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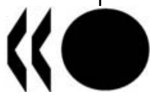

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PROPOSALS FOR A REVISION OF OECD BANKING STATISTICS AND INDICATORS
(based on IAI/IFRS and IMF/FSI)

To be held on 13-14 October 2008
Tour Europe, Paris la Défense
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This document has been prepared by Hakan Atasoy, Consultant at the OECD and Michèle Chavoix-Mannato, OECD and will be presented under item 3 of the draft agenda

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PROPOSALS FOR A REVISION OF OECD BANKING STATISTICS AND INDICATORS

(based on IAI/IFRS and IMF/FSI)

1 At its 2006 meeting the WPFS decided to create a small electronic discussion group (EDG) of countries' experts volunteer to assist the Secretariat to review the list of financial statements items included in Bank Profitability in accordance with the IMF exercise on Financial Soundness Indicators (CCE) as well as to take into account evolving international accounting standards and their impact on banking statistics.

2 The role of this group, which was created on 20 April 2007, was to think about the modifications to bring to the OECD database on Bank Profitability and to present their proposals to the WPFS Delegates. The final list of national experts has been slightly modified in the following months and extended to IMF and ECB.[1]

3 In order to help the Secretariat to carry out this revision and to help the EDG to discuss all aspects of this review exercise, the Bank of Turkey has offered, for one year, the detachment of a member of its staff[2] whose mission was:

- to prepare detailed documents for discussion by the EDG's members
- to propose a revised list of income statement items, balance sheet items, memorandum items and ratios to replace the current list of the OECD Bank Profitability database
- and to present an OECD new structure to be discussed by delegates at the October 2008 WPFS meeting.

4 In the present document you will find the list and precise definitions of all income statement items (section I), balance sheet items (section II), memorandum items (section III), the list of financial soundness indicators for banks (section IV) of the proposed OECD new structure and the coverage and consolidation basis (section V). It should be mentioned that taking into account the international accounting standards and banking accounting practices for the new structure have created some differences between the OECD new structure and the recommended structure in the IMF Guide[3]. In each section, these

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1 Lest of countries: Finland, Italy, Spain, United-Kingdom, Canada, United States, ECB and IMF.

2 Hakan Atasoy, Specialist, The Central bank of Turkey (CBRT), Banking and Financial Institutions Department, Financial Sector Assessment Division

3 It has been preferred to follow international financial reporting standards and accounting practices of banks that report to IFRS in the new structure owing to the vast implementation of these standards amoung the member countries. According to the publication of "IFRS in your pocket 2008" by Deloitte, among the 30 OECD countries, only five counties (Canada, Korea, Mexico, United States and Japan) do not permit IFRSs for domestic listed companies. However, IFRSs will be required for domestic listed companies from 2011 in Canada and Korea.

differences have also been explained briefly. In the appendix, the full list of items of the OECD new structure, of the current OECD framework, of the recommended structures in the IMF Guide and in the European Financial Reporting Framework (FINREP) can be found.

I. INCOME STATEMENT

I.1 List and definitions of income statement items

1 Interest income

This item includes income on interest bearing assets. Interest income includes coupon earned on fixed and floating rate income instruments and the accretion or amortisation of the discount or premium. Interest income and expense are recognised in the income statement for all interest bearing instruments (whether classified as held to maturity, available for sale, held at fair value through profit or loss or derivatives) on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the effective interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate.

2 Interest expenses

This item includes interest paid on liabilities. Interest income and expense are recognised in the income statement for all interest bearing instruments (whether classified as held to maturity, available for sale, held at fair value through profit or loss or derivatives) on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. Fees that are an integral part of the effective interest rate of a financial instrument are generally treated as an adjustment to the effective interest rate.

3 Net interest income (1-2)

4 Net non-interest income (a+b-c+d+e+f)

4.a Dividend income

According to IAS 18.35 (b), an entity shall disclose revenue arising from dividends. This item includes dividend income from (i) financial assets held for trading, (ii) financial assets designated at fair value through profit or loss and (iii) available for sale financial assets. Dividends are recognised when the entity's right to receive payment is established.

4.b Fee and commission income

According to IFRS 7.20 (c), an entity shall disclose fee income (other than amounts included in determining the effective interest rate). This item includes fee and commission income from loan commitments, payment services, structured finance, trust and fiduciary activities, clearing and settlement, securitization activities and securities. Fees are generally recognised as revenue as the services are provided. Fees arising from negotiating or participating in the negotiation of a transaction from a third party are recognised upon completion of the underlying transaction.

4.c Fee and commission expense

According to IFRS 7.20 (c), an entity shall disclose fee expense (other than amounts included in determining the effective interest rate).This item includes fee and commission expense from clearing and settlement, custody, servicing fees for securitization activities and commissions to agents (acquisition costs).

4.d Gains (losses) on financial instruments

According to IFRS 7.20 (a) an entity shall disclose (i) net gains or net losses on financial assets and financial liabilities at fair value through profit or loss, (ii) available for sale financial assets, (iii) held to maturity investments, (iv) loans and receivables and (v) financial liabilities measured at amortised cost. This item includes realised gains (losses) on financial assets and liabilities not measured at fair value through profit or loss, gains (losses) on financial assets and liabilities held for trading, gains (losses) on financial assets and liabilities designated at fair value through profit or loss, gains (losses) from hedge accounting and exchange differences.

4.e Share of earnings of associates and joint ventures

This item covers the share -on the basis of the share of equity owned- of net income after tax from associates, joint ventures accounted for using the equity method. According to IAS 28.31, investments in associates accounted for using the equity method shall be classified as non-current assets and the investor's share of the profit or loss of such associates, and the carrying amount of those investments shall be disclosed separately. The ownership share of net income for the year is recognised in this item and the share in the investment's post-acquisition direct equity movements are recognised in total equity. Losses are recognised until the carrying amount of the investment is reduced to nil and further losses are only recognised to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of an associate.

4.f Other income

This item includes gains (losses) on derecognition of assets other than held for sale, other net operating income, any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation and negative goodwill immediately recognised in profit or loss. Gains (losses) on derecognition of property, plant and equipment, investment property, intangible assets, investment in associates, subsidiaries and joint ventures, income from operating leases, rental and other income from investment property are all included in this item.

5 Total income (3+4)

6 Operating expenses (a+b+c)

6.a Staff expenses

This item includes salaries and other employee benefits. It covers short-term employee benefits, post employment benefits, other long term employee benefits, termination benefits and equity compensation benefits. This item comprises salaries including bonuses and allowances, social security expenses, pension and post retirement healthcare costs, share based payment expenses, temporary staff costs, termination payments and other employee costs (IAS 1.91).

6.b General and administrative expenses

This item includes general and administrative expenses such as marketing expenses, professional fees, IT expenses, rent and other administration costs such as staff related expenses (including training), travel and transport, stationary and printing expense, communication and information etc.

6.c Other expenses

This item includes other expenses such as depreciation expenses (IAS 1.93) for plant, property equipment, investment properties and intangible assets (other than goodwill), impairment losses on non financial assets (IAS 36.126 (a)) such as property, plant and equipment, investment properties, goodwill and intangible assets, investments in associates and joint ventures accounted for using the equity method and provision expenses (IAS 37.84). Non-financial assets are impaired when their carrying amount exceeds their recoverable amount. For non-financial assets, recoverable amount is measured as the highest of the fair value less cost to sell and the value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

7 Impairment losses on financial assets

When the carrying amount of the impaired asset is greater than recoverable amount - estimated by discounting the expected future cash flows using original effective interest rate - the carrying amount of the asset should be reduced to its estimated recoverable amount either directly or through use of an allowance account, with the loss included in net impairment losses for the period (IAS 39). A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. For equity securities, the triggers used to determine whether there is objective evidence of impairment include the consideration whether the fair value is substantially below cost at the balance sheet date, or has been below cost for a prolonged period at the balance sheet date. Recoveries, write-offs and reversals of impairment are included in the income statement as part of change in impairment. If in a subsequent the amount of the impairment on assets other than goodwill or available for sale equity instruments decreases, due to an event occurring after the write down, the amount is reversed by adjusting the impairment and is recognised in the income statement. This item includes impairment on financial assets not measured at fair value through profit or loss. It covers impairment on loans and receivables, held to maturity investments, available for sale financial assets and financial assets measured at cost (unquoted equity).

7.a Impairment losses on loans

Provisions on loans are net new allowances that are made in the period against bad or impaired loans, based on the judgement as to the likelihood of losses. Impairments should be reduced if there is an overprediction of expected losses in an earlier period.

7.b Impairment losses on other financial assets

This item includes impairment losses against any other financial assets not measured at fair value through profit or loss other than loans and receivables. Impairments should be reduced if there is an overprediction of expected losses in an earlier period.

8 Total profit or loss before tax from continuing operations (5-6-7)

9 Tax expense

This item is the tax expense related to profit or loss from continuing operations.

10 Total profit or loss after tax from continuing operations (8-9)

11 Profit or loss after tax from discontinued operations

This item includes gain or loss on the measurement to fair value less costs to sell related to discontinued operation, gain or loss on the disposal of the assets or the disposal groups constituting the discontinued operation and adjustments directly related to the disposal of a discontinued operation in a prior period (IFRS 5). This item is net of income tax expense. A discontinued operation is a part of an entity that has been disposed of or classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

12 Total profit or loss after tax and discontinued operations (10+11)

I.2 IMF Guide and the OECD new structure for income statement items

The most important difference is the separation of income statement as continuing and discontinued operations. In accordance with IFRS 7, results on discontinued operations are presented separately in the income statement while there is no distinction between continuing and discontinued operation in IMF Guide.

The other differences that occur between the OECD and IMF structures are:

- Fees and commissions expense has been left under the caption of “net non-interest income”. This item has been treated in the same way as “gains or losses on financial instruments”. However, IMF Guide prefers showing this item as “other expenses”. This difference creates an inconsistency with the IMF guide; on the other hand, fees and commissions are usually reported by banks in net terms. Showing fees and commissions payable explicitly allows, through data reorganisation, to meet IMF presentation.

- Unlike IMF Guide, extraordinary item has not been added to the new presentation because, under IFRS, extraordinary item is not allowed (IAS 1, paragraph 87).

II. BALANCE SHEET

II.1 List and definitions of balance sheet items

1 Cash and balances with central bank

Cash and balances with central bank comprise cash in hand, and balances with central banks including mandatory reserve deposits.

2 Loans and receivables due from banks

This item includes loans and receivables due from banking institutions[4] after allowances for impairment. This item comprises deposits, reverse repurchase agreements, loans and other advances including receivables from finance leases and factoring. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Loans that are originated or purchased with the intent to be sold or securitised in the short term are classified as financial assets held for trading. Loans that are designated as held at fair value through profit or loss or available for sale are classified as such at initial recognition. Securities purchased under agreements to sell are not recognised on the balance sheet. The right to receive cash from the counterparty is recorded as loans and receivables due from banks and due from customers depending on the type of counterparty.

- **Debt instruments**
- **Loans and advances**

3 Loans and receivables due from customers

This item comprises loans and receivables, mainly regarding with non-bank customers after allowances for impairment. This item includes deposits, reverse repurchase agreements, loans and other advances including receivables from finance leases and factoring. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Loans that are originated or purchased with the intent to be sold or securitised in the short term are classified as financial assets held for trading. Loans that are designated as held at fair value through profit or loss or available for sale are classified as such at initial recognition. The right to receive cash from the counterparty is recorded as loans and receivables due from banks and due from customers depending on the type of counterparty.

- **Debt instruments**
- **Loans and advances**

Loans and receivables (Item 2 and 3) (Additional explanation) (IAS 39.9 and IAS 39 AG26)

Loans and receivables are non-derivative financial assets with fixed or determinable payments (including loan assets, trade receivables, investments in debt instruments and deposits held in banks) other than the entity upon initial recognition designates as at fair value through profit or loss, those that the entity designates as available for sale, those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. A financial asset that is quoted in active market (such as a quoted debt instrument) does not qualify for classification as a loan or receivable. Financial assets that do not meet the definition of loans and receivables may be classified as held to maturity investments if they meet the definition for that classification. Loans and receivables are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation in the income statement. A credit risk for specific loan impairment is established if there is objective evidence that the entity will not be able to collect all amounts due in accordance with contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows or, alternatively, the collateral value less costs to sell if the loan is secured. Loss impairments also cover incurred losses when there is no specific impairment but objective evidence that losses are present in segments of portfolio or other lending related commitments at the balance sheet date. These have been estimated based upon historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current environment in which the borrowers operate and taking into account the risk of difficulties in servicing external debt in some foreign countries

[4] See the definition of a bank for the new structure in Section V.

based on an assessment of the political and economic situation. Impairments are recorded as a decrease in the carrying value of due from banks and due from customers. When a specific loan is identified as uncollectible and all legal and procedural actions have been exhausted, the loan is written off against the related charge for impairment, subsequent recoveries are credited to change in impairment in the income statement.

4 Financial assets at fair value through profit or loss (IAS 39.9)

Financial assets measured at fair value through profit or loss includes those held for trading (short-term profit-taking) and any other financial asset that the entity designates (the fair value option). Derivative assets are always in this category unless they are designated as hedging instruments. The use of fair option may be applied for a financial instrument provided that an accounting mismatch will be prevented or significantly reduced or a portfolio of financial instruments is managed, and its performance is measured on a fair value basis or the financial instrument has one or several embedded derivatives that must be separated. This category is measured at fair value with gains or losses from fair value changes reported in profit or loss. Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the balance sheet.

- **Derivatives held for trading**
- **Equity instruments**
- **Debt instruments**
- **Loans and advances**

5 Available for sale financial assets (IAS 39.9)

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Loans and receivables can be designated as available for sale. Available for sale financial assets are initially measured at fair value (including transaction costs), and are subsequently measured at fair value with unrealized gains or losses from fair value changes reported in equity until the asset is sold, unless the asset is hedged by a derivative. If an available for sale financial asset is determined to be impaired, the impairment is recognised in the income statement and the unrealised losses previously recognised in the equity are transferred to the income statement. Available for sale financial assets that are hedged by a derivative are carried at fair value with movements in fair value recognised through the income statement for the part attributable to the hedged risk and through equity for the remaining part. Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the balance sheet.

- **Equity instruments**
- **Debt instruments**
- **Loans and advances**

6 Held to maturity investments (IAS 39.9 and IAS 39 AG26)

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and if an active market exists for them, other than those that the entity upon initial recognition designates as at fair value through profit or loss, those that the entity designates as available for sale, and those that meet the definition of loans and receivables. They are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation in the income statement. If a held to maturity investment is determined to be impaired, the impairment is recognised in the income statement. Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the balance sheet.

- **Debt instruments**
- **Loans and advances**

7 Derivatives-hedge accounting (IAS 39.9)

This item shows derivative financial instruments that are used for hedging purposes and qualified for hedge accounting if they have a positive fair value. Hedge accounting recognises the offsetting on profit or loss of changes in the fair value of hedging instruments and the hedged item. Hedging relationships are of three types. Fair value hedge is a hedge of the exposures to change in the fair value of recognized asset or liability or an unrecognized firm commitment, or an identified portion of an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with recognised asset or liability or a highly probable forecast transaction (such as all or some future interest payments on variable rate debt) and could affect profit or loss. The third is the hedge of a net investment in a foreign operation. Hedge accounting is permitted in certain circumstances, provided that the hedging relationship is clearly defined, measurable and actually effective (within a range of 80% to 125%). The changes in the fair values of both hedging instrument and the hedged item are recognised in profit or loss when they occur in fair value hedges. However, the change in the fair value of the hedging instrument is recognised in equity until such time as those future cash flows occur in cash flow hedge. Hedge of a net investment in a foreign entity is treated as a cash flow hedge.

8 Tangible and intangible assets

Tangible fixed assets include property, plant and equipment (IAS 16 and IAS 1.68(a)) and investment properties (IAS 40 and IAS 1.68(b)). Property, plant and equipment are either carried at cost less accumulated depreciation and impairment (cost model) or carried at a revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment. Revaluation increases are credited to equity and revaluation decreases are charged first against the revaluation surplus in equity, and any excess against profit or loss. Investment properties are those properties held to earn rentals or for capital appreciation. Either the fair value model or cost model can be chosen for investment properties. Intangible assets include goodwill and other intangible assets (IAS 38 and IAS 1.68(c)). Intangible assets may be accounted for using a cost model or a revaluation model. If an intangible asset has a quoted market price in an active market, an accounting policy choice of a revaluation is permitted. The cost of an intangible asset with a finite useful life is amortised over that life. Intangible assets with indefinite useful lives are not amortised but are tested for impairment on an annual basis. Goodwill represents the excess of the cost of an acquisition over the fair value of share of net assets of the acquired entity (IFRS 3.51).

9 Investments in associates, subsidiaries and joint ventures

This item comprises the investments accounted for using the equity method, including the goodwill (IAS 1.68(e)). Investments in associates are accounted for using the equity method of accounting (IAS 28). Joint ventures are accounted for either the proportionate consolidation method or equity methods (IAS 31). This item also includes unconsolidated subsidiaries. Associates are investments where the entity has significant influence, but which it does not control. The ownership share of net income for the year is recognised in the income statement and the share in the investment's post-acquisition direct equity movements are recognised in equity.

10 Other assets

This item comprises tax assets including current and deferred tax assets, non-current assets and disposal groups classified as held for sale and other assets which may comprise accrued income (non-

interest related), prepayments and other accounts receivable. Non-current assets and disposal groups classified as held for sale are those for which the entity will recover the carrying amount from a sale transaction that is expected to qualify as a sale within one year, instead of through continuing use. Non-current assets and disposal groups classified as held for sale are not depreciated but measured at the lowest of its carrying amount and the fair value less costs to sell. Deferred tax assets arise from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

11 Total assets

This item corresponds to the sum of item 1 to item 10

12 Financial liabilities at fair value through profit or loss (IAS 39.9 and IFRS 7.8 (e))

Financial liabilities measured at fair value through profit or loss includes those held for trading and any other financial liability that the entity designates (the fair value option). Financial liabilities held for trading include derivative liabilities that are not accounted for as hedging instruments (IAS 39 AG 15 (a)), obligations to deliver financial assets borrowed by a short seller (i.e. an entity that sell financial assets it has borrowed and does not yet own) (IAS 39 AG 15 (b)), financial liabilities that are incurred with an intention to repurchase them in the near term (e.g. a quoted debt instrument that the issuer may buy back in the near term depending on changes in its fair value) (IAS 39 AG 15 (c)) and financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit making (IAS 39 AG 15 (d)). Securities borrowed are not recognised on the balance sheet.

- **Derivatives held for trading**
- **Short positions**
- **Financial liabilities intended for repurchase in short term**
- **Other**

13 Due to banks

This item comprises amounts due to banking institutions, including central banks. This item covers deposits due to banks, payables from professional security transactions with banks such as repurchase agreements and loans due to other banks (borrowings). Securities subject to a repurchase agreement are not derecognised from the balance sheet. The liability resulting from the obligation to repurchase the assets is included in due to banks or due to customers depending on the type of counterparty. This item is initially recognised at fair value (including transaction cost) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement (IFRS 7.8 (f)). As part of hedge accounting, hedged liabilities are adjusted for the fair value attributable to the hedged risk.

14 Due to customers

This item comprises amounts due to non-banking customers. It includes (i) deposits from customers and (ii) other payables such as repurchase agreements from non-banking customers. Securities subject to a repurchase agreement are not derecognised from the balance sheet. The liability resulting from the obligation to repurchase the assets is included in due to banks or due to customers depending on the type of counterparty. This item is initially recognised at fair value (including transaction cost) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement (IFRS 7.8 (f)). As part of hedge accounting, hedged liabilities are adjusted for the fair value attributable to the hedged risk.

15 Debt certificates

This item covers the amounts such as negotiable certificates of deposits, bonds and notes issues. This item is initially recognised at fair value (including transaction cost) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement (IFRS 7.8 (f)). As part of hedge accounting, hedged liabilities are adjusted for the fair value attributable to the hedged risk. Debt that can be converted into the banks' own shares is separated into two components on initial recognition: a liability instrument and an equity instrument. The liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is determined by deducting the carrying amount of the financial liability from the amount of compound instrument as a whole.

16 Subordinated liabilities

Issued liabilities are qualified as subordinated debt if claims by the holders are subordinated to all other current and future liabilities. This item is initially recognised at fair value (including transaction cost) and subsequently measured at amortised cost using the effective interest method, with the periodic amortisation recorded in the income statement (IFRS 7.8 (f)). As part of hedge accounting, hedged liabilities are adjusted for the fair value attributable to the hedged risk. Debt that can be converted into the banks' own shares is separated into two components on initial recognition: a liability instrument and an equity instrument. The liability component is first determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is determined by deducting the carrying amount of the financial liability from the amount of compound instrument as a whole.

17 Derivatives – Hedge accounting (IAS 39.9)

This item shows derivative financial instruments that are used for hedging purposes and qualified for hedge accounting if they have a negative fair value.

18 Provisions

This item covers provisions for liabilities and charges such as provisions for pensions and other post retirement benefit obligation, restructuring, pending legal issues and tax litigation, credit commitments and guarantees, onerous contracts and other provisions (IAS 1.68 (k), IAS 37 and IAS 19). Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and if a reliable estimate can be made at the balance sheet date.

19 Other liabilities

This item comprises tax liabilities including current and deferred tax liabilities, liabilities included in disposal groups classified as held for sale and other liabilities such as accrued expense (non-interest related), prepaid income and other accounts payable. Non-current assets and disposal groups classified as held for sale are those for which the entity will recover the carrying amount from a sale transaction that is expected to be qualified as a sale within one year, instead of through continuing use. Deferred tax liabilities arise from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

20 Total liabilities

This item corresponds to the sum of item 12 to item 19.

21 Capital and reserves

This item includes issued capital (IAS 1.75(e)), share premium (IAS 1.75(e)), equity component of compound financial instruments and other equity instruments (IAS 32), reserves (excluding revaluation reserves) (IAS 1.75(e)), retained earnings (IAS 1.75(e)) and treasury shares (IAS 32).

22 Revaluation reserves and other valuation differences

This item includes unrealized or deferred gains and losses and valuation differences not recognised in the income statement such as (i) unrealised net gains (losses) on financial assets available for sale (IAS 39.55(b)), (ii) unrealised net gains (losses) on derivatives hedging variability of cash flows (effective portion) (IAS 39.95-96) and hedging net investment in foreign operation (effective portion) (IAS 39.102(a)), (iii) foreign currency translation (IAS 21.52(b)) and (iv) revaluation reserves for tangible (IAS16.39-40) and intangible assets (IAS38.85-86).

23 Net profit or loss

This item reflects the net profit/loss for the current year attributable to equity holders (IAS 1.75(e)).

24 Minority interest (Non-controlling interests)

This item reflects the claim on assets belonging to other, non-controlling shareholders (IAS 1.68(o)). The net profit/loss for the current year attributable to minority interest is included in this item.

25 Total equity

This item corresponds to the sum of item 21 to item 24.

26 Total liabilities and equity

This item corresponds to the sum of items line 20 and line 25. It should be equal to line 11.

II.2 <u>IMF Guide and the OECD new structure for balance sheet items</u>

In the OECD new structure, financial assets are classified according to the portfolio based approach in accordance with IAS 39 and subdivisions by instruments (debt instruments, equity instruments, loans etc.) are introduced, while in the current structure of IMF Guide, the instrument based approach (debt instruments, equity instruments, loans etc.) is employed. In the OECD new structure, all financial assets and liabilities – which also include derivative financial instruments - have to be recognised in the balance sheet and valued in accordance with their assigned category. Financial assets and liabilities are classified based on the business purposes of entering into transactions. Consequently, rather than classifying financial assets as debt securities, equity securities, deposits and loans, financial assets are classified as financial assets at fair value through profit or loss (assets held for trading and assets designated at fair value through profit or loss), available for sale financial assets, held to maturity investments and loans and receivables. Likewise, financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities measured at amortized cost (due to banks, due to customers, debt certificates, subordinated liabilities and other borrowings). This IFRS classification

determines the measurement and recognition of these assets and liabilities. However, in order to gain more information about the portfolios, subdivisions by instruments have also been added to the OECD new structure. The presentation of the balance sheet is mainly in accordance with the IFRSs, European framework for financial reporting standards (FINREP) and accounting practices of banks.

The other differences with the IMF Guide that can be mentioned are:

- Loans and receivables cover both loans and deposits. Similarly due to banks and customers cover both loan borrowings and deposits. This presentation is in line with the banking accounting practices. Also, the new structure requires valuing loans and receivables at amortized cost. In the IMF Guide, it is recommended that nominal value is used instead, as for all non tradables.

- Loans and advances held for trading, designated at fair value through profit or loss and available for sale upon initial recognition have not been disclosed as loans and receivables due from banks or loans and receivables due from customers, both of which have been measured at amortized cost. Debt securities acquired on the primary market directly from the issuer are recorded as loans, provided there is no active market for those securities. Additionally, loans can be recognised as held to maturity investment if an active market exists for them. This presentation is consistent with IAS 39.

- Allowances for impairment losses do not only cover specific provisions in the new structure unlike IMF Guide. Loss impairments also cover incurred losses when there is no specific impairment but objective evidence that losses are present in segments of portfolio or other lending related commitments at the balance sheet date.

- According to the IMF Guide, the items “Financial derivatives” on both sides of the balance sheet include both trading and hedging derivative positions. In the new structure, derivatives held for trading purposes have been recognised in the balance sheet in “Financial assets at fair value through profit or loss” and in “Financial liabilities at fair value through profit or loss” and derivatives contracted as part of a hedging relationship have been recognised in the balance sheet in “Hedging derivatives”.

- Short sellings and financial liabilities incurred with an intention for repurchase in short term have been disclosed as financial liabilities at fair value through profit or loss in the new structure.

- Provision for contingencies and charges and subordinated debt are not disclosed separately in IMF Guide. These items have been added to the new structure to gain more information about the liability structure.

- No separate information for component parts of total equity can be found in IMF Guide. However, there is a detailed breakdown of total equity in the new structure. Besides, general provisions have not been included and goodwill is not a deducted item in total equity unlike IMF Guide.

III. MEMORANDUM ITEMS

III.1 List and definitions of memorandum items

Assets

1 Average total assets

As a minimum, this item is the average of the beginning and end-period of the balance sheet total but the most frequent observations available can also be used in calculating the average. Practically, this

item is usually calculated either as the sum of the value of year $^{y-1}$ plus the value of year ^{y} divided by 2, or as the sum of the value of December of year $^{y-1}$ plus the sum of the monthly values of year ^{y} divided by 13.

2 Gross loans

Gross loans include those financial assets created through the direct lending of funds by a creditor to a debtor through an arrangement in which the lender either receives no security evidencing the transactions or receives a nonnegotiable document or instrument. Gross loans include commercial loans, instalment loans, hire-purchase credit, loans to finance trade credit and advances, financial leases, repurchase agreements and overdrafts. Gross loans do not cover tradable loans or loans that are traded in the secondary market. Evidence of trading on secondary markets would include the existence of market makers and bid-offer spreads. Gross loans include both loans to banks and other loans. This item includes non-performing loans and is calculated before the deduction of loan loss provisions. This item does not include receivables from deposits.

3 Sectoral distribution of loans

This item provides information on the distribution of gross loans to resident sectors and to non-residents. The resident sectors are banks, the central bank, the general government, other financial corporations, non-financial corporations, other domestic sectors (households and non-profit institutions serving households). The following sub-items are a breakdown of gross loans.

- i Gross loans to banks
  - i.i Residents
  - i.ii Non-residents
- ii Gross loans to customers
  - ii.i Central bank
  - ii.ii General government
  - ii.iii Other financial corporations
  - ii.iv Non-financial corporations
  - ii.v Other domestic sectors
  - ii.vi Non-resident

4 Residential real estate loans

Residential real estate loans are those gross loans that are collateralized by residential real estate. Household borrowing for real estate can also be used.

5 Commercial real estate loans

Commercial real estate loans are those gross loans that are collateralized by commercial real estate, as well as loans to construction companies and loans to companies active in the development of real estate.

6 Foreign currency denominated loans

This item includes foreign currency and foreign-currency-linked part of gross loans.

7 Non-performing loans

Loans should be classified as non-performing loans when payments of principal and interest are past due by three months (90 days) or more, or interest payments equal to three months (90 days) or more have been capitalized (reinvested into the principal amount), refinanced, or rolled over, (that is, payment has been delayed by agreement). The amount of loans recorded as non-performing should be the gross value of the loan recorded on the balance sheet, not just the amount that is overdue.

8 Specific provisions

Specific provisions are the outstanding amount of provisions made against the value of individual loans, collectively assessed group of loans and loans to other banks.

9 Large exposures

Large exposures are defined as one or more credit exposures to the same individual or group that exceed a certain percentage of regulatory capital, such as 10 percent.

10 Core liquid assets

This item comprises cash, deposits and other financial assets that are available either on demand or within three months or less.

11 Broad liquid assets

Broad liquid assets include those in the core liquid assets plus securities that are traded in liquid markets (including repo markets) that can be readily converted into cash with insignificant risk of change in value under normal business conditions.

Liabilities

12 Customer deposits

Type of the depositor is the primary factor in defining customer deposits. Customer deposits include all deposits (resident and non-resident) except those placed by other banks and other financial corporations (resident or non-resident).

13 Short-term liabilities

Short term liabilities are the short-term element (remaining maturity - less than one year) of total liabilities (excluding financial derivatives) plus the net market value position of financial derivatives position (liabilities less assets). Short-term should be defined on a remaining maturity basis. It is recommended that the net market value position (liabilities less assets) of financial derivative liabilities be included rather than the gross liability position because of the market practice of creating offsetting contracts, and the possibility of forward type instruments switching between asset and liability positions from one period to the next.

14 Foreign currency denominated liabilities

Foreign currency liabilities are those liabilities that are payable in a currency other than the domestic currency and those that are payable in domestic currency but with the amounts to be paid linked

to a foreign currency. For related financial derivative liabilities, it is recommended that the net fair value position (asset – liability) be included in the foreign currency liability measure.

Capital adequacy

15 Regulatory Tier 1 capital

The new structure defers to Basel I and Basel II as the standards for compiling regulatory tier 1 capital, acknowledging that there could be national variations in implementation.

Tier 1 capital comprises paid-up shares and common stock and disclosed reserves created or increased by appropriations of retained earnings and other surplus. The latter include, inter alia, share premiums, retained profit, general reserves, and legal reserves, and are considered to be freely and immediately available to meet claims against banks.

16 Average tier 1 capital

As a minimum, this item is the average of the beginning and end-period of the tier 1 capital but the most frequent observations available can also be used in calculating the average.

17 Regulatory capital

The new structure defers to Basel I and Basel II as the standards for compiling total regulatory capital, acknowledging that there could be national variations in implementation.

Total regulatory capital comprises Tier 1, Tier 2, Tier 3 capital and supervisory deductions. For Tier 1 capital, see definition above (under 15). Tier 2 capital consists of undisclosed reserves, asset revaluation reserves, general provisions / general loan loss reserves (1.25 percent of risk-weighted assets), hybrid instruments that combine the characteristics of debt and equity and are available to meet losses, unsecured subordinated debt with a minimum original fixed term of maturity of more than five years and limited-life redeemable preference shares. Tier 2 capital and subordinated debt cannot exceed 100 percent and 50 percent, respectively, of Tier 1 capital. Tier 3 capital comprises medium term debt of two year or longer original maturity with lock-in provisions that stipulate that neither principal nor interest need be paid if the payment reduces the bank's overall capital to less than the minimum capital requirement. Tier 3 capital is intended to cover only market risk and is limited to 250 percent of Tier 1 capital. Supervisory deductions cover goodwill as a deduction from Tier 1 capital. With regard to total capital, supervisory deductions cover investments in unconsolidated banking and financial subsidiaries, and investment in capital of other banks and financial institutions.

18 Risk-weighted assets

The new structure defers to Basel I and Basel II as the standards for compiling risk-weighted assets, acknowledging that there could be national variations in implementation.

According to Basel I, risk-weighted assets include currency and deposits, loans, securities, and other on-balance sheet assets. Assets are weighted by factors representing their credit riskiness and potential for default. Through the use of credit conversion factors, the credit risk of off-balance-sheet items, such as credit line commitments and letters of credit that serve as financial guarantees, is also taken into account in determining regulatory capital requirements. Another component of total risk-weighted assets is used to incorporate a capital charge for market risks. Basel II reflects the evolution of the Basel capital adequacy framework, as the assignment of risk-weights now more closely reflects loss experience for asset types. Basel II provides a further option that allows countries to use more than one approach for

the assignment of risk-weights. These approaches range from the simpler standardized approach (which is very similar to Basel I) to more sophisticated internal ratings based (IRB) approaches that allow deposit takers to use their own risk models to determine the minimum capital.

19 Average risk-weighted assets

As a minimum, this item is the average of the beginning and end-period of the total risk-weighted assets but the most frequent observations available can also be used in calculating the average.

Other memorandum items

20 Net open position in foreign exchange

Net open position is the sum of the net position in on-balance sheet foreign currency debt instruments (currency and deposits, loans, debt securities and other liabilities), net notional positions in financial derivatives (futures, swaps, options), on-balance sheet holdings of foreign currency equity assets (shares, stocks, participations including investments in associates and unconsolidated subsidiaries), net future foreign currency income and expenses not yet accrued but already fully hedged, foreign currency guarantees and similar instruments that are certain to be called and are likely to be recoverable and other exposures depending upon national accounting practice. Included among foreign exchange instruments are foreign currency-linked instruments, that is, instruments where the amounts payable are linked to a foreign currency, although the payments are made in domestic currency.

21 Net open position in equities

This item is the sum of on-balance-sheet holdings of equities and notional positions in equity derivatives. Equity held in associates, joint ventures and unconsolidated subsidiaries are excluded. The notional positions in equity derivatives comprise the notional positions for futures and forward contracts relating to individual equities, futures relating to stock indices, equity swaps, and the market value of equity positions underlying options.

III.2 IMF Guide and the OECD new structure for memorandum items

Memorandum items are needed for the calculation of IMF financial soundness indicators for banks (see IV. below). The definitions are in line with the IMF Guide.

IV. FINANCIAL SOUNDNESS INDICATORS FOR BANKS

IV.1 List and definitions of financial soundness indicators for banks (FSIs)

A Balance sheet structure

These ratios measure the percentage share of each asset and liability items of the balance sheet in total assets. These ratios do not exist among the IMF FSIs. The full list of balance sheet structure ratios are in appendix-Table 4.

B Capital adequacy

Regulatory capital to risk-weighted assets

This FSI measures the capital adequacy of banks. This FSI is calculated by taking regulatory capital as numerator, and risk-weighted assets as the denominator.

Regulatory tier 1 capital to risk-weighted assets

This FSI is the narrower measure of the regulatory capital to risk-weighted assets and is calculated by taking tier 1 capital as the numerator, and risk-weighted assets as the denominator.

Capital to assets

This FSI provides an indication of the financial leverage-i.e., the extent to which the assets are funded by other than own funds - another measure of capital adequacy of the banking sector. This FSI is calculated by taking tier 1 capital as the numerator. As for the denominator, total assets are all non-financial and financial assets.

C Asset quality and exposure

Non-performing loans to total gross loans

This FSI is intended to identify problems with asset quality in the loan portfolio. An increasing ratio may signal deterioration in the quality of the credit portfolio, although this is typically a backward looking indicator in that non-performing loans (NPLs) are identified when problems emerge. This FSI is calculated by taking the value of non-performing loans as the numerator and the total value of gross loans as the denominator.

Non-performing loans net of specific provisions to capital

This FSI is intended to compare the potential impact on capital of NPLs, net of provisions. This ratio can provide an indication of the capacity of bank capital to withstand NPL-related losses. This FSI is calculated by taking the value of non-performing loans less the value of specific loan loss provisions as the numerator, and capital as the denominator. Capital is measured as total regulatory capital.

Sectoral distribution of loans to total loans

This FSI provides information on the distribution of gross loans. A large concentration of aggregate credit in a specific resident economic sector or activity may signal an important vulnerability of the sector to the level of activity, prices, and profitability in that sector or activity. The numerators and the denominator for this FSI are respectively lending to each of the institutional sectors and gross loans.

Residential real estate loans to total loans

This FSI is intended to identify banks' exposure to the residential real estate sector, with the focus on household borrowers. Experience has shown that in many instances, a real estate boom characterized by a rapid rise in real estate prices, has been preceded or accompanied by a boom in banking credit to the private sector, perhaps encouraged by expansionary monetary policies. Following a subsequent tightening of these policies, and/or collapse in market prices, there have been episodes of financial sector problems - usually debtors having difficulty to meet their payments. Moreover, the fall in the value of the residential real estate collateral, especially if it falls beneath the value of loans, worsens the situation. This FSI is calculated by taking residential real estate loans as the numerator, and gross loans as the denominator.

Commercial real estate loans to total loans

This FSI measures banks' exposure to the commercial real estate markets. Many of the same considerations apply for commercial real estate. This FSI is calculated by using commercial real estate loans as the numerator and gross loans as the denominator.

Foreign currency denominated loans to total loans

This FSI measures the relative size of the foreign currency loans within gross loans. Particularly in countries where domestic lending in foreign currency is permitted, it is important to monitor the ratio of foreign currency denominated loans to gross loans for residents because of the increased credit risk associated with the ability of the local borrowers to service their foreign-currency denominated liabilities, particularly in the context of large devaluations or a lack of foreign currency earnings. This FSI is calculated by using the foreign currency loans to residents and non-residents as the numerator, and gross loans as the denominator.

Foreign currency denominated liabilities to total liabilities

This FSI measures the relative importance of foreign currency funding within total liabilities. Extensive foreign currency lending funded by foreign currency borrowing can help reduce the banks foreign exchange exposure (although if the lending is to domestic borrowers and they have difficulty servicing the loans, in practice the bank would remain exposed). But a high reliance on foreign currency borrowing (particularly of short term maturities) may signal that banks are taking greater risks, by increasing their exposure to exchange rate movements and foreign currency funding reversals. This FSI is calculated by using the foreign currency liabilities as the numerator, and total liabilities less financial derivative assets as the denominator.

Gross asset position in financial derivatives to capital

This FSI is intended to provide an indication of the exposure of banks' financial derivative positions relative to capital. For calculating this FSI, the numerator of the ratio is the total positive value of financial derivatives (both trading and hedging). Capital is measured as tier 1 capital.

Gross liability position in financial derivatives to capital

This FSI is intended to provide an indication of the exposure of banks' financial derivative positions relative to capital. For calculating this FSI, the numerator of the ratio is the total value of financial derivatives (both trading and hedging). Capital is measured as tier 1 capital.

Large exposures to capital

This FSI is intended to identify vulnerabilities arising from the concentration of credit risk. This FSI is calculated by taking the value of large exposures as numerator, and total regulatory capital as denominator.

D Earnings and profitability

Return on equity

This FSI is intended to measure banks' efficiency in using their capital. Over time it can also provide information on the sustainability of banks' capital position. The ratio needs to be interpreted in combination with FSIs on capital adequacy, because a high ratio could indicate high profitability and/or

low capitalization, and a low ratio could indicate low profitability and/or high capitalization. Return on equity is calculated by dividing net income by the average value of capital over the same period. Net income is that total profit or loss after tax and discontinued operations in the income statement. Capital is measured as average tier 1 capital.

Return on assets

This FSI is intended to measure banks' efficiency in using their assets. The return on assets is calculated by dividing total profit or loss after tax and discontinued operations by the average value of the total assets over the same period.

Return on risk-weighted assets

This ratio is similar to return on assets. However, the denominator is average risk-weighted assets rather than total assets in order to take into account the riskiness of assets. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Sector Financial Stability Report to assess the performance of banks.

Return on equity (before tax and profit from discontinued operations)

This ratio is similar to return on equity. However, the numerator is total profit or loss before tax from continuing operations. The denominator remains the average value of capital. This ratio does not exist among the IMF FSIs.

Return on assets (before tax and profit from discontinued operations)

This ratio is similar to return on assets. However, the numerator is total profit or loss before tax from continuing operations. The denominator remains the average value of the total assets. This ratio does not exist among the IMF FSIs.

Net interest income to average assets

This ratio measures net interest margin. It is calculated by taking net interest income as numerator and average assets as denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Net non-interest income to average assets

This ratio measures the non-interest return on assets. It is calculated by taking net noninterest income as numerator and average assets as denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Operating expenses to average assets

This ratio measures total operating expenses per unit of assets. It is calculated by taking operating expenses as numerator and average assets as denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Net impairment losses to average assets

This ratio measures total net impairment losses per unit of assets. It is calculated by taking operating expenses as numerator and average assets as denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Interest margin to gross income

This FSI is a measure of the relative share of net earnings - interest earned less interest expenses - within gross income. This FSI is calculated by using net interest income as the numerator and total income - net interest plus net non-interest income - as the denominator.

Net non-interest income to total income

This ratio is a measure of the relative share of net non-interest earnings within total income. This FSI is calculated by using net non-interest income as the numerator and total income - net interest plus net non-interest income - as the denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Fees and commissions (net) to total income

This ratio is a measure of the relative share of net fees and commission earnings within total income. This FSI is calculated by using net fees and commission income - fees and commissions income less fees and commissions expense - as the numerator and total income - net interest plus net non-interest income - as the denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the performance of banks.

Trading and foreign exchange gains (losses) to gross income

This FSI is intended to capture the share of banks' income from financial market activities, including currency trading, and so help in assessing the sustainability of profitability. This FSI is calculated by using gains or losses on financial instruments as the numerator and total income - net interest plus net non-interest income - as the denominator.

Non-interest expenses to gross income

This FSI measures the size of administrative expenses to gross income - net interest plus net non-interest income. This FSI is calculated by using operating expenses as the numerator, and total income - net interest plus net non-interest income - as the denominator.

Personnel expenses to noninterest expenses

This FSI measures the incidence of personnel costs in total administrative costs. This FSI is calculated by using the staff expenses as the numerator, and operating expenses as the denominator.

E Liquidity

Core liquid assets to total assets

This FSI provides an indication of the liquidity available to meet expected and unexpected demands for cash. This FSI is calculated by using the core measure of liquid assets as the numerator, and total assets as the denominator.

Broad liquid assets to total assets

This FSI provides an indication of the liquidity available to meet expected and unexpected demands for cash. While core liquid assets measure the most liquid resources, broad liquid assets also include securities. This FSI is calculated by using the broad measure of liquid assets as the numerator, and total assets as the denominator.

Core liquid assets to short-term liabilities

This FSI is intended to capture the liquidity mismatch of assets and liabilities, and provides an indication of the extent to which banks could meet a short-term withdrawal of funds without facing liquidity problems. This FSI is calculated by taking the core measure of liquid assets as the numerator, and the short-term liabilities as the denominator.

Broad liquid assets to short-term liabilities

This FSI is intended to capture the liquidity mismatch of assets and liabilities, and provides an indication of the extent to which banks could meet a short-term withdrawal of funds without facing liquidity problems. While core liquid assets measure the most liquid resources, broad liquid assets also include securities. This FSI is calculated by taking the broad measure of liquid assets as the numerator, and the short-term liabilities as the denominator.

Customer deposits to gross (non interbank) loans

This FSI is a measure of liquidity, in that it compares the stable deposit base to gross loans (excluding interbank activity). When stable deposits are low relative loans, there is greater dependence on more volatile funds to cover the illiquid assets in banks' portfolios. In such circumstances, if liquidity stresses arise, there is greater risk of illiquidity than if a stable deposit base primarily funds the loans. This FSI is calculated by taking customer deposits as the numerator, and gross loans to customers as the denominator.

Cash and loans to banks to amounts due to banks

This ratio is a measure of liquidity, in that it compares cash and loans due from banks to amounts due to banks. This ratio is calculated by taking the sum of cash and balances with central bank and loans and receivables due from banks as numerator, and due to banks as denominator. This ratio does not exist among the IMF FSIs. This ratio is used in ECB's Banking Stability Report to assess the liquidity of banks.

F Sensitivity to market risk

Net open position in foreign exchange to capital

This FSI is intended to identify banks' exposure to exchange rate risk compared with capital. It measures the mismatch (open position) of foreign currency asset and liability positions to assess the potential vulnerability of the sector's capital position to exchange rate movements. For calculating this FSI, the numerator of the ratio is total net position in foreign exchange. Capital is measured as total regulatory capital.

Net open position in equities to capital

This FSI is intended to identify banks' equity risk exposure compared with capital. As this FSI takes data on the net position, the focus is on the general market risk. This FSI is calculated by using the measure of net open position in equities as the numerator, and total regulatory capital as the denominator.

IV.2 IMF Guide and the new financial soundness indicators for banks

Financial ratios in the OECD new structure cover almost all financial soundness indicators for deposit takers in IMF Guide except for geographical distribution of loans. Spread between reference lending and deposits rates and spread between highest and lowest interbank rates are also not included. These three measures are not core FSIs but among the encouraged set. Additionally, spread between reference lending and deposits rates and spread between highest and lowest interbank rates are not among the financial soundness indicators for deposit takers but included in the indicators for financial markets.

The FSIs for the capital-based ratios have been calculated using total regulatory capital or Tier 1 capital as the denominator. However, in the Guide, capital is measured as capital and reserves and, for cross border consolidated data, also as total regulatory capital or tier 1 capital for these ratios. The reason for choosing total regulatory capital or tier 1 capital as denominator for these ratios is the slightly difference between the definition of total equity in the OECD new structure and the definition of capital and reserves in the IMF Guide. General provisions are not included and goodwill is not a deducted item in total equity unlike IMF Guide. Also, total equity in the OECD new structure includes the gain or loss from the effective portion of cash flow hedges and net investment hedge in foreign operations and unrealized valuation differences for available for sale financial assets.

The OECD new structure of the income statement introduces a slight inconsistency for the earnings and profitability ratios between IMF Guide and the new OECD framework. First, the lines on discontinued operations in the new income statement which do not exist in IMF Guide influence the profitability ratios. Second, extraordinary expenses or incomes do not exist in the new income structure unlike IMF Guide which may also influence profitability ratios. These differences have occurred because the OECD new structure seeks to comply with IFRS. Third, fees and commissions expense has been shown as a negative income rather than included as an expense in the OECD new structure. This implies an inconsistency with the IMF Guide, which shows fees and commissions payable under non-interest expenses. However, the OECD new structure shows fees and commissions receivable and payable separately so that one can restructure the items.

In addition to IMF's FSIs for deposit takers, a few new ratios have been added to the list. These ratios are mainly related to balance sheet structure, earnings and profitability (income statement items) and liquidity, which have been explained in section IV.1.

V. COVERAGE AND CONSOLIDATION

V.1 Coverage

The current OECD framework covers all institutions which conduct ordinary banking business. The institutions covered are commercial banks, cooperative banks and savings banks. However, the IMF Guide covers the deposit takers sector as a whole. Commercial banks, cooperative banks, savings banks (including trustee savings banks, loan associations) typically fall under the definition of deposit takers. In addition, development banks, credit unions, investment banks, mortgage banks, building societies, micro-finance institutions and any other financial institutions that take deposits also fall under the definition of deposit takers. If some institutions are banks in legal sense but not deposit takers as described above, they should still be classified as deposit takers.

As the coverage of the banking sector under the current OECD framework is smaller than the coverage of deposit takers in the IMF Guide, it will be useful to extend the coverage of financial institutions. In this context, in the OECD new structure, the coverage of banks should be extended according to the above definition and countries will be required to send income statement, balance sheet and memorandum items data for all deposit takers.

V.2 Consolidation

The current OECD standard framework recommends that data included in its statistics should be consolidated worldwide, i.e. including foreign branches of reporting banks as well as domestic/foreign subsidiaries.

On the other hand, the IMF Guide recommends applying a cross-border cross sector consolidation basis for all domestically incorporated deposit takers (CBCSDI) and /or the domestically controlled cross-border and cross-sector consolidation basis (DCCBS). CBCSDI covers both domestically controlled entities and the local subsidiaries of foreign entities in the sector, along with their branches and subsidiaries in the same and other sectors, which can be either domestic or foreign residents. DCCBS includes the data of domestically controlled and incorporated entities with their branches (domestic and foreign) and all their subsidiaries (domestic and foreign) that are classified in the same and other sectors (such as securities dealers and investment funds). At the group level, the IMF Guide recommends that all flows and positions between units within the group, comprising parent, its branches and subsidiaries, are to be eliminated.

In ECB's EU Banking Sector Stability Report, in order to provide a fully consolidated view of risks, the EU authorities report cross-border and cross-sector consolidated data on domestically controlled banks. In cross-border consolidation, data on branches and subsidiaries located (from the reporting country's point of view) outside the domestic market are included in the data reported by the parent institution. In cross- sector consolidation, branches and subsidiaries of banks that can be classified as other financial institutions are included. The definition of other financial institutions excludes insurance companies. This perimeter of consolidation is maintained for all countries even if it differs from that recommended by the new accounting standards (IFRS) in which the insurance sector is included. IFRS, according to IAS 27, require that financial statements be prepared for a group that includes the parent company and all of its subsidiaries irrespective of the sector they belong to.

In conclusion, with regard to the consolidation basis, IFRS guidance should be followed at the level of the financial sector (excluding insurance companies) and following the IMF Guide, CBCSDI and/or DCCBS will be the consolidation basis in the new structure. As stated above, the consolidation method in the ECB's Banking Sector Stability Report is the same as the DCCBS method in the IMF Guide. In addition to this method, the IMF Guide recommends CBCSDI consolidation method provided that domestic incorporated foreign banks have an important role in the financial system. The OECD new structure opts to follow IMF's Guide which applies CBCSDI and/or DCCBS for the consolidation basis.

APPENDIX

Table 1: New Structure - Income statement

	Income statement
1	Interest income
2	Interest expenses
3	Net interest income (1-2)
4	Net non-interest income (a+b-c+d+e+f)
	a Dividend income
	b Fee and commission income
	c Fee and commission expense
	d Gains or losses on financial instruments
	e Share of earnings of associates and joint ventures
	f Other income
5	Total income (3+4)
6	Operating expenses (a+b+c)
	a Staff expenses
	b General and administrative expenses
	c Other expenses
7	Impairment losses on financial assets (a+b)
	a Impairment losses on loans
	b Impairment losses on other financial assets
8	Total profit or loss before tax from continuing operations (5-6-7)
9	Tax expense
10	Total profit or loss after tax from continuing operations (8-9)
11	Profit or loss after tax from discontinued operations
12	Total profit or loss after tax and discontinued operations (10+11)

Table 2: New structure - Balance sheet

Balance sheet	
Assets	**Liabilities**
1 Cash and balances with central bank	12 Financial liabilities at fair value through profit or loss
2 Loans and receivables due from banks	*a Derivatives held for trading*
a Debt instruments	*b Short positions*
b Loans and advances	*c Financial liabilities intended for repurchase in short term*
3 Loans and receivables due from customers	*d Other*
a Debt instruments	13 Due to banks
b Loans and advances	14 Due to customers
4 Financial assets at fair value through profit or loss	15 Debt certificates
a Derivatives held for trading	16 Subordinated liabilities
b Equity instruments	17 Derivatives-Hedge accounting
c Debt instruments	18 Provisions
d Loans and advances	19 Other liabilities
5 Available for sale financial assets	**20 Total liabilities (sum of items 12 to 18)**
a Equity instruments	
b Debt instruments	21 Capital and reserves
c Loans and advances	22 Revaluation reserves and other valuation differences
6 Held to maturity investments	23 Net profit or loss
a Debt instruments	24 Minority interest (non-controlling interest)
b Loans and advances	**25 Total equity (sum of items 21 to 24)**
7 Derivatives-Hedge accounting	
8 Tangible and intangible assets	**26 Total liabilities and equity (sum of items 20 and 25)**
9 Interest in associates and joint ventures	
10 Other assets	
11 Total assets (sum of items 1 to 10)	

Table 3: New structure - Memorandum items

Memorandum Items	
Assets	**Liabilities**
1 Average total assets	12 Customer deposits
2 Gross loans	13 Short-term liabilities
3 Sectoral distribution of loans	14 Foreign currency denominated liabilities
a. Gross loans to banks	
a.1 Resident	**Capital adequacy**
a.2 Non-resident	15 Tier 1 capital
b. Gross loans to customers	16 Average tier 1 capital
b.1 Central bank	17 Regulatory capital
b.2 General government	18 Risk-weighted assets
b.3 Other financial corporations	19 Average risk-weighted assets
b.4 Non-financial corporations	
b.5 Other domestic sectors	**Other**
b.6 Non-resident	20 Net open position in foreign exchange
4 Residential real estate loans	21 Net open position in equities
5 Commercial real estate loans	
6 Foreign currency denominated loans	
7 Non-performing loans	
8 Specific provisions	
9 Large exposures	
10 Core liquid assets	
11 Broad liquid assets	

Table 4: New structure - Financial soundness indicators for banks

Financial soundness indicators for banks		
Balance sheet structure		**Earnings and profitability**
1 Cash and balances with central bank to total assets	BS1 / BS11	28 Return on equity
2 Loans and receivables due from banks to total assets	BS2 / BS11	29 Return on assets
3 Loans and receivables due from customers to total assets	BS3 / BS11	30 Return on risk-weighted assets
4 Financial assets at fair value through profit or loss to total assets	BS4 / BS11	31 Return on equity (before tax and profit from discontinued operations)
5 Available for sale financial assets to total assets	BS5 / BS11	32 Return on assets (before tax and profit from discontinued operations)
6 Held to maturity investments to total assets	BS6 / BS11	33 Net interest income to average assets
7 Hedging derivatives (asset) to total assets	BS7 / BS11	34 Net non-interest income to average assets
8 Financial liabilities at fair value through profit or loss to total assets	BS12 / BS11	35 Operating expenses to average assets
9 Due to banks to total assets	BS13 / BS11	36 Net impairment losses to average assets
10 Due to customers to total assets	BS14 / BS11	37 Interest margin to total income
11 Debt certificates to total assets	BS15 / BS11	38 Net non-interest income to total income
12 Subordinated liabilities to total assets	BS16 / BS11	39 Fees and commissions (net) to total income
13 Hedging derivatives (liability) to total assets	BS17 / BS11	40 Trading and foreign exchange gains (losses) to total income
14 Total equity to total assets	BS25 / BS11	41 Non-interest expenses to total income
Capital adequacy		42 Personnel expenses to non-interest expenses
15 Regulatory capital to risk-weighted assets	MI17 / MI18	
16 Regulatory tier 1 capital to risk-weighted assets	MI15 / MI18	**Liquidity**
17 Tier 1 capital to total assets	MI15 / BS11	43 Core liquid assets to total assets
Asset quality and exposure		44 Broad liquid assets to total assets
18 Non-performing loans to gross loans	MI7 / MI2	45 Core liquid assets to short-term liabilities
19 Non-performing loans net of provisions to total capital	(MI7-MI8) / MI17	46 Broad liquid assets to short-term liabilities
20 Sectoral distribution of loans to gross loans		47 Customer deposits to gross (noninterbank) loans
Central bank	MI3b.1 / MI2	48 Cash and loans to banks to amounts due to banks
General government	MI3b.2 / MI2	
Banks	MI3a.1 / MI2	**Sensitivity to market risk**
Other financial corporations	MI3b.3 / MI2	49 Net open position in foreign exchange to total capital
Non-financial corporations	MI3b.4 / MI2	50 Net open position to equities to total capital
Other domestic sectors	MI3b.5 / MI2	
Non-resident	(MI3a.2+MI3b.6) / MI2	
21 Residential real estate loans to gross loans	MI4 / MI2	
22 Commercial real estate loans to gross loans	MI5 / MI2	
23 Foreign currency denominated loans to gross loans	MI6 / MI2	
24 Foreign currency denominated liabilities to total liabilities	MI14 / (BS20-BS4a-BS7)	
25 Gross asset position in financial derivatives to Tier 1 capital	(BS4a+BS7) / MI15	
26 Gross liability position in financial derivatives to Tier 1 capital	(BS12a+BS13) / MI15	
27 Large exposures to total capital	MI9 / MI17	

Table 5: Current OECD Framework – Financial Statements and Memorandum Items

Balance sheet	Income statement	Memorandum items
Assets	1 Interest income	**Assets**
1 Cash and balance with central bank	2 Interest expense	1 Short-term securities
2 Interbank deposits	3 Net interest income (1-2)	2 Bonds
3 Loans	4 Net non-interest income (5-6+7+8)	3 Shares and participations
4 Securities	5 Fees and commisions receivable	4 Claims on non-residents
5 Other assets	6 Fees and commisions payable	
	7 Net profit or loss on financial operations	**Liabilities**
Liabilities	8 Other net non-interest income	5 Liabilities to non-residents
6 Capital and reserves	9 Net interest and non-interest income (3+4)	
7 Borrowing from central bank	10 Operating expenses (11+12+13)	**Capital adequacy**
8 Interbank deposits	11 Staff costs	6 Tier 1 Capital
9 Customer deposits	12 Property costs	7 Tier 2 Capital
10 Bonds	13 Other operating expenses	8 Supervisory deductions
11 Other liabilities	14 Net income before provisions (9-10)	9 Total regulatory capital
	15 Net provisions (16+17+18)	10 Risk-weighted assets
Balance sheet total	16 Provisions on loans	
12 End-year total	17 Provisions on securities	
13 Average total	18 Other net provisions	
	19 Income before tax (14-15)	
	20 Income tax	
	21 Net income after tax (19-20)	
	22 Distributed profit	
	23 Retained profit	

Table 6: IMF Guide – Financial Statements and FSIs

Balance Sheet	Income statement
1 Total assets (=2+3=25)	1 Interest income
2 Non-financial assets	2 Gross interest income
3 Financial assets (=4 through 13)	3 Less provisions for accrued interest on non-perfoming asset
4 Currency and deposits	4 Interest expense
5 Loans (after specific provisions)	5 Net interest income
6 Gross loans	6 Non-interest income
7 Interbank loans	7 Fees and commisions receivable
8 Noninterbank loans	8 Gains and losses on financial instruments
9 Specific provisions (-)	9 Prorated earnings
10 Debt securities	10 Other income
11 Shares and other equity	11 Gross income
12 Financial derivatives	12 Non-interest expenses (10+11)
13 Other assets	13 Personnel costs
14 Liabilities (=22+23)	14 Other expenses
15 Currency and deposits	15 Provisions (net)
16 Customer deposits	16 Loan loss provisions
17 Interbank deposits	17 Other financial asset provisions
18 Other currency and deposits	18 Net income (before extraordinary items and tax)
19 Loans	19 Extraordinary items
20 Debt securities	20 Income tax
21 Other liabilities	21 Net income after tax
22 Debt (=15+19+20+21)	22 Dividends payable
23 Financial derivatives	23 Retained earnings
24 Capital and reserves	
25 Balance sheet total	

Memorandum series	Financial Soundness Indicators for Deposit Takers
Other series required to calculate the agreed FSIs	1 Regulatory capital to risk-weighted assets (core)
Supervisory series	2 Regulatory Tier 1 capital to risk-weighted assets (core)
1 Tier 1 Capital	3 Capital to assets
2 Tier 2 Capital	4 Non-performing loans net of provisions to capital (core)
3 Tier 3 Capital	5 Return on equity (core)
4 Supervisory deductions	6 Large exposures to capital
5 Total regulatory capital	7 Net open position in foreign exchange to capital (core)
6 Risk-weighted assets	8 Gross asset and liability positions in financial derivatives to capital
7 Number of large exposures	9 Net open position in equities to capital
Series that provide a further analysis of the balance sheet	10 Liquid assets to total assets (core)
8 Liquid assets (core)	11 Liquid assets to short term liabilities (core)
9 Liquid assets (broad)	12 Customer deposits to total noninterbank loans
10 Short-term liabilities	13 Return on assets (core)
11 Non-performing loans	14 Non-performing loans to gross loans (core)
12 Residential real estate loans	15 Sectoral distribution of loans to total loans (core)
13 Commercial real estate loans	16 Residential real estate loans to total loans
14 Geographic distribution of loans	17 Geographical distribution of loans to total loans
15 Foreign currency loans	18 Foreign currency denominated loans to total loans
16 Foreign currency liabilities	19 Foreign currency denominated liabilities to total liabilities
17 Net open position in equities	20 Interest margin to gross income (core)
18 Net open position in foreign currency for on-balance-sheet items	21 Trading and foreign exchange gains (losses) to total income
19 Total net open position in foreign currency	22 Non-interest expenses to gross income
20 Exposures of largest deposit takers to largest entities in the economy	23 Personnel expenses to non-interest expenses
21 Exposures to affiliated entities and other connected counterparties	

Table 7: European Financial Reporting Framework (FINREP) – Balance Sheet

Balance Sheet Statement		
Assets	**Liabilities**	**Equity and minority interest**
Cash and cash balances with central banks	Deposits from central banks	Issued capital
Financial assets held for trading	Financial liabilities held for trading	Paid in capital
Derivatives held for trading	Derivatives held for trading	Unpaid capital which has been called up
Equity instruments	Short positions	Share premium
Debt instruments	Deposits from credit institutions	Other Equity
Loans and advances	Deposits (other than from credit institutions)	Equity component of compound financial instruments
Financial assets designated at fair value through profit or loss	Debt certificates (including bonds intended for repurchase in short term)	Other equity instruments
Equity instruments	Other financial liabilities held for trading	Revaluation reserves and other valuation differences on:
Debt instruments	Financial liabilities designated at fair value through profit or loss	Tangible assets
Loans and advances	Deposits from credit institutions	Intangible assets
Available-for-sale financial assets	Deposits (other than from credit institutions)	Hedge of net investments in foreign operations (effective portion)
Equity instruments	Debt certificates (including bonds)	Foreign currency translation
Debt instruments	Subordinated liabilities	Cash flow hedges (effective portion)
Loans and advances	Other financial liabilities designated at fair value through profit or loss	Available-for-sale financial assets
Loans and receivables (including finance leases)	Financial liabilities measured at amortised cost	Non-current assets or disposal groups held for sale
Debt instruments	Deposits from credit institutions	Other items
Loans and advances	Deposits (other than from credit institutions)	Reserves (including retained earnings)
Held-to-maturity investments	Debt certificates (including bonds)	<Treasury shares>
Debt instruments	Subordinated liabilities	Income from current year
Loans and advances	Other financial liabilities measured at amortised cost	<Interim dividends>
Derivatives – Hedge accounting	Financial liabilities associated with transferred financial assets	Minority interest
Fair value hedges	Derivatives – Hedge accounting	Revaluation reserves and other valuation differences
Cash flow hedges	Fair value hedges	Other items
Hedges of a net investment in a foreign operation	Cash flow hedges	
Fair value hedge of interest rate risk	Hedges of a net investment in a foreign operation	**TOTAL EQUITY**
Cash flow hedge interest rate risk	Fair value hedge of interest rate risk	
Fair value changes of the hedged items in portfolio hedge of interest rate risk	Cash flow hedge interest rate risk	**TOTAL LIABILITIES AND EQUITY**
Tangible assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	
Property, plant and equipment	Provisions	
Investment property	Restructuring	
Intangible assets	Pending legal issues and tax litigation	
Goodwill	Pensions and other post retirement benefit obligations	
Other intangible assets	Credit commitments and guarantees	
Investments in associates, subsidiaries and joint ventures (accounted for using the equity method – including goodwill)	Onerous contracts	
Tax assets	Other provisions	
Current tax assets	Tax liabilities	
Deferred tax assets	Current tax liabilities	
Other assets	Deferred tax liabilities	
Non-current assets and disposal groups classified as held for sale	Other liabilities	
	Share capital repayable on demand (e.g. cooperative shares)	
TOTAL ASSETS	Liabilities included in disposal groups classified as held for sale	
	TOTAL LIABILITIES	

Table 8: European Financial Reporting Framework (FINREP) – Income Statement

Income Statement
Interest income
Cash & cash balances with central banks
Financial assets held for trading (if accounted for separately)
Financial assets designated at fair value through profit or loss (if accounted for separately)
Available-for-sale financial assets
Loans and receivables (including finance leases)
Held-to-maturity investments
Derivatives - Hedge accounting, interest rate risk
Other assets
(Interest expenses)
Deposits from central banks
Financial liabilities held for trading (if accounted for separately)
Financial liabilities designated at fair value through profit or loss (if accounted for separately)
Financial liabilities measured at amortised cost
Derivatives - Hedge accounting, interest rate risk
Other liabilities
Expenses on share capital repayable on demand
Dividend income
Financial assets held for trading (if accounted for separately)
Financial assets designated at fair value through profit or loss (if accounted for separately)
Available-for-sale financial assets
Fee and commission income
(Fee and commission expenses)
Realised gains (losses) on financial assets & liabilities not measured at fair value through profit or loss, net
Available-for-sale financial assets
Loans and receivables (including finance leases)
Held-to-maturity investments
Financial liabilities measured at amortised cost
Other
Gains (losses) on financial assets and liabilities held for trading, net
Equity instruments and related derivatives
Interest rate instruments and related derivatives
Foreign exchange trading
Credit risk instruments and related derivatives
Commodities and related derivatives
Other (including hybrid derivatives)
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net
Gains (losses) from hedge accounting, net
Exchange differences, net
Gains (losses) on derecognition of assets other than held for sale, net
Other operating income
Other operating expenses
Administration costs
Staff expenses
General and administrative expenses
Depreciation
Property, plant and equipment
Investment Properties
Intangible assets (other than goodwill)
Provisions
Impairment
Impairment on financial assets not measured at fair value through profit or loss
Financial assets measured at cost (unquoted equity)
Available-for-sale financial assets
Loans and receivables (including finance leases)
Held to maturity investments
Impairment on non-financial assets
Property, plant and equipment
Investment properties
Goodwill
Intangible assets (other than goodwill)
Investments in associates and joint ventures accounted for using the equity method
Other
Negative goodwill immediately recognised in profit or loss
Share of the profit or loss of associates and joint ventures accounted for using the equity method
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS
Tax expense (income) related to profit or loss from continuing operations
TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS
Profit or loss after tax from discontinued operations
TOTAL PROFIT OR LOSS AFTER TAX AND DISCONTINUED OPERATIONS
Profit or loss attributable to minority interest
PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Table 9: ECB-Banking Sector Stability Report-Financial Statement Summaries

Balance sheet	Income statement
Assets	1 Interest receivable
Cash and balance	2 Interest payable
Loans to credit institutions	3 Net interest income (1-2)
Financial assets at fair value through profit or loss	4 Net non-interest income (5+6+7)
Debt securities including fixed-income securities	5 Fees and commisions (net)
Shares and other variable-yield securities	6 Trading and forex results / gains (losses) on financial transactions
Loans to customers	7 Other operating income (net)
Tangible and intangible assets	8 Total income (3+4)
Other assets	9 Total expenses (10+11+12)
Liabilities	10 Staff costs
Amounts owed to credit institutions	11 Administrative costs
Amounts owed to customers	12 Other
Debt certificates	13 Operating profits (8-9)
Other liabilities	14 Impairment losses (net) on financial assets
Provisions for liabilities and charges	15 Profit before tax and profit from discontinued operations (13-14)
Subordinated liabilities	16 Tax charges
Equity (including valuation adjustments)	17 Profit from discontinued operations
Minority interests in own funds	18 Profits after tax (15-16+17)
Profit or loss for the financial year	
Selected off-balance sheet items	
Credit lines	
Guarantees and other commitments	