

The code of the report on net currency positions shall be 100 on solo basis and 1000 on consolidated basis.

9.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

9.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

9.6 Structure of report lines

1) registry code

2) currency

3) cash

4) claims on credit institutions (net)

5) claims on clients (net)

6) securities

7) other assets (incl. claims on central banks)

8) total assets

9) debt to credit institutions

10) demand deposits

11) fixed-term deposits

12) other obligations

13) total obligations

14) outright forward purchases

15) forward sales transactions

16) futures purchases

17) futures sales transactions

18) swaps - purchases

19) swaps - sales

20) guarantees and similar instruments received that are certain to be called

21) guarantees and similar instruments given that are certain to be called

22) other off-balance-sheet claims

23) other off-balance-sheet obligations

24) delta-adjusted values of written put options

25) delta-adjusted values of written call options

26) delta-adjusted values of purchased call options

27) delta-adjusted values of purchased put options

28) positions excluded from the calculation of the capital requirement

29) net position for the calculation of the capital requirement

30) investments

31) excluded covering positions

32) market value of purchased call options calculated using the simplified approach

33) market value of purchased put options calculated using the simplified approach

34) net position for monitoring limits

9.7 Explanation to the structure of report lines

1) Registry code

On consolidated basis, the registration number or commercial registry code of the company belonging to the consolidation group, who owns the position indicated on the report line, shall be indicated here. Positions calculated on the basis of reporting consolidated line-by-line of the consolidation group shall be marked with the identification code 1000. In a report on solo basis, the registry code is 0 (zero).

2) Currency code

The currency in which the value of the asset or obligation is denominated shall be indicated here. The currency code shall be determined according to the table of currency codes of the international standard ISO 4217 and indicated in capital letters. Currencies, in the case of which the sum of assets and obligations, when converted into Estonian kroons, is less than 200 000 EEK, may be indicated as one line with the code OTHER.

3)-27) The balance of on- and off-balance-sheet claims and obligations shall be indicated as at the end of the reporting period in the corresponding currency in thousands of units rounded to a full number. Net claims and obligations indicated with the code OTHER shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. Options on which the capital requirement against options risk is calculated using the delta-plus method according to clause 4 of Chapter VI of the principles of capital adequacy shall be indicated in report line items 24-27.

28) Positions excluded from the calculation of the capital requirement

Positions corresponding to sub-clause 1) of clause 2.5 and clause 5.3 of Chapter III and clause 5.1.4 of Chapter X of the principles for calculating capital adequacy which are excluded from the calculation of the net open position with the written consent of the Financial Supervision Authority shall be indicated here. In the case of the registry code being "1000", the value of the positions excluded from the calculation of the capital requirement shall be 0 (zero).

29) The net position for the calculation of the capital requirement shall be indicated according to the currency code indicated on the report line.

30) Investments

On solo basis, the reporting credit institution's holdings in credit and financial institutions, which are not taken into account in the calculation of limits according to clause 4.4 of Chapter III of the principles for calculating capital adequacy, shall be indicated here. On consolidated basis, the book value of the own capital of subsidiaries consolidated line-by-line according to clause 5.2.2 of Chapter X of the principles of capital adequacy shall be indicated here.

31) Excluded covering positions

On solo basis, the positions obtained for covering foreign-exchange risk pursuant to clause 4.5 of Chapter III of the principles for calculating capital adequacy, which are excluded with the written consent of the Financial Supervision Authority, shall be indicated here. On consolidated basis, the positions obtained for covering foreign-exchange risk pursuant to clause 5.2.4 of Chapter X of the principles for calculating capital adequacy, which are excluded with the written consent of the Financial Supervision Authority, shall be indicated here. Only those excluded covering positions, which are not indicated in report line item 28, shall be indicated in this report line item.

32)-33) Options on which the capital requirement against options risk is calculated using the simplified approach according to clause 2 of Chapter VI of the principles of capital adequacy shall be indicated here. The market value of options as at the end of the reporting period shall be indicated. If the capital requirement against options risk on foreign-currency options is calculated using the delta-plus method, the value of the identification code shall be 0 (zero).

34) Net position for monitoring limits

The net position for monitoring limits shall be obtained by adding the positions indicated in report line items 30-33 to the net position indicated in report line item 29.

10. Capital adequacy report

10.1 Purpose of report

The obtaining of data required for the calculation of capital adequacy.

10.2 Area of report

Tier 1, Tier 2 and Tier 3 own funds according to Chapter XI of the principles of capital adequacy (summary table in Annex II to the principles of capital adequacy).

10.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. If there are no data in the area of the report, a blank report shall be submitted.

The code of the capital adequacy report shall be 10 on solo basis and 11 on consolidated basis.

10.4 Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

10.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

10.6 Structure of report lines

1) item identification code

2) value

10.7 Explanation to the structure of report lines

1) Item identification codes

Tier 1 own funds ……………………………………………………………………... 620

Paid-up share capital ………………………………………………………………… 621

General banking reserve ……………………………………………….…………….. 624

Other reserves ………………………………………………………………………… 622

Retained profits/losses from previous years ………………………………………….. 623

Profits in the current reporting period ………………………………….…………….. 544

Minority participation (in consolidated accounts only) ……………………………….. 542

Unrealised exchange differences (in consolidated accounts only) …………………….. 543

* Limits on own funds must be taken into account for the purpose of establishing the size of Tier 2 AND Tier 3 own funds

** In the case of the delta-plus method, only capital requirements on the options position against gamma and vega.

2) Item value

Item value shall be determined as at the end of the reporting period pursuant to the principles of capital adequacy and indicated in thousands of Estonian kroons rounded to a full number.

11. Report on subordinated loans

11.1 Purpose of report

The obtaining of data required for monitoring the calculation of capital adequacy.

11.2 Area of report

Subordinated loans included in Tier 2 own funds according to Chapter XI of the principles of capital adequacy.

11.3 Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. If there are no data in the area of the report, a blank report shall be submitted.

The code of the capital adequacy report shall be 90 on solo basis and 900 on consolidated basis.

11.4 Reporting period

The reporting period on solo and consolidated basis shall be half a year.

11.5 Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

11.6 Structure of report lines

1) name of client

2) currency code

3) principal amount of subordinated loan

4) interest of subordinated loan

5) date of entry into agreement

6) date of termination of agreement

7) amount included in the composition of own funds

8) tier of own funds

11.7 Explanation to the structure of report lines

1) Name of client

The name of the lender of the subordinated loan shall be indicated here. The name shall be given in such a manner that it shall contain neither quotation marks nor semicolons.

2) Currency code

The currency in which the subordinated loan is denominated shall be indicated here. The currency code shall be determined according to the table of currency codes of the international standard ISO 4217 and indicated in capital letters.

3) Principal amount of subordinated loan

The principal amount of the subordinated loan which has actually been paid in shall be indicated here. The obligation shall be indicated in the corresponding currency in thousands of units rounded to a full number.

2) Annual interest rate of subordinated loan

The annual interest rate of the subordinated loan shall be indicated as a coefficient according to the contractual interest rate and it shall be rounded to the first decimal point. If the contract prescribes a floating interest rate, the interest rate shall be indicated as fixed at the reporting date.

3) Date of entry into agreement

The date of entry into the subordinated loan agreement shall be indicated here. The date format shall be in accordance with international standard ISO 8601 (yyyy-mm-dd).

4) Date of termination of agreement

The date of termination of the subordinated loan agreement shall be indicated here. The date format shall be in accordance with international standard ISO 8601 (yyyy-mm-dd). In the case of an agreement with an unspecified term, the identification code shall not be indicated.

5) Amount included in the composition of own funds

The amount in which the subordinated loan is included in the composition of own funds shall be indicated here. The amount shall be indicated in the corresponding currency in thousands of units rounded to a full number.

6) Tier of own funds

Upper Tier 2 own funds ……………………………………………... 1

Lower Tier 2 own funds ...…………………………………………... 2

Tier 3 own funds ……………………………………..………….. 3

[RTL 2003, 39, 577; entered into force 01.04.2003]

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[1] Closed foreign-exchange position shall protect the credit institution from losses resulting from changes in the exchange rate of the foreign currency, but it might not protect the capital adequacy ratio. If the credit institution's capital is denominated in the local currency and the institution has closed positions in foreign currencies, the relation between the assets and capital shall decrease in case the exchange rate of the local currency drops.

[2] In the case of the simplified approach, the capital requirement against options risk on foreign currency options shall be calculated and the capital requirement against foreign-exchange risk shall not be calculated.

[3] Euro of the European Union and units of the national currencies of the countries that have adopted the single currency shall be treated as one currency and shall be calculated as a joint position.

[4] In the case of floating-rate positions, the interest rate fixed on the last interest-fixing date shall be taken into account.

[5] Euro of the European Union and units of the national currencies of the countries that have adopted the single currency shall be treated as one currency and shall be calculated as a joint position.

[6] Such swaps include, for example, interest-rate swaps based on the interest rates of interbank money markets.

[7] For example, where the total of long positions in a maturity band is 10 and the total of short positions in the maturity band is 7, matched position shall be 7 and the unmatched long position shall be 3.

[8] Residual unmatched positions shall not be taken into account in the calculation of the sum of the absolute values of all unmatched positions between all maturity bands, because a different capital requirement applies thereto.

[9] Caps and floors, for example.

[10] Presuming that the capital requirement against specific risk is 8% and against general risk – also 8%.

[11] This means that the exposures of a credit institution to a client or a group of connected persons, in the calculation of which only the credit exposures arising from the banking portfolio have been taken into account, shall not exceed the limit specified in clause 4.1 of the "Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis".

[12] The overall open net foreign exchange position shall be taken into account in the calculation of capital adequacy in case it exceeds 2% of the net own funds of the credit institution.

Annex 3

Approved by
Regulation No. 12 of the Governor of Eesti Pank of 2 July 2002

PRINCIPLES OF CALCULATING EXPOSURES INCURRED BY CREDIT INSTITUTIONS AND PROCEDURE FOR REPORTING ON SOLO AND CONSOLIDATED BASIS

1. General

1.1. These "Principles of Calculating Exposures Incurred by Credit Institutions and Procedure for Reporting on Solo and Consolidated Basis" (hereinafter principles) are based on the following European Union directives: 1) Directive Relating to the Taking Up and Pursuit of the Business of Credit Institutions (2000/12/EC), 2) Directive on the Capital Adequacy of Investment Firms and Credit Institutions (93/6/EC), amended by 98/31/EC and 98/33/EC.

1.2. These principles apply to credit institutions on both solo and consolidated basis. In the calculation of large exposures on solo basis, the credit institution's credit exposures to a client and the credit institution's net own funds shall be taken into account. In the calculation of large exposures on consolidated basis, the credit exposures of the credit institution and the companies belonging to the consolidation group of the credit institution to a client and the credit institution's net own funds on consolidated basis shall be taken into account.

1.3. Net own funds shall be calculated pursuant to Chapter X of the "Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis" (hereinafter principles of capital adequacy).

1.4. A credit institution shall record credit exposures according to the format set out in clause 6 of these principles.

1.5. A credit institution shall constantly monitor large exposures.

1.6. Where a credit institution has no positions subject to large exposures, the institution shall inform the Financial Supervision Authority thereof in writing.

1.7. A credit institution is required to implement prudent risk management and accounting and appropriate internal controls in order to determine and indicate all large exposures and changes therein and thereby enhance the institution's control over such large exposures.

1.8. Pursuant to subsection 82 (2) of the Credit Institutions Act, a credit institution and the companies belonging to the same consolidation group as the credit institution shall have strategies, approved by the competent directing body, for risk monitoring, risk management and risk assessment, including strategies for monitoring and management of exposures.

1.9. A credit institution is required to inform the Financial Supervision Authority, in writing, of the strategy for the monitoring and management of exposures and of any changes thereto prior to the implementation thereof.

2. Definitions

2.1. Credit exposures shall include all assets, off-balance-sheet items and derivative instruments associated with credit risk.

2.2. Credit exposures shall not include:
1) positions deducted from gross own funds in the calculation of own funds;
2) claims that arise in the course of settlements concerning foreign-exchange transactions, where the reporting institution has fulfilled its obligations but has not received a return payment. Such claims shall not be included in credit exposures if up to two banking days have passed since the making of the payment. After the said period, such claims shall be considered as credit exposures;
3) claims that arise in the course of settlements concerning securities transactions, where the "age" of such claims is no more than five banking days. Such claims arise where a payment is made or securities transferred before the receipt of securities or a return payment. After the said period, such claims shall be considered as credit exposures.

2.3. Large exposures shall mean the ratio of a credit institution's credit exposures to net own funds expressed as a percentage. Large exposures shall be calculated separately for each client or group of connected persons. Exposures are deemed to be large if they amount to 10% or more.

2.4. The term “group of connected persons” shall be used within the meaning of subsection 85 (3) of the Credit Institutions Act. In addition to that, the fact that persons are interconnected shall be assessed on the basis of:
1) shared owners;
2) shared managers;
3) mutual guarantees;
4) mutual dependency in the field of business which cannot be renounced within a short period of time and all other connections, provided that they result in a situation where, if one of the persons were to experience financial problems, the other or others would also be likely to encounter repayment difficulties.

2.5. In the case of a group of connected persons, the credit exposures to each individual person shall be added up and treated as a joint credit exposure to the group of connected persons.

2.6. The Financial Supervision Authority has the right to exclude the client of a credit institution or a company belonging to the consolidation group of the credit institution from the criterion of being connected, if there is reason to believe that the level of being connected is not relevant for the client.

3. Calculation of credit exposures

3.1. In the calculation of the value of credit exposures, the following shall be taken into account:
1) book value of the assets (assets, the write-downs of which are indicated in separate balance sheet items, shall be included in their net value);
2) the nominal value of off-balance-sheet items specified in clause 3.2 of Chapter II of the principles of capital adequacy (off-balance-sheet items, the write-downs of which are indicated in balance sheet items, shall be included in their net value and credit limits – in the amount the credit limit is unused);
3) derivative instruments listed in Annex II to the principles of capital adequacy according to the credit equivalents calculated using the methods set out in clauses 3.3.2 and 3.3.3 of Chapter II of the said principles.

3.2. If a credit institution calculates the capital requirement against trading book risks, the credit institution shall calculate credit exposures to a client arising from the banking portfolio and from the trading book separately.

3.3. The exposures to individual clients which arise on the trading book shall be calculated by summing the positions calculated pursuant to clauses 3.3.1, 3.3.2 and 3.3.3.
3.3.1. The excess - where positive - of an institution's absolute value of long positions over its absolute value of short positions in all the financial instruments issued by the client in question. The positions are calculated pursuant to the procedure established in Chapter IV of the principles of capital adequacy.
3.3.2. In the case of securities underwriting, the credit institution's exposure shall be its net exposure (which is calculated by deducting those underwriting positions which are subscribed or sub-underwritten by third parties on the basis of a formal agreement) reduced by the reduction factor set out in clause 2.9 of Chapter IV of the principles of capital adequacy. Credit institutions shall develop and set up systems to monitor and control their underwriting exposures between the time of the initial commitment and the first banking day.
3.3.3. The exposures due to the transactions, agreements and contracts referred to in Chapters V and VI of the principles of capital adequacy with the client in question. Such exposures shall be calculated pursuant to the procedure established in Chapters V and VI of the said principles and credit risk weighting is not applied.

3.4. A credit institution‘s exposures to groups of connected clients on the trading book shall be calculated by summing the exposures to individual clients in a group of connected clients.

3.5. A credit institution‘s overall exposures to individual clients or groups of connected clients shall be calculated by summing the exposures which arise on the trading book and the exposures which arise on the banking book of an individual client or a group of connected clients.

4. Limits of large exposures

4.1. A credit institution shall monitor the following limits of large exposures:
4.1.1. Pursuant to subsection 85 (4) of the Credit Institutions Act, exposures of a credit institution to a client or a group of connected persons shall not, in any case, exceed 25 %. This limit does

not apply to the parent undertaking and subsidiaries subject to supervision on a consolidated basis.
4.1.2. Pursuant to subsection 85 (5) of the Credit Institutions Act, if a client or a group of connected persons is the parent undertaking, a subsidiary or an affiliated undertaking of a credit institution or a subsidiary of the parent undertaking of the credit institution, large exposures of the credit institution with respect thereto shall not exceed 20 %. This limit does not apply to the parent undertaking and subsidiaries subject to supervision on a consolidated basis.
4.1.3. Pursuant to subsection 85 (6) of the Credit Institutions Act, exposures to persons connected with the credit institution or to shareholders of the credit institution and shareholders of companies belonging to the same group as the credit institution if such shareholders hold more than 1 % of the share capital of the companies shall not in total exceed 5 %. This limit does not apply to the parent undertaking and subsidiaries subject to supervision on a consolidated basis.
4.1.4. Pursuant to subsection 85 (7) of the Credit Institutions Act, a credit institution shall not incur large exposures which in total exceed 800 %.

4.2. The limits specified in clauses 4.1.1 to 4.1.3 may be exceeded provided that the conditions specified in clauses 4.2.1 to 4.2.5 are met at the same time.
4.2.1. In the case of exceeding the limits on exposures of a credit institution to a client or a group of connected persons, the excess arises entirely on the trading book[1].

4.2.2. If a limit is exceeded, additional capital requirements shall be calculated. Additional capital requirements shall be calculated by selecting the positions of those instruments of the total trading book exposure to the client or group of clients in question which attract the highest specific-risk capital requirements in accordance with the procedure established in clauses 7 and 8 of Chapter IV of principles of capital adequacy and the sum of which equals the amount of the excess referred to in clauses 4.1.1 to 4.1.3. Where the excess has persisted for less than ten days, the additional capital requirement shall be 200 % on the components exceeding the limits referred to in clauses 4.1.1 to 4.1.3. As from ten days after the excess has occurred, the components of the excess shall be allocated to the table below on the basis of specific-risk capital requirements. The additional capital requirement shall then be calculated by multiplying the capital requirements against specific risk on instruments by the factors set out in column 2 of the table in clause 4.2.3 of these principles.
4.2.3. Factors for excess

Excess (% of net own funds):	Factor
• up to 40%	200%
• 40% to 60%	300%
• 60% to 80%	400%
• 80% to 100%	500%
• 100% to 250%	600%
• exceeding 250%	900%

4.2.4. Where ten days or less has elapsed since the excess occurred, the trading-book exposure to the client or group of connected clients in question must not exceed 500 % of the credit institution's net own funds.

4.2.5. Any excesses which have persisted for more than ten days must not, in aggregate, exceed 600% of the credit institution's net own funds.

5. Exemptions from limits

5.1. Where the credit exposures of a credit institution are exempt from the limits pursuant to the conditions set out in clause 5.2 of these principles, the credit institution shall preserve the information which is the basis for the exemption for at least a year after the creation of the situation which is the basis for the exemption.

5.2. Positions described in clauses 5.2.1 to 5.2.9 of these principles shall be exempt from the limits of large exposures.

5.2.1. A credit institution's credit exposures which, according to the risk classification of assets set out in clause 2.2 of Chapter II of the principles of capital adequacy, fall into category I:

1) claims on Zone A central governments and central banks;
2) claims carrying the explicit guarantees of Zone A central governments and/or central banks;
3) claims on the European Communities;
4) claims carrying the explicit guarantees of the European Communities;
5) claims on Zone B central governments and central banks denominated and funded in the national currencies of the borrowers;
6) claims carrying the explicit guarantees of Zone B central governments and/or central banks denominated and funded in the national currency common to the guarantor and the borrower;

7) asset items secured by collateral in the form of Zone A central government or central bank securities or securities issued by the European Communities;
8) claims secured by cash deposits placed with the lending credit institution or by certificates of deposit or similar instruments issued by and lodged with the latter;
9) claims on the central government (incl. state agencies and government agencies) and the central bank of Estonia;
10) claims carrying the explicit guarantees of the central government (incl. state agencies and government agencies) and the central bank of Estonia;
11) claims secured by collateral in the form of securities issued by the central government or central bank of Estonia.
5.2.2. Credit exposures fully secured by cash deposits placed with the lending institution or a credit institution which is the parent undertaking or subsidiary of the lending institution.
5.2.3. Credit exposures secured by certificates of deposit issued by and lodged with the lending institution or a credit institution which is the parent undertaking or subsidiary of the lending institution.
5.2.4. Claims with a maturity of one year or less, on credit institutions, which are not recognised as components of their own funds.

5.2.5. Credit exposures secured by securities. The securities used as collateral must be valued at market price, have a value that exceeds the exposures guaranteed and be either traded on a stock exchange or effectively negotiable and regularly quoted on a market operated under the auspices of recognised professional securities market participants. The excess value required shall be 100%, it shall, however, be 150% in the case of shares and 50% in the case of debt securities issued by credit institutions, regional or local authorities of the European Union, and in the case of debt securities issued by multilateral development banks. Securities used as collateral may not constitute credit institutions' own funds. The given approach shall not apply to securities referred to in clause 5.2.1 of these principles or to securities issued by the reporting credit institution itself, its parent company or one of their subsidiaries, or by the client or group of connected clients with regard to whom large exposures are calculated.

5.2.6. Claims which comply with the requirement of claims secured by a mortgage according to the classification of risks set out in clause 2.2.3 of Chapter II of the principles of capital adequacy, up to 50% of the value of the claims indicated in the given risk category. Valuation of real property encumbered with a mortgage shall be carried out at least once a year.

5.2.7. 50% of the medium/low-risk off-balance-sheet items referred to in the classification set out in clause 3.2.2 of Chapter II of the principles of capital adequacy.
5.2.8. The low-risk off-balance-sheet items referred to in the classification set out in clause 3.2.2 of Chapter II of the principles of capital adequacy, to the extent that an agreement has been concluded with the client or group of connected persons under which the exposure may be incurred only if it has been ascertained that it will not cause the limits applicable under clauses 4.1 to 4.1.3 of these principles to be exceeded.
5.2.9. In the calculation of credit exposures on solo basis, the credit institution's credit exposure to the companies and parent undertaking belonging to its consolidation group.

5.3. Where a credit institution's credit exposure to a client is directly and unconditionally guaranteed by a third party, the guaranteed part may be treated as having been incurred to the third party rather than to the client.

5.4. In order to apply the approach described in clause 5.3 of these principles, the credit institution shall apply for the prior written consent of the Financial Supervision Authority.

6. Report on large exposures

6.1. Purpose of report

The obtaining of data required for the calculation of large exposures.

6.2. Area of report

Credit exposures of the client or a group of connected persons of a credit institution or a company belonging to the consolidation group of the credit institution which exceeds 10% of the net own funds of the credit institution calculated on solo or consolidated basis and credit exposures to persons connected with the credit institution or to shareholders of the credit institution according to the treatment set out in clause 4.1.3 of these principles. Positions which are not included in credit exposures pursuant to clause 2.2 of these principles shall not be recorded in the report, unless otherwise prescribed by the principles for compiling the report.

6.3. Submission of report

Reports shall be sent to the Financial Supervision Authority by electronic means. If there are no data in the area of the report, a blank report shall be submitted.

The report code for large exposures shall be 130 on solo basis and 1300 on consolidated basis.

6.4. Reporting period

The reporting period shall be a calendar month on solo basis and a quarter on consolidated basis.

6.5. Term for submission of report

A report on solo basis shall be submitted by the fifth banking day of the month following the reporting period and on consolidated basis within one month following the reporting period.

6.6. Structure of report lines

1) group identification code
2) name of client
3) client's registration number
4) on-balance-sheet credit exposure arising on the banking portfolio
5) off-balance-sheet credit exposure arising on the banking portfolio
6) credit exposure arising on the trading book
7) positions exempt from limits the credit risk of which is 0%
8) claims with a maturity of one year or less, on credit institutions, which are exempt from limits
9) secured claims which are exempt from limits
10) off-balance-sheet commitments which are exempt from limits
11) credit exposures of companies belonging to the consolidation group which are exempt from limits
12) other credit exposures which are exempt from limits
13) equities
14) claims not paid by the due date
15) allowance

6.7. Explanation to the structure of report lines

1) Group identification code

Where clients are a group of connected persons, they shall be indicated by a single number which is the identification code of the group. Companies belonging to the same consolidation group with the credit institution shall be indicated by the joint identification code 9. Persons connected with the credit institution shall be indicated by the joint identification code 10. Credit exposures of companies designated by the identification code 9 shall be indicated only on solo basis.

2) Name of client

The name of the client shall be indicated here in such a manner that it shall contain neither quotation marks nor semicolons. Persons connected with the credit institution shall be indicated as one line and, in such case, the name of the client shall be “Persons connected with the credit institution”.

3) Client’s registration number

The client’s registration number or commercial registry code shall be indicated here. If the name of the client is “Persons connected with the credit institution”, the identification code shall not be indicated.

4) On-balance-sheet credit exposure arising on the banking portfolio

On-balance-sheet credit exposure arising on the banking portfolio as at the end of the reporting period according to clause 3.1 of these principles shall be indicated here in thousands of Estonian kroons rounded to a full number. Credit exposures denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

5) Off-balance-sheet credit exposure arising on the banking portfolio

Off-balance-sheet credit exposure arising on the banking portfolio as at the end of the reporting period according to clause 3.1 of these principles shall be indicated here in thousands of Estonian kroons rounded to a full number. Off-balance-sheet credit exposures denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period.

6) Credit exposures arising on the trading book

Credit exposures arising on the trading book according to clause 3.3 of these principles shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number. Credit exposures denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. If the credit institution does not calculate capital requirements against trading book risks, the value of the exposure shall be 0 and the exposure arising on the trading book shall be indicated as the exposure arising on the banking portfolio.

7) Positions exempt from limits the credit risk of which is 0%

Such part of credit exposures indicated on the report line, the credit risk of which is 0% according to clause 5.2.1 of these principles, shall be indicated here. The position shall be indicated as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

8) Claims with a maturity of one year or less, on credit institutions, which are exempt from limits

Claims on credit institutions with a maturity of one year or less, which are included in credit exposures indicated on the report line, according to clause 5.2.4 of these principles shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number

9) Secured claims which are exempt from limits

Such part of credit exposures indicated on the report line, which is secured by cash deposits, certificates of deposit, securities or mortgages and which is exempt from limits according to clauses 5.2.2, 5.2.3, 5.2.5 and 5.2.6 of these principles shall be indicated here. The positions shall be indicated as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

10) Off-balance-sheet commitments which are exempt from limits

Such part of off-balance-sheet credit exposures indicated on the report line, which is exempt from limits according to clauses 5.2.7 and 5.2.8 of these principles, shall be indicated here. The position shall be indicated as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

11) Credit exposures of companies belonging to the consolidation group which are exempt from limits

The credit exposures of companies belonging to the consolidation group of the credit institution which, according to clause 5.2.9 of these principles, are exempt from limits shall be indicated here.

12) Other credit exposures which are exempt from limits

Other credit exposures which are exempt from limits shall be indicated here.

13) Holdings included in banking portfolio

The book value of shares of clients or groups of connected persons indicated in the credit exposures arising on the banking portfolio shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

14) Claims not paid by the due date

The sum of claims of clients or groups of connected persons which have not been paid by the due date shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

15) Allowance

The sum of the allowances of the credit exposures indicated on the report line shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

[1] This means that a credit institution's large exposures to a client or a group of connected persons, in the calculation of which only credit exposures arising on the banking portfolio have been taken into account, shall not exceed the limits set out in clauses 4.1.1 to 4.1.3.

Annex 4

Approved by

Regulation No. 12 of the Governor of Eesti Pank of 2 July 2002

PRINCIPLES OF CALCULATING INVESTMENTS OF CREDIT INSTITUTIONS AND PROCEDURE FOR REPORTING ON SOLO AND CONSOLIDATED BASIS

1. General

1.1. Investment is the acquisition of movables subject to entry in a register, except securities, and immovables or financial fixed assets for the purpose of long-term use thereof. Financial fixed assets are holdings in other companies by way of shares acquired for use on a continuing basis and for gaining profit during an extended period.

1.2. Pursuant to subsection 82 (2) of the Credit Institutions Act, a credit institution and the companies belonging to the same consolidation group as the credit institution shall have systems and strategies for risk monitoring, risk management and risk assessment which are appropriate and sufficient for their activities, including an investment strategy. A credit institution shall inform the Financial Supervision Authority of the investment strategy and amendments thereto in writing prior to the implementation thereof.

2. Investment restrictions

2.1. In these principles, investment restrictions shall be treated pursuant to § 81 of the Credit Institutions Act.

2.2. The management board of a credit institution is required to inform the Financial Supervision Authority promptly if any limits are exceeded and about the schedule for the elimination of any excesses.

3. Net own funds

Net own funds shall be determined pursuant to Chapter X of the "Principles of Calculating Capital Adequacy of Credit Institutions on Solo and Consolidated Basis".

4. Statements of investments

4.1. Area of statements

The investments of a credit institution or a company belonging to the consolidation group of the credit institution according to the principles for compiling statements of investments.

4.2. Format

Statements shall be sent to the Financial Supervision Authority by electronic means. If there are no data in the area of the statement, a blank statement shall be submitted. The code for a statement of investments in financial fixed assets shall be 140 on solo basis and 1400 on consolidated basis. The code for a statement of investments (exc. financial fixed assets) shall be 141 on solo basis and 1410 on consolidated basis.

[RTL 2002, 112, 1623; 05.10.2002]

4.3. Statement of investments in financial fixed assets
4.3.1. Structure of statement lines:
1) type of investment
2) name of company
3) registration number of the company
4) value of the financial fixed assets
5) equities
6) equities / share capital of the undertaking
7) votes
4.3.2. Explanation to the structure of statement lines
1) Identification codes for types of investments:

investments in companies ………………………………………………….. 1

investments in credit and financial institutions …………………………….. 2

investments in ancillary undertakings ………………………………..….. 3

financial fixed assets acquired in order to prevent or avoid loss, which are not kept for a period longer than a year ……………………………………..………………4

financial fixed assets acquired in order to underwrite an issue of securities, which are not kept for a period longer than a year ……………………………………...………5

All investments in financial fixed assets, except those which are exempt from investment restrictions, shall be indicated under type 1 of investments. Investments which are exempt from investment restrictions shall be indicated under types 2, 3, 4 or 5 of investments. Investments in financial institutions which are also ancillary undertakings of the credit institution or its consolidation group shall be indicated by the identification code 3. Where the arranging of an issue of securities is simultaneously accompanied by underwriting the issue, it shall be treated as an investment in financial fixed assets acquired in order to underwrite an issue of securities and indicated by the identification code 5.

2) The name of the company

The name of the company shall be indicated here in such a manner that it shall contain neither quotation marks nor semicolons. In the case of investments which do not result in the acquisition of a qualifying holding, the name of the company shall be indicated as “Others”.

3) The registration number of the company

The registration number or commercial registry code of the company shall be indicated here. If the name of the company is indicated as “Others”, the identification code shall be 0 (zero).

4) Value of the financial fixed assets

Book value of the financial fixed assets shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number. In the case of types 4 and 5 of financial fixed assets, the value of the financial fixed assets shall be 0 (zero). All financial investments which do not result in the acquisition of a qualifying holding shall be indicated as a sum total and reported by identification code 1.

5) Equities

Book value of the equities which are included in financial fixed assets shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

6) Equities / share capital of the undertaking

The proportion of shares acquired as financial fixed assets in the share capital of the undertaking expressed as a ratio.

7) Votes / total votes of the undertaking

The proportion of votes held by the credit institution or its consolidation group in the total votes of the company expressed as a ratio.

4.4. Statement of investments (exc. financial fixed assets)

4.4.1. Structure of statement lines

1) type of investment

2) name of investment

3) value of investment

4.4.2. Explanation to the structure of statement lines

1) Identification codes for types of investments:

investment …………………………………………………………….. 1

investment acquired in order to prevent or avoid loss ………..…………. 2

investment in immovable property which is necessary for the credit institution to carry out its principal and permanent activities ………………………………………..3

Investments in financial fixed assets shall not be considered as investments. Investments acquired in order to prevent or avoid loss and investments in immovable property which is necessary for the credit institution to carry out its principal and permanent activities shall not be indicated under type 1 of investments.

2) Name of investment

The name of the investment shall be indicated here in such a manner that it shall contain neither quotation marks nor semicolons.

3) Value of investment

The book value of the investment shall be indicated here as at the end of the reporting period in thousands of Estonian kroons rounded to a full number.

5. Frequency and terms of reporting

The reporting period of statement of investments shall be a month on solo basis and a quarter on consolidated basis. Credit institutions shall submit statements of investments on solo basis to the Financial Supervision Authority by the fifth banking day of the month following the reporting period and within an interim report on consolidated basis not later than one month after the end of the reporting period.

Annex 5
Approved by
Regulation No. 12 of the Governor of Eesti Pank of 2 July 2002

PRINCIPLES OF CALCULATING LIQUIDITY OF CREDIT INSTITUTIONS AND PROCEDURE FOR REPORTING ON SOLO AND CONSOLIDATED BASIS

1. General

1.1. Pursuant to subsection 80 (1) of the Credit Institutions Act, a credit institution shall invest its assets such that the satisfaction of justified claims of creditors, i.e. liquidity, is guaranteed at all times.

1.2. Pursuant to subsection 82 (2) of the Credit Institutions Act, a credit institution shall have strategies, approved by the competent directing body, for risk monitoring, risk management and risk assessment, including a strategy for liquidity management. A credit institution shall inform the Financial Supervision Authority of the strategy for liquidity management and amendments thereto in writing prior to the implementation thereof.

1.3. Pursuant to subsection 80 (2) of the Credit Institutions Act, the managers of a credit institution are responsible for the management of assets and commitments such that financing is not based on funds which are too short-term or insufficient. The managers are also required to pay attention to the terms of claims and commitments so that the activities of the credit institution shall not be endangered by the expiry of such terms. A credit institution must be able to perform its obligations on time. In liquidity management, financing instruments, such as credit lines and standby loans, shall be taken into consideration, since these instruments may affect the liquidity of a credit institution unexpectedly.

1.4. Pursuant to clause 104 5) of the Credit Institutions Act, the Financial Supervision Authority has the right to require improvement of the ratio of liquid assets and current liabilities. A credit institution shall monitor its liquidity on the basis of cash flows (the report format is set out in clause 2 of these principles).

2. Liquidity report

2.1. Area of report

Only such on- and off-balance-sheet transactions which are accompanied or may be accompanied by cash flows shall be recorded in the report.

2.2. Format

Reports shall be sent to the Financial Supervision Authority by electronic means. If there are no data in the area of the report, a blank report shall be submitted. The liquidity report code shall be 110. The sum of such net commitments or claims, the identification codes of which are the same, shall be indicated as one line.

[RTL 2002, 112, 1623; 05.10.2002]
2.2.1. Structure of report lines
1) type of item
2) classification of item
3) country code
4) client
5) maturity
6) balance
2.2.2. Explanation to the structure of report lines
1) Identification codes of types of items:

commitment …………………………………………………... 1

claim …………………………………………….……………….. 2

2) Identification codes of classification of items:
On-balance-sheet:
deposit ……………………………………….…………………… 1

loan ……………………………………………………………. 2

bonds or securities with a fixed rate of return ……..………………3

equities ………………………………………………………. 4

government loan funds and foreign aid funds ……..…………….. 5

other commitments or claims …………………………………... 6

subordinated debt ………………………………………………... 7

Off-balance-sheet:

commitments and claims accompanied by cash flows ………….   8

commitments and claims which may be accompanied by cash flows…9

3) Country code
The country according to the client's residence shall be indicated here. The country code shall be determined according to the table of two-letter codes for countries and territories of the international standard ISO 3166 and indicated in capital letters.
4) Client identification code
central government ………………………………………………   1

local government ……………………………………………… 2

state social security fund ……………………………………….. 13

non-budgetary fund ……………………………………………. 3

insurance institution and pension fund …………………………... 4

other financial institution ………………………………………… 5

credit institution …………………………………………………… 6

state and local government companies ……………………………. 7

other company …………………………………………………….. 8

non-profit association ……………………………………………… 9

private person …………………………………………………… 10

central bank ……………………………………………………… 12

In the case of bonds issued by a credit institution, the purchaser of the bonds shall be the client. In the case of equities, the client identification code shall be determined according to the issuer.

5) Identification codes for maturity:

on demand ……………………………………………………….. 2

unpaid by due date …………………………………………….. 26

up to 1 banking day …………………………………………… 14

1 to 2 banking days …………………………………………… 15

2 to 3 banking days …………………………………………… 16

3 to 4 banking days …………………………………………… 17

4 to 5 banking days …………………………………………… 18

5 to 10 banking days …………………………………………… 19

10 banking days to 1 month …………………………………… 20

1 to 2 months …………..…………………………………… 12

2 to 3 months …………..…………………………………… 13

3 to 4 months …………..…………………………………… 21

4 to 5 months …………..…………………………………… 22

5 to 6 months …………..…………………………………… 23

6 to 12 months …………..…………………………………… 5

1 to 2 years …………………………………………………… 6

2 to 5 years …………………………………………………… 24

over 5 years ………………………………………………….. 25

The identification code for maturity shall be determined according to the residual maturity.

Incoming cash flows shall be treated according to the latest receipt and outgoing cash flows – according to the earliest outgoings. In the given context, possible termination of the contract prior to the maturity date of the contract shall not be considered as residual maturity of the contract. Assets which are not liquid and do have a specific residual maturity shall be indicated in the column of residual maturity exceeding 5 years.

Liquid assets shall be indicated in the period of time during which it is actually possible to create a cash flow as a result of marketing such assets.

6) Balance

The balance shall be the net commitments or claims corresponding to the identification codes as at the end of the reporting period in thousands of Estonian kroons rounded to a full number. Assets and commitments denominated in a foreign currency shall be converted into Estonian kroons according to the exchange rate set by Eesti Pank as at the last banking day of the reporting period. Liquid assets shall be indicated in the value in which such assets can be rapidly realised without any significant financial losses. Doubtful claims shall be deducted from claims.

3. Frequency and terms of reporting

The reporting period of a credit institution's liquidity report shall be a month. Credit institutions shall submit liquidity reports to the Financial Supervision Authority by the fifth banking day of the month following the reporting period.

Annex 6 [repealed – RTL 2002, 112, 1623; 05.10.2002]

[1] *Eesti Pank = the Bank of Estonia*

[2] RTL = *Riigi Teataja Lisa = Appendix to the State Gazette*