

Country Summaries

Disclaimer:

The country summaries contained in Annex I represent unofficial English translations of the original laws of the countries.

Summary by Country: Austria

Exposure: Asset items referred to in the Austrian Banking Act; off-balance sheet financial transactions with a 100% weighting and trading book values.

Large Exposure: If an exposure exceeds 10% of the credit institution's own funds, or of the group of credit institutions consolidated own funds, and amounts to at least 500.000 euros.

Exposure Value: Those assets indicated under Exposure above.

Elements covered by own funds: Provision does not exist in Austria; however, asset items may be deducted from own funds if they have a zero weighting.

Connected Clients: Natural or legal persons and other legal entities, one of which may exercise control of the others; or natural and legal persons and other legal entities among whom no control relationship as indicated above exists, but because of economic interdependence, repayment difficulties affecting one of these persons may impact the solvency of one or several of the others. Partnerships, settlors, trustees and obligors may also be subject.

Scope of the Large Exposure Regime: All institutions holding a banking licence. In the case of an investment firm, if it is engaged in one of the activities mentioned in Article 4 or Annex I, numbers 1 to 14, of Directive 2000/12/EC, it needs a banking licence in Austria. If an investment firm is trading for its own account or for the account of customers in various financial instruments, it also needs a banking licence.

Administrative and Accounting Requirements: Credit institutions shall establish adequate administrative, accounting and control procedures for the purpose of recording large exposures and subsequent changes to them as well as for monitoring these exposures in accordance with the institution's exposure policy. The adequacy of these procedures and their enforcement shall be reviewed by the internal audit at least once a year.

Trading Book: Use the derogation set out in Article 28; do not allow limits laid down in Article 111 to 117 to be exceeded.

Summary by Country: Belgium

Exposure: As indicated in Art. 106 of the recast Directive 2000/12/EC

Exposure Value: For on-balance sheet items – book value minus specific provisions; for off-balance sheet items - nominal amount minus specific provisions; for derivatives – the approaches outlined in the CRD.

Elements covered by own funds: Exposures deducted from own funds are not to be included in the large exposure calculations.

Connected Clients: Two or more natural or legal persons who, regardless of their status or legal form should be regarded as a single entity from a risk standpoint. A person and companies connected to this person, in the absence of evidence to the contrary, should be regarded as a single entity as well as two or more natural or legal persons who are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

Scope of the Large Exposure Regime: The Large Exposures Regime applies to institutions subject to the Belgian transposition of the new CRD. This includes credit institutions, investment firms, and clearing and settlement institutions.

Administrative and Accounting Requirements: Art. 109 has been adopted without additional guidance.

Trading Book: Belgium makes use of the derogations outlined in Art 28 and Art. 30(4) but with the latter, no list is maintained; for Art. 31, the limits laid down in Art. 111 to 117 may be exceeded but Belgium applies an additional capital requirement in such cases; also makes use of the alternative determination of own funds per Art 32 (2) if the requirements per the directive are met.

Summary by Country: Cyprus

Exposure: As indicated in Article 106 and also includes any other on- or off-balance sheet items, funded or unfunded, with respect to a given counterparty.

Exposure Value: Balance sheet value of an on-balance sheet or off-balance sheet item. For derivative contracts, the value is calculated per Annex III in the current CRD.

Elements covered by own funds: The following elements are entirely deducted from own funds and excluded from the determination of exposures: a) investments in unconsolidated subsidiaries and associated companies; b) lending of a capital nature to group companies, c) investments in excess of 10% of the share and loan capital of a bank or in a company that carries out similar activities; and d) investments of less than 10% of the share and loan capital of a bank or in a company that carries out similar activities.

Connected Clients: The Central Bank of Cyprus may determine that two or more persons are connected in such a way that they constitute a single risk. Also when control is exerted by a party over another and where parties are connected in such a way that if one were to experience financial problems, the other would be likely to encounter repayment difficulties.

Scope of the Large Exposure Regime: All banks incorporated in the Republic of Cyprus are subject.

Administrative and Accounting Requirements: As indicated in Article 109. No further guidance.

Trading Book: Apply the derogation in Article 28, do not apply that in Article 30(4); have adopted the provisions of Article 31 and annex VI; Cyprus Capital Adequacy Directive prohibits banks from deliberately avoiding additional capital requirements; have adopted 32(2).

Summary by Country: Czech Republic

Exposure: Any asset or off-balance sheet item.

Exposure Value: The value of assets and off-balance-sheet items identified based on the accounting framework, application of Art 106 (1) 2nd sub-para and Art 106 (2).

Elements covered by own funds: All exposure items deducted from own funds are excluded from the determination of exposures.

Connected Clients: Same as the Directive with the additional idea that one has also to focus on potential clients when assessing the relationship. Additional criteria that should be taken into account when assessing relationships (e.g. mutual guarantees, credits, common management) are going to be published. They are identified both legally and economically.

Scope of the Large Exposure Regime: Any institution including institutions that meet the definition in Art. 107.

Administrative and Accounting Requirements: Have implemented Art. 109 along with general requirements for the management of concentration risk (Annex V/7). Will be providing more detailed requirements for internal governance.

Trading Book: Have implemented Art. 28; have implemented the definition of a recognized third-country investment firm pursuant to Art. 3 of Directive 93/6/EEC. As to Art, 32(1), do not permit any operation that might result in the artificial decrease in the capital requirement for the exposure risk of the trading portfolio; do not use provision contained in Art. 32(2).

Summary by Country: Denmark

Exposure: Sum of credit risks the undertaking has with the relevant client or group of connected clients. Include the following: loans, guarantees, shares and other securities, items related to interest and foreign-exchange rates, items related to shares and commodities, and other accounts that would constitute a credit risk.

Exposure Value: Take into account those items listed under exposures and applying the following deductions: exposures to a client of certain standing and integrity; as a result of the quality of collateral; if both call for a deduction, then deduction is made first by deduction for the collateral and any remaining exposure is subsequently reduced by the % due to client standing.

Elements covered by own funds: In general, if the capital holdings are deducted from the base capital, then the capital holdings should not be included in LE with the issuer of the capital.

Connected clients: Defined both legally and economically – use the definition in the CRD as well as companies in the same group, cohabiting persons, whether married or not, partnership and individual partners, principal shareholder in a limited company or a limited liability company and the shareholder's company, the individual entities of a housing association and the housing association and the mutual entities.

Scope of the Large Exposure Regime: "Credit institution" is defined in Denmark's Financial Business Act as an undertaking, the activity of which consists of receiving from the general public deposits or other funds to be repaid, and granting loans at its own expense.

Administrative and Accounting Requirements: The provisions in Article 109 are evaluated by on-site inspections. The Danish FSA has issued guidelines for general information regarding organization, procedures and internal controls.

Trading Book: Articles 28, 30(4), 31, 32(1) and 32(2) have not been transposed.

Summary by Country: Estonia

Exposure: The sum of claims, derivative instruments, off-balance sheet items and holdings acquired in the share capital of other companies.

Exposure Value: Sum of the exposures of the trading book and those outside of the trading book. The value of trading book exposures is calculated according to Article 29 of Directive 93/6. Outside the trading book, the exposure value takes the following into account: book value of assets, nominal value of off-balance sheet items, value of derivative instruments calculated according to derivatives exposure calculation principles.

Elements covered by own funds: Those positions which are subtracted while calculating own funds are not included.

Connected Clients: Two or more persons who constitute a single risk to a credit institution or its consolidated group because one of them, directly or indirectly, has control over the activities of the other, or two or more persons between whom there is no relationship but who constitute a single risk to a credit institution or its consolidated group because they are so interconnected that, if one of the persons were to experience financial problems, the others would also be likely to be affected. Use both legal and economic criteria.

Scope of the Large Exposure Regime: Any institution meeting the definition of "credit institution" under the Estonian Credit Institutions Act is subject. The definition is a company the principal and permanent activity of which is to receive cash deposits and other repayable funds from the public and to grant loans for its own account and provide other financing.

Administrative and Accounting Requirements: Have adopted Article 109 but have not specified more detailed requirements.

Trading Book: Use derogation of Article 28; use derogation of Article 30(4) through notification requirement; use Article 31 – allow breach of limits with prior approval followed by quarterly reports once the breach has been made. Monitoring is conducted through regular reporting and on-site inspections. Do not make use of Article 32(2).

Summary by Country: Finland

Exposure: The Finnish definition is based on the old version of Directive 2000/12/EC in Article 1 point 24.

Exposure Value: Based on accounting value; recognised impairment losses are deducted from the value of an exposure to a customer or a connected customer. Off-balance sheet commitments are at nominal value which is calculated according to Annex III of the CRD. For the calculation of the credit equivalent value of derivative contracts, the same method shall be used as the one that the supervised entity uses in its capital adequacy calculation.

Elements covered by own funds: Items that have been deducted from own funds (e.g. investments in other credit institutions) are excluded.

Connected Clients: A counterparty is a natural or legal person. Interconnected counterparties which share substantial economic interests form a group of connected customers. They are by Finland's law, connected if they have a group relationship, another direct or indirect control relationship (for example common owner or management), or an interdependency due to mutual business relations that cannot be quickly unwound and on the basis of which the financial problems of one counterparty can cause repayment difficulties for the other persons within the group of connected customers.

Scope of the Large Exposure Regime: Any institutions having subsidiaries or branches whether in Finland or abroad are captured.

Administrative and Accounting Requirements: The Fin-FSA has issued standards for the establishment and maintenance of internal control and risk management and for management of credit risk which contain more specific rules on this subject. Please refer to Finland's response for their in-depth views on this topic.

Trading Book: Use derogations contained in Article 28, 30(4). Article 31 is permitted upon prior supervisory approval but has never been used. Have not implemented Article 32(2).

Summary by Country: France

Exposure: Assets and off-balance sheet items where such items are liable to the risk of counterparty default.

Exposure Value: Balance sheet value; for off-balance sheet items, it is determined by the percentage of the value according to its risk class as follows: 100% if elevated risk or medium-risk; 20% if moderate risk and 0% if low-risk.

Elements covered by own funds: Certain items are deducted from own funds: equity holdings and subordinated claims in credit institutions and participations in insurance undertakings; guarantees given as part of a securitization operation by the disposer, or by the guarantor, institution before the securitization operations have been effected as long as the guarantee deducted does not exceed 8% of the total weighted value of the claims; asset and off-balance sheet items resulting from transactions entered into with the principal managers or shareholders of credit institutions or investment firms.

Connected Clients: Natural and legal persons that are interconnected in such a way that were one of the parties to encounter financial problems, the others would probably experience repayment difficulties. It is a presumption rather than a legal limit.

Scope of the Large Exposure Regime: The regulation applies on a consolidated basis to credit institutions and financial holding companies under the prudential supervision of the Commission Bancaire. Also applies to affiliated institutions within mutual or cooperative groups and to investment firms.

Administrative and Accounting Requirements: Comprehensive regulation covering internal controls in credit institutions and investment firms. In addition, guidance specific to large exposures indicates that internal supervision should include limit setting on the delegation of loan or commitment decisions and credit institutions should take all necessary steps for complete centralized tracking of their commitments.

Trading Book: France does not use the derogation in Article 28; that in Article 30(4) is used on a case-by-case basis; an institution, per Article 31, may exceed the limits if the exposure in the trading book does not exceed more than 500% of the bank's own funds and the trading book items that contribute to the excess over 25% must bear an additional own funds requirement equal to 200% of the own funds requirement for those items. France has established internal control procedures related to Article 32(1) and does not permit its institutions to use the alternative determination of own funds in Article 13(2).

Summary by Country: Germany

Exposure: Asset items, derivatives (other than written option positions) and the guarantees assumed in respect thereof and other off-balance sheet transactions. The definition is closely linked to the definition given in the directive and includes, additionally, participating interests and shares in affiliated enterprises.

Exposure Value: The calculation base is the book value for balance sheet items; current market price in the case of swaps and the guarantees assumed in connection therewith; the institution's claim to the delivery or purchase of the underlying instrument for forward contracts, option rights and the associated guarantees; the loans of the enterprise for which a letter of comfort is granted in the case of letters of support and similar blanket guarantees; the book value of securities in the case of securities repos and stock lending transactions in which the institution is the transferor or lender of the securities; the amount of funds transferred or the book value of the collateral provided in return in the case of securities repos and stock lending transactions in which the institution is the transferee or borrower of the securities; and in the case of other off-balance sheet transactions, the principal amount for which the institution is liable or if there is no such amount, the book value.

Elements covered by own funds: Several items such as participating interests in institutions shall be deducted from the sum of core and additional capital.

Connected Clients: Two or more natural or legal persons or partnerships which form a unit in so far as one of them can exercise a direct or indirect dominant influence over the other or others, or which, in the absence of such a dominant influence, are to be regarded as a risk unit since their mutual dependencies make it appear likely that, if one of these borrowers encounters financial problems, this will lead to payment difficulties on the part of the others too.

Scope of the Large Exposure Regime: The scope extends to credit institutions and financial services institutions with the exception of the Deutsche Bundesbank, Reconstruction Loan Corporation, social security funds and the Federal Labour Office, the public debt administration, private and public insurance enterprises, pawnbrokers, risk capital investment companies, enterprises conducting banking business solely with their parent enterprise or with their subsidiaries or affiliates, and enterprises providing brokerage services solely on a stock exchange on which only derivatives are traded for other members of the exchange and whose liabilities are covered by a system that guarantees the settlement of trades on that exchange.

Administrative and Accounting Requirements: An institution should have in place suitable arrangements for managing, monitoring and controlling risks, as well as appropriate arrangements by means of which the financial situation of the institution or group can be gauged with sufficient accuracy; have a proper business organization, an appropriate internal control system and adequate security precautions for the deployment of electronic data

processing; and, ensure that the records of executed business transactions permit full and unbroken supervision.

Trading Book: Use derogations in Art 28 and 30(4); institutions may exceed the limits as per Art 31 with several restrictions; Germany also permits institutions to use the alternative determination of own funds as per Art 32(2).

Summary by Country: Greece

Exposure: Defined as any asset or off-balance sheet item referred to below under Exposure value for the Standardised approach, without application of the risk weighting or degrees of risk there provided for. Same as Art. 1(24) of the Directive 2000/12/EC

Exposure Value: Apply definition in Art. 106. Specifically – balance sheet value net of specific provisions; for the items referred to in Annex IV, the exposures are calculated in accordance with one of the methods set out in Annex III of the CRD.

Elements covered by own funds: Exclude holdings in other credit and financial institutions which exceed 10% of that institution's capital; subordinated claims and instruments of indeterminate duration which a credit institution holds in respect of the credit and financial institutions in which it has holdings exceeding 10% of the capital in each case; this is true when the above items are deducted from the own funds of the credit institution since the relevant credit or financial institutions are not included in the consolidated supervision.

Connected Clients: Same as Art. 1(25) of Directive 2000/12/EC and Art. 4(45) of the CRD. Additionally, all undertakings controlled by the same natural or legal person are included and the exposures of one credit institution towards two or more persons that are connected as indicated above would be summed up and constitute one exposure.

Scope of the Large Exposure Regime: Credit institutions including branches established in third countries are subject and since supervision of LE is conducted on a consolidated basis, they would be included at the consolidated financial holding company level.

Administrative and Accounting Requirements: The Bank of Greece Governor's Act 2577/2006 deals with the framework of operational principles and criteria for the evaluation of internal control systems of credit institutions as well as the specification of the tasks and responsibilities of credit institutions' internal control bodies including strict obligations to identify, monitor and manage all risks including those related to LEs.

Trading Book: Have incorporated the derogations in Art. 28 and 31. Breaches of the limits hardly ever occur. Have not made use of Art. 32 (2).

Summary by Country: Hungary

Exposure: "Risk and exposure" is defined as the extension of loans, including the purchasing of debt securities, the discounting of bills, checks and other debentures; a bank guarantee, bank surety and other security provided by a credit institution, including any of the credit institution's other future or pending liabilities, assumed guarantees, suretyship and other banker's securities provided; all liabilities assumed by a credit institution whereby the credit institution guarantees the fulfillment of money claims for a consideration or agrees to repurchase such upon demand of the buyer; a participation acquired by a credit institution in any company, irrespective of the duration of holding such participation; money claims purchased by a credit institution and financial leases; deposits placed with other credit institutions, excluding the compulsory reserves placed by the credit institution through a correspondent bank to comply with the reserve requirement prescribed by the central bank.

Exposure Value: On- and off- balance sheet items less provisions.

Elements covered by own funds: The following must be deducted from the core and supplementary components of own funds for regulatory purposes:

a- If credit institutions exceed the limits they must deduct the amount above the limits from the regulatory own funds. Under this condition the excess can be maintained.

b-the book value of interests in other financial institutions, investment firms, insurance and reinsurance companies – if the credit institution has a qualifying participation at the time of the calculation – as well as the book value of subordinated loan capital provided to the above-specified companies;

c- that part of the sum (before application of point a) of the book value of interests not treated as qualifying participations in other financial intuitions, investment firms, insurance and reinsurance companies and the book value of subordinated loan capital provided to the above-specified companies which exceeds 10% of regulatory capital.

Connected Clients: Two or more clients in respect of whom a credit institution (or the company that is subject to supervision on a consolidated basis) has assumed a risk and which is construed as a single risk because one of them, directly or indirectly, exercises dominating influence over another one of the group's members, or they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties; The following shall be construed as a relationship: suretyship, joint and several suretyship, guarantees and other securities, unlimited and joint and several liability based on law or contract, direct commercial dependence, which cannot be terminated or substituted by another business relationship in the short run, the relationship between close relatives living in the same household.

Scope of the Large Exposure Regime: Applies to credit institutions as defined in Hungarian law, cooperative credit institutions, branches of foreign institutions, and investment firms.

Administrative and Accounting Requirements: The credit institution's rules and regulations must define the order of judgment of the application relating to large exposures, making of decisions relating to large exposures, and of the separate recording and regular monitoring thereof. All banks are required to have detailed procedures on risk management including large exposures.

Trading Book: Apply Art 28, not Art 30(4). As to Art 31, the limit may be exceeded by exposures made in connection with trading book activities if the credit institution is in possession of the capital required by law to cover the exposures; Art 32(2) is not applied.

Summary by Country: Iceland

Exposure: Asset items included in the balance sheet and off-balance sheet items as referred to in Annex II and Annex IV of the CRD, excluding asset items deductible from own funds, according to Icelandic law.

Exposure Value: No specific definition; however it is considered to be assessed in the same way as the value of balance sheet and off-balance sheet items in the financial accounts of the particular institution.

Elements covered by own funds: All exposure items deducted from own funds of the institution in question are excluded from the determination of exposures. Such items include holdings in credit institutions, investment firms and financial institutions and subordinated loans to the same parties. Additionally, holdings in an insurance company equivalent to the minimum solvency requirement of that insurance company.

Connected Clients: Identified on a case-by-case basis and representing two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly has control over the others, or two or more natural or legal persons between whom there is no relationship of control but who are to be regarded as constituting a single risk due to their interconnection.

Scope of the Large Exposure Regime: Applies to credit institutions, investment firms and management companies of UCITS funds and investment funds.

Administrative and Accounting Requirements: Article 6 of Iceland's banking laws states: "Financial undertakings shall make use of/have at their disposal a sound management and information system and internal control mechanisms which identify and record all large exposures and subsequent changes to them in order to monitor them."

Trading Book: Have used rarely the derogation in Article 28; have transposed the derogation in Article 30(4) but have not issued criteria or a list of recognized third-country parties; limits may be exceeded per Article 31 with prior formal approval by the FSA; no specific procedures have been implemented for Article 32(1) and do not make use of Article 32(2).

Summary by Country: Ireland

Exposure: Definition, as per Article 1 Section 24 of the Codified Directive (2000/12/EC) and Article 5 of the EU Directive 93/66/EEC

Exposure Value: A gross exposure means the total potential loss which the reporting institution could incur in the event of non-payment by a client, gross of provisions for bad and doubtful debts and gross of write-offs. It is the sum of the institution's banking book exposures plus trading book exposures before subtracting exempt exposures, e.g. cash collateral and explicit guarantees. The gross exposure would include, therefore, all claims on the client both actual and contingent. Contingent claims would include, for example, undrawn facilities which the credit institution has, in effect, committed itself to provide. The Overall Net Exposure is the Gross Exposure less the sum of exempt exposures.

When converting claims on foreign currencies into euro equivalents, institutions are required to use exchange rates from the ECB as at the reporting date.

Calculation of the exposures for Banking Book off balance sheet items referred to in Annex IV of the Codified Directive (2000/12/EC) is outlined in Annex III of the Codified Directive (2000/12/EC), i.e. the mark-to-market approach. Calculation of Trading Book exposures is outlined in Annex VI of the EU Directive 93/6/EEC.

Elements covered by own funds: Items deducted in the calculation of Own Funds are disregarded in the calculation of an exposure, with the agreement of the Financial Regulator. In this regard items deducted from Own Funds include the following:

- (a) The amount of any investment in other credit and financial institutions which exceeds 10% of the capital of those institutions; and
- (b) The amount of any investment in other credit and financial institutions (other than those above) which exceeds 10% of the reporting institution's Tier 1 plus Tier 2 Own Funds (as measured before these deductions from Own Funds).

Connected Clients: Connections exist where:

- (a) Two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the others; or
- (b) Two or more natural or legal persons between whom there is no relationship of control as defined in (a) above, but who are regarded as constituting a single risk because they are so interconnected, that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

Scope of the Large Exposures Regime: All credit institutions which have obtained the authorisation referred to in the Codified Directive (2000/12/EC) are subject to the Large Exposure requirements and investment firms.

Administrative and Accounting Requirements: Every credit institution must have sound administrative and accounting procedures and adequate internal control mechanisms for the purpose of identifying and recording all large exposures and subsequent changes to them and for monitoring those exposures in the light of each credit institution's own exposure policies.

Trading Book: Article 28, 30(4), 31 and 32(2) are applied.

Article 30(4): there is a list of recognised third country investment firms and recognised clearing houses and exchanges.

Article 31: on application to the Financial Regulator these limits can be exceeded subject to certain conditions being met simultaneously.

Article 32(2): credit institutions are permitted to use the alternative determination of own funds provided that the banking book element of the exposure already satisfies the limits based on Tier 1 plus Tier 2 own funds.

Summary by Country: Italy

Exposure: the sum of any asset (loans; debt instruments, shares or other capital instruments issued by the client and held by the bank, etc.) or off-balance-sheet item (guarantees, positions stemming from derivative instruments, both credit and financial, etc.) related to a single client or group of connected clients, without application of the risk weighting.

Exposure Value: the 'exposure' after application of the risk weightings there provided for, taking into account eligible collateral or guarantees.

Elements covered by own funds: items in the trading book are included in the LE regime but they can exceed the limits if the excess is covered by own funds.

Connected Clients: two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others (juridical connection) or between whom there is no relationship of control but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties (economic connection); the Bank of Italy may interpret the provisions on a case-by-case basis.

Scope of the Large Exposure Regime: Applies to credit institutions and, on a consolidated basis, to the whole exposure of the group, including investment firms.

Administrative and Accounting Requirements: The supervisory rules provide that the Bank of Italy may establish more stringent individual and overall limits for banks and banking groups that show profiles of accentuated risk in relation to their balance-sheet and organizational situation. Particular importance is attributed to the adequacy of the organizational structure in selecting customers and in monitoring the economic and financial situation of major clients and loan performance. Institutions are required to report all the exposures (gross amount, i.e. without applying weighting percentages and collateral) which exceed 10% of total own funds. In addition to that, the 15 largest banking groups must report the exposures (gross and weighted) of their top 15 counterparties (on an individual and consolidated basis).

Trading Book: Italy doesn't use the derogation in art. 28; the exemption contained in art. 30(4) is limited to investment firms located in Zone A and UE countries; according to art. 31 exposures booked in the trading book can exceed the limits but the amount above the limit must be covered with own funds; Italy has not established specific control procedures related to Art. 32(1); Italy doesn't permit its institutions to use the alternative determination of own funds under art. 13 (2) for the purposes of the calculation of large exposures.

Summary by Country: Latvia

Exposure: Transactions reported in balance sheet assets excluding fair value of derivatives instruments, off-balance sheet items and derivative instruments that are referred to in the Regulations for Calculating Capital Adequacy without considering the risk weighting or the conversion factor. Certain exemptions are noted, the same as those in the Directive.

Exposure Value: For asset items reported in the balance sheet, at residual value of the transaction (value less provision); for off-balance sheet items, at residual value without considering the established conversion factor or risk weighting assigned to the counterparty; for derivatives, at the potential credit equivalent of the derivative or at the total amount of the replacement value and the potential credit equivalent calculated by one of the methods outlined in the Regulations for Calculating Capital.

Elements covered by own funds: All asset items that have to be deducted from own funds are excluded from determination of exposures. These items are deducted from own funds to cover minimum capital requirements: deduction from Tier 1 capital – own shares possessed by the institution, intangibles; deduction from the sum of Tier 1 and Tier II – investments in the shares and subordinated capital of credit institutions and financial institutions where the institution has a qualifying holding, except such investments in subsidiaries of the institution and those subject to consolidated supervision.

Connected Clients: Two or more persons who constitute a single joint risk for an institution because of direct or indirect control (except when the controlling person is the Latvian central government or local government, a Member State of the EU, a Member State of the European Economic Development and Cooperation Organization, a Member State of the European Economic Area, a local government in a European Union Member State and a local government in a Member State of the European Economic Area); or that those persons are linked so that the financial problems of one person are likely to impact repayment by the other. There is also a definition of control.

Scope of the Large Exposure Regime: The scope includes banks, investment firms and management companies of UCITS funds. LE limits have to be met both at a solo and a consolidated level.

Administrative and Accounting Requirements: The Regulations include the following: An institution shall develop policies for controlling large exposures by establishing types of, and limits on, exposures for certain clients or categories of clients, including institutions, countries and national economy sectors. An institution shall develop appropriate accounting procedures and internal control mechanisms to ensure timely identification and recording of large exposures and subsequent changes therein and to control compliance with exposure restrictions.

Trading Book: Use the derogation in Art. 28 for trading book capital requirement calculations. Latvia makes use of the derogation in Art. 30(4) but does not permit its institutions to exceed the limits per Art 31.

Summary by Country: Liechtenstein

Exposure: Any asset or off-balance sheet item without application of the risk weightings or degrees of risk provided therefore.

Exposure Value: Any asset or off-balance sheet item without application of the risk weightings or degrees of risk there provided for.

Elements covered by own funds: Exempt from limits.

Connected Clients: 1) Two or more individuals or legal entities shall be deemed a group of associated parties and shall be treated as a unit, i.e. as one risk position, if

a) one of them directly or indirectly holds a share of more than one half of the votes of the other one or exercises a controlling influence on it in any other way; or b) there are recognizable dependencies between them which make it appear likely that in the event that one of them gets into financial trouble the other ones will face financial difficulties; or c) they form a syndicate. Several syndicates shall not be deemed parties associated with each other even if one or several syndicate members are identical; likewise, other claims against individual syndicate members shall not be included.

2) Legally autonomous undertakings operated by the public authorities shall not be deemed associated parties either among themselves or together with the public body controlling them if the public body is not liable for the liabilities of the undertakings or if this concerns a bank with its principal place of business in an OECD country.

3) In a group of associated parties, the risk position of the group results from the total of the individual risk positions..

Scope of the Large Exposure Regime: The regime applies to all credit institutions and finance companies.

Administrative and Accounting Requirements: As indicated in Article 109. There are more detailed requirements but they are not specifically directed at Large exposures.

Trading Book: Do not apply the derogation in Article 28; Articles 30(4) and 31 are still under discussion.

Summary by Country: Lithuania

Exposure: Current definition: The amount of bank assets, off-balance sheet claims, balance sheet and off-balance sheet liability items included in banking and trading books.

Definition in the draft legislation: Exposure shall mean assets and off-balance sheet items, included in the banking or trading books.

Exposure Value: Current definition: All of a bank's monetary claims on the borrower, acquired shares (contributions or other portions of equity), reflected in the bank's balance-sheet and off-balance sheet items, also monetary obligations of the bank recognized in the bank's off-balance sheet items.

Definition in the draft legislation: Shall mean the amount of bank assets and off-balance sheet items, included in the banking or trading books.

Elements covered by own funds: Excluded when they reduce bank capital according to the rules for the calculation of capital adequacy (i.e., investments in other credit and financial institutions and subordinated loans granted to them):

a) when a bank's investment in another credit or financial institution exceeds 10 per cent of equity capital of that institution, the portion of the investment exceeding 10 per cent and any subordinated loan granted to it, shall be deducted from the bank's capital;

b) when the sum of all bank investment of other credit or financial institutions do not exceed 10 per cent and subordinated loans granted to such institutions exceed 10 per cent of bank capital calculated before deducting the amounts specified above, the portion of the sum of investment and subordinated loans which exceeds 10 per cent of bank capital shall be deducted from bank capital.

Connected Clients: "Group of interrelated clients" shall mean two or more clients of a financial institution (or of several financial institutions belonging to the same financial group) who are interrelated on the grounds that:

1) One of the clients may, directly and/or indirectly, control the other clients;

2) The clients are interrelated so that, if one of them failed to meet its obligations to the financial institution, the other client or other clients would also have difficulties in meeting their obligations to this financial institution. Such mutual relations shall cover a person's assurances, guarantees or other means of securing the performance of obligations for another person or joint obligations arising from concluded transactions or direct business interdependence, where mutual business relations may not be terminated or replaced by other business relations, or the clients are related by blood or by marriage. Legal meaning of "connections" is defined in the Law.

Scope of the Large Exposure Regime: Banks, central credit unions and investment firms are subject.

Administrative and Accounting Requirements: Every institution must have an accounting policy which would conform to IAS requirements and to the nature of its banking activities. Credit institutions must also introduce effective internal control systems and active risk management and auditing committees

Trading book: Do not use derogation contained in Article 28 for trading book only. If the limits are exceeded, additional capital is required. The 25 per cent limit of capital may be exceeded, where:

- the exposure on the banking book to the client or group of connected clients in question does not exceed 25 per cent limit of bank's capital, i.e., the excess arises on the trading book; the bank applies large exposure capital requirements on the excess over the 25 per cent limit.

Large exposure capital requirement for the remaining net long positions shall be calculated as follows:

if the excess exposure has been outstanding for 10 days or less, the specific risk weighting factor of the position exceeding 25 per cent of capital shall be doubled; if the excess exposure has been outstanding for more than 10 days, the specific risk weighting factor exceeding 25 per cent of capital shall be multiplied by the factors shown in table.

| When an exposure is over 25 per cent of own funds, the portion of the excess shall be treated as follows | Factor applied to specific risk weight (%) |
|--|--|
| Portion up to 40% of own funds | 200 |
| Portion from 40% to 60% of own funds | 300 |
| Portion from 60% to 80% of own funds | 400 |
| Portion from 80% to 100% of own funds | 500 |
| Portion from 100% to 250% of own funds | 600 |
| Portion over 250% of own funds | 900 |

Summary by Country: Luxembourg

Exposure: Currently the following definition applies: "credit commitments of all kinds, whether utilised or not, recorded on- or off-balance sheet, whether or not included in the trading book, which a credit institution has incurred towards a customer or group of connected customers. Exposures thus include all categories of asset and off-balance sheet items, including underwriting commitments, if these items are subject to counterparty risk. Exposures shall, in particular, include derivative instruments as defined in Part I, Point 17, with the exception of (a) derivative instruments dealt in on a recognised regulated exchange, (b) foreign exchange contracts (except for gold contracts) with an original maturity of 14 calendar days or less, c) options written and warrants issued.

Off-balance sheet items shall be included without applying weightings designed to take into account the degree of risk or weightings for counterparty risk, in accordance with the provisions of Part VIII.

Exposures shall not include either of the following:

- a. In case of foreign exchange transactions, exposures incurred in the ordinary course of settlement during the 48 hours following payment,
- b. In case of transactions for the purchase or sale of securities, exposures incurred in the ordinary course of settlement during the five working days following payment or delivery of the securities, whichever is earlier;"

Exposure Value: For on-balance sheet items: book value minus specific provisions; for off-balance sheet items: nominal amount minus specific provisions.

Elements covered by own funds: This provision has not been implemented.

Connected Clients: "Two or more physical persons or legal entities which are connected in such a way that one of them, directly or indirectly, has control over the other or others.

A group is also deemed to exist if two or more physical persons or legal entities are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter serious financial difficulties."

Scope of the Large Exposure Regime: Credit institutions and investment firms.

Administrative and Accounting Requirements: "Credit institutions must demonstrate sound administrative organisation and accounting procedures, in

accordance with the requirements of IML Circular 96/126, as well as appropriate internal control procedures for the purposes of the identification, measurement, management, accounting for, and monitoring of risks. The systems of management and internal control must, in particular, be such as to ensure compliance at all times with:

- the lending policy and rules for the diversification of risks adopted by the credit institution's decision-making bodies and, in particular, compliance with the limits defined in Point 13. above (*Point 13 takes up the limits contained in Art 111 of the CRD*),
- the other prudential rules set out in this Circular,
- the rules set out in the IML Circulars 93/101 (Rules concerning the organisation and internal control of the market activity of credit institutions) and 95/119 (Rules for the management of risks linked to derivatives transactions) and, in particular, the monitoring requirements in respect of legal and operational risks" (CSSF circular 2000/10).

Trading Book: The derogation contained in Art 28 is used, but the modifications introduced by the recast directive 93/6/EEC on articles 29 and 32 have not yet been implemented. It has not yet been decided how Art 30(4) will be implemented in Luxembourg. The provisions of Art 31 are contained in the CSSF's regulation. An authorization by the CSSF, based on the criteria outlined in CSSF circular 2000/10, part IV, chapter 2, point 18 (additional capital requirement ...) is required.

As to Article 32(1), the aforementioned CSSF circular prohibits the circumvention of additional capital requirements. Compliance with these provisions has to be verified by the external auditor of the credit institution. The provision contained in Article 32(2) has been implemented and may be applied by those institutions which are concerned.

Summary by Country: Malta

Exposure: The amount at risk arising from a reporting credit institution's assets and off-balance sheet items. This would include the amount at risk arising from claims on a customer including actual and potential claims, contingent liabilities arising in the normal course of business, (including those arising from undrawn advised facilities) as well as other on and off-balance sheet financial assets and commitments.

Exposure Value: Amount resulting after the deduction of any eligible exemption by reason of the security attached to any particular exposure.

Elements covered by own funds: presently the Large Exposures Directive does not cater for any elements entirely covered by Own Funds which are to be excluded for the determination of exposures. However there is one instance where a parent credit institution is bound to use an adjusted group Own Funds computed on a solo consolidated basis when calculating exposures towards subsidiary banks. In this respect it is to be remarked that the Authority is in the process of amending its Own Funds Directive (BD/03) in line with EU's Recast Directive 2000/12 for the implementation locally of a number of deductions for the determination of large exposures.

Connected Clients: Based upon the definition in the Directive

Scope of the Large Exposure Regime: Applies to all authorised *credit institutions* under the *Banking Act 1994*. In addition the Authority may, where applicable, require an authorised *financial institution* under the *Financial Institutions Act*, to adhere to the requirements of the Large Exposures Directive, depending on the type of activities that an institution had committed itself to carry out.

Administrative and Accounting Requirements: Malta's Large Exposures Directive follows closely that of Article 109 through the inclusion of a similar Article. The actual evaluation of procedures and internal control mechanisms is carried out by the On-Site Section of the MFSA's Banking Unit which carries out regular visits to all licensed institutions. Such visits are carried out using a risk based approach. However a 'top-down' inspection of each institution has to be undertaken within a 24-30 month supervisory cycle

Trading Book: As to use of Article 28, credit institutions may hold large exposures attributable to positions in securities that exceed the 25% of Own Funds limit, subject to additional capital requirements. Since inception of this provision, local credit institutions have only applied this derogation sparingly. This reflects the relatively low level of trading activities of locally licensed credit institutions and hence the associated limited exposure to market and other risks. Do not utilize other derogations.

Summary by Country: Netherlands

Exposure: Current situation: Exposures are defined as assets and off-balance-sheet items (relating to a single client or a group of connected clients and other risk concentrations, in trading book and non-trading book), taking no account of the degree of risk on the individual items which is reflected in the weighting for solvency testing purposes. In the Netherlands exposures also include risks in respect of liabilities arising from client's short positions in equities and the reporting institution's own short positions.

Exposures as defined here do not include: items which are deductible from actual own funds for solvency testing purposes or items or parts of items to which a value adjustment has been applied; receivables in respect of settlement of securities and foreign exchange transactions, subject to the following conditions: receivables in respect of settlement of securities transactions are exempt from the large exposure rule for up to five business days after the agreed settlement date, provided that the delivery terms are 'delivery versus payment'. (this exemption applies only to receivables from institutions under recognized domestic or foreign supervision, like banks, investment institutions, securities institutions, and insurance companies); foreign exchange transactions: exposures incurred in the ordinary course of settlement of foreign exchange transactions during the 48 hours following payment.

Exposure Value: Current situation: the Netherlands distinguish between a gross exposure value and a net exposure value. The gross exposure value is used to determine whether it is a large exposure (gross position > 10% of own funds). Gross position is the exposure after deductibles as described above. The net exposure is the gross exposure after off-setting - where applicable - value adjustments (due to specified weights/reduction factors and eligible accounting/regulatory set-offs). For example, off-setting is applicable in the case of trading book positions. Weights could be applied to some specified exposures, e.g. to credit institutions, and reduction factors to underwriting exposures.

With regard to the future situation under the new CRD regime the Netherlands still have to consider the various aspects related to the definition of EAD, LGD, conversion factors, and options in this respect.

Elements covered by own funds: Those items that are deducted for solvency purposes.

Connected Clients: A 'group of connected clients' is defined as:

- Two or more natural persons or legal entities which, in the absence of evidence to the contrary, constitute a single exposure because one of them directly or indirectly exercises control over the other(s);
- two or more natural persons or legal entities between which no such relationship of control exists but which are regarded as constituting a single exposure because they are interconnected to such an extent that, if one of them encountered financial problems, the other(s) would have difficulty meeting payment commitments. Such interconnection may exist where there

are: common shareholders or partners, common directors,,cross-guarantees or direct commercial interdependence which cannot be undone at short notice.

Scope of the Large Exposure Regime: Credit institutions and investment firms. Cooperatives are treated as one banking group.

Administrative and Accounting Requirements: These rules are integrated in (rather extensive) regulatory rules on organisation and control. Written policies, procedures and criteria must be available for identifying and acceptance of risks, acceptable collateral and guarantees, limits, limit excesses, problem solving etc. Besides these rules a separate regulatory reporting system is applied for monitoring purposes to all exposures exceeding a certain amount. Two reporting limits apply to this reporting:

1 *Non-banking facilities and exposures.* The reporting limit is 1% of actual own funds, with a lower limit of eur 1,361,000; institutions with actual own funds of less than eur 13,613,000 must report all exposures exceeding 10% of actual own funds.

2 *Banking facilities and exposures.* The reporting limit is 3% of actual own funds, with a lower limit of eur 4,538,000, or 30% of actual own funds, whichever is the lower.

Irrespective of the reporting limits defined under 1 and 2 above, at least the ten largest positions relating to both banking and non-banking facilities and exposures must be reported.

In addition the limits applied to the various (relatively large) clients must be reported and whether, and to what extent (grade), exposures are under higher than normal surveillance.

Trading Book: Derogation in Article 28 used to a very limited extent. Do not currently use Article 30(4). Per Article 31, limits may be exceeded but in a very limited way. Do not utilize Article 32(2).

Summary by Country: Norway

Exposure: Any asset or off-balance sheet item related to one client or party (e.g. an issuer of collateral.)

Exposure Value: The carrying amount after individual impairments without regard to any group impairments and without application of risk weights; off-balance sheet items and issued collateral taken by the institution.

Elements covered by own funds:

For part ownerships of 20 % and higher full consolidation is required. Full adherence to capital adequacy requirements (pillar 1) under Norwegian law on individual, sub-consolidated and consolidated levels. Elements deducted in the calculation of own funds by the owning institution on solo-level, are added when reporting capital adequacy. Consequently, the reporting of these exposures for large exposures purposes has no effect for the institution.

Part ownerships between 2 % and 20 % are deducted from own funds and at the same time need to be reported under the existing large exposures regime. It is intend to change this in the on-going process of revising the large exposures regime which is to be implemented by year-end.

Part ownerships under 2 % are not deducted from own funds

Connected Clients: If one client has decisive influence over another client, or their economic relations are such that if one was to experience economic difficulties, it is likely to cause payment difficulties for one or all of the other clients, then those involved would be connected.

Scope of the Large Exposure Regime: All credit and investment firms are covered. Also, fund management companies per amended Directive 2001/107/EC.

Administrative and Accounting Requirements: Article 109 is not formalized into Norway's large exposure regulations. It is however, covered in the general pillar II context (implementation of Annex V).

Trading Book: Use derogation from Art. 28 and 31. Do not utilize other derogations.

Summary by Country: Poland¹

Exposure: The total amount of the bank's claims, extended off-balance sheet items and shares in another company held by the bank directly or indirectly, additional payments made in limited liability company or contributions or commandite sums– whichever of these amounts is higher – in a limited partnership or limited joint stock partnership, representing an exposure to a single party or to parties related by capital or management.

Exposure Value: For on-balance sheet items – book value minus specific/impairment provisions; for off-balance sheet items, nominal amount minus specific provisions; for derivatives – the approaches outlined in the CRD.

Elements covered by own funds: Poland did not apply the option from art. 106 par.1 of Directive 2000/12/EEC.

In Poland exposures defined in art. 57 n), (o- i) and deducted from bank's regulatory capital are excluded from LE limits.

Connected Clients: Parties are related by capital or management when , one of them exercises a significant influence, directly or indirectly, on the other or others, or they constitute a single economic risk to the bank, because the financial condition of one of them may influence the repayment of obligations by the other or others.

Significant influence means the capacity to participate in making decisions that direct the financial and operating policy of another undertaking, including decisions on the distribution of profit or absorption of net loss.

Scope of the Large Exposure Regime:

Institutions that meet the definition in Art. 107.

Administrative and Accounting Requirements:

1. As indicated in Art. 109 (CBS sound practices)
2. Banking Act: requires banks to have an internal control system in place, raises the status of the internal audit function, The Act clearly stipulates that these functions cannot be outsourced to third parties.

Trading Book: Do not use derogations in Art. 28 or 30(4).

Banks may exceed the limits per Art. 31 under conditions (a) – (d) and As to Art, 32(1), do not perform any transactions that might result in the artificial decrease in the capital requirement for the exposure risk of the trading portfolio.

¹ concerns exclusively credit institutions

Summary by Country: Portugal

Exposure: The assets and off-balance-sheet items referred to in the current article 43 of Directive 2000/12/EC (without application of the risk weights or degrees of risk). The recast Directive, Article 106, suggests the definition - any asset or off-balance-sheet item referred to in Section 3, Subsection 1, without application of the risk weighting or degrees of risk there provided for. Probably this new definition will be used for large exposures purposes.

Exposure Value: Currently asset and off-balance sheet items, whether they are held in the trading book or in the non trading book, are considered as follows:

- a. Asset items, at their book-value, minus specific credit risk provisions/impairment;
- b. Off-balance-sheet items listed in the current Annex II of Directive 2000/12/EC, at nominal value;
- c. Off-balance-sheet items, at the value resulting from the application of one of the methods mentioned in the current Annex III of Directive 2000/12/EC, without application of the weightings laid down *vis-à-vis* the counterparty;
- d. The two tranches of securities issued within the scope of securitisation operations with the highest degree of subordination, at double their respective amounts, provided that institutions have the possibility of determining the identity of the counterparts of the transferred assets, and up to the limit of the exposure, *vis-à-vis* these entities, that existed before the securitisation operation.

However the regime includes several exemptions, mainly those mentioned in the Annex on the use of exemptions referred to in Article 113(3).

Elements covered by own funds: The recast Directive Article 106 establishes that elements entirely covered by own funds may, with the agreement of the competent authorities, be excluded from the determination of exposures, provided that such own funds are not included in the credit institution's own funds for the purpose of Article 75 or in the calculation of other monitoring ratios provided for in the directive and in other Community acts. Probably this definition will stay in use for large exposures purposes.

Connected Clients: The current definition of a group of connected clients is the following – two or more natural or legal persons who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all the others would be likely to encounter repayment difficulties. This relationship exists, in particular, when one of them, directly or indirectly, has control over the other or others, or when they are all subsidiaries of the same undertaking. When there are common shareholders, associates or managers and cross-collateral, or when the direct business inter-dependence cannot be replaced in the short run, it may indicate the existence of a group of connected clients.

Scope of the Large Exposure Regime: Currently credit institutions and financial companies (dealers, brokers, foreign-exchange or money-market intermediating companies, investment fund management companies, wealth management companies, credit card issuing companies, regional development companies and credit securitization fund management companies) having their head-office in Portugal, and branches in Portugal of credit institutions having their head office situated outside the European Union, are subject to LE requirements.

The limits laid down in Art 111(1) and 111(3) to be observed on an individual basis by institutions subject to supervision on a consolidated basis are 40% and 12 times own funds, respectively.

Probably the options foreseen in Article 69 (1) and (2a) will be transposed to the Portuguese legal framework. In principle, it is not planned to implement Art 70.

Administrative and Accounting Requirements: The internal control requirements in place establish that the internal control system shall ensure the existence of comprehensive, reliable and timely accounting and financial information, in particular, as regards its registration, keeping and availability.

The internal control requirements also establish that the internal control system shall provide reliable, comprehensive and timely financial information to the supervisory authorities.

Trading Book: For Art. 28 and 30(4), the following are the provisions: currently for institutions where the trading-book business normally exceeds 5% of the total business or the total trading-book business normally exceeds the equivalent of €15 million, or the trading-book business at least once exceeded 6% of the total business and the total trading-book positions at least once exceeded the equivalent of €20 million, it is mandatory that the exposures to individual clients which arise on the trading book shall be calculated by summing the following items *i)*, *ii)* and *iii)*:

- i)* The excess - where positive - of an institution's long positions over its short positions in all financial instruments issued by the client in question;
- ii)* In the case of the underwriting of a debt or an equity instrument, the institution's exposure shall be its net exposure, i.e., calculated by deducting those underwriting positions which are subscribed or sub-underwritten by third parties on the basis of a formal and irrevocable agreement, reduced by the factors defined; and
- iii)* The exposures due to transactions, agreements and contracts referred to in the current Annex II of Directive 93/6/EEC with the client in question, such exposures being calculated in the manner laid down in that Annex, without application of the weightings for counterparty risk.

For the purposes of item *i)* above, the net position in each of the different instruments shall be calculated in the manner laid down in the current Annex I of Directive 93/6/EEC.

Exposures to groups of connected clients arising on the trading book shall be calculated by summing all exposures to individual clients.

The overall exposures to individual clients or group of connected clients shall be calculated by summing the exposures which arise in the trading book and other exposures.

Under Art 30(4)

- The overall exposures to individual clients or groups of connected clients are calculated by summing the exposures which arise in the trading book and other exposures;

- Assets constituting claims on and other exposures to investment firms, recognised third-country investment firms, and recognised clearing houses and stock exchanges dealing in financial instruments, are subject to the following regime:

. Exposures with a maturity of one year or less are exempt from the application of the limits;

. A weighting of 20% is applied to exposures with a maturity of more than one but not more than three years;. A weighting of 50% is applied to claims with a maturity of more than three years, represented by debt instruments, provided that they are effectively negotiable on a professional market, that they are subject to daily quotation on that market or that their issue was authorised by the competent authorities of the Member State of origin of the issuing company.

Please also note the following definitions:

-Recognised third-country investment firms – firms authorised in a third country which, if they were established within the EU, would be covered by the EU definition and which are subject to, and comply with, prudential rules considered as at least as stringent as Portuguese regulation. Banco de Portugal has established under Instruction the list of countries whose investment firms are automatically recognised (Canada, Japan, Switzerland and USA).

-Recognised exchanges – in the case of entities having their head office in the EU, they shall comply with the requirements of a regulated market; in the case of entities having their head office in other OECD countries, Banco de Portugal has issued an Instruction whereby the exchanges of Canada, Japan, Switzerland and USA are recognised.

-Recognised clearing houses - in the case of entities having their head office in the EU or in other OECD countries, those providing clearing and settlement services on a recognised exchange.

Summary by Country: Romania

Exposure: Any asset or off-balance sheet item, net of provisions, without application of the risk-weights or degrees of risk there provided for.

Exposure Value: a) on balance sheet items = accounting value

b) Off balance sheet items = 0%, 20%, 50% or 100% of the accounting value

c) Derivatives = specific methods.

Elements covered by own funds: a) Holdings in other credit and financial institutions amounting to more than 10% of their capital;

(b) Subordinated claims and instruments which a credit institution holds in respect of credit and financial institutions in which it has holdings exceeding 10 % of the capital in each case;

(c) Holdings in other credit and financial institutions of up to 10 % of their capital, the subordinated claims and the instruments which a credit institution holds in respect of credit and financial institutions other than those referred to above in this subparagraph in respect of the amount of the total of such holdings, subordinated claims and instruments which exceed 10 % of that credit institution's own funds.

Connected Clients: (a) two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others;

(b) two or more natural or legal persons between whom there is no relationship of control as set out in point (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties;

Scope of the Large Exposure Regime: Banks and credit cooperatives.

Administrative and Accounting Requirements: Article 109 is included in current solvency rules. There are no more detailed requirements.

Trading Book: The derogations in Article 28 and 30(4) are utilized. The others are not.

Summary by Country: Slovakia

Exposure: Includes (as defined in Article 106 of the CRD), assets, off-balance sheet items (future claims) and positive real values of some instruments including derivatives, repo transactions, securities borrowing transactions and other long net positions in the trading book. Items excluded are those contained in Article 106(2) and certain items listed as possibilities in Article 113 of the CRD.

Exposure Value: Value of a claim or property right means its book value determined according to a separate regulation per the Accounting Act. The positions shall be posted in the trading book daily at the market price; if a financial instrument is not traded on any given day, it may be valued at another appropriate price.

Elements covered by own funds: Exposures which result, in the case of foreign exchange transactions, from standard accounting procedures within 48 hours after payment.

Connected Clients: A group of economically connected persons means a group of persons

- a) In which one person has control over the other person, or
- b) In which mutual economic relations are of such a nature that it is evident from all the circumstances that financial difficulties for one person would cause the inability of others to pay their liabilities on time.

Scope of the Large Exposure Regime: credit institutions and securities firms are subject to LE requirements.

Administrative and Accounting Requirements: For purposes of monitoring of credit risk a bank shall in particular provide for: a) setting limits and monitoring of positions according to

1. type of transaction,
 2. contract party at the level of an individual debtor and at the level of an individual loan,
 3. group of economically connected persons,
 4. branch of economy,
 5. geographic area and country,
 6. currency,
- b. agreement of internal limits of a bank with all limits and limitations of prudent banking,
 - c. creating a system of continual control for observing individual set limits,
 - d. establishing rules and procedures for cases where limits are exceeded and for granting permission for exemptions from the set limits,
 - e. informing the competent departments about the degree of credit risk and excesses over limits,

- f. appointing responsible employees to monitor the quality of every loan and every guarantee,
- g. monitoring development of every transaction within the whole portfolio of a bank so as to ensure identification of and information on potential problematic loans and other transactions of the bank, which in particular includes
 - 1. monitoring the observation of commitments of a debtor or a contract party and information about late payment of contractual instalments,
 - 2. current evaluation of a loan guarantee,
 - 3. timely classification and evaluation of problematic loans and other transactions,
- h. monitoring development of overall composition and quality of a bank's portfolios appropriate to the extent and complexity of the bank's activities.

Trading Book: Make use of the following derogations: Article 28; no for the others.

Summary by Country: Slovenia

Exposure: The bank's exposure to a single client is the sum of all actual claims and potential claims on the respective client, the value of investments in securities issued by that client, and the bank's equity holdings in the client in question. The future definition will be based on Article 106 of the CRD.

Exposure Value: The calculation of exposure value takes account of asset items and off-balance sheet items without deducting established adjustments or other provisions (gross exposure). The off-balance sheet items and the derivative financial instruments are to be included partly or up to the amount of their replacement cost.

Elements covered by own funds: The calculation of exposure shall not include the amount of the bank's investments in shares, business stakes or subordinated debt instruments and illiquid assets, which are treated as deductions in the calculation of own funds.

Connected Clients: A group of connected clients is defined in line with Article 4(45) of the CRD.

Scope of the Large Exposure Regime: The regime extends to credit institutions as defined by the Slovenian Banking Act. This would include authorized banks, savings banks, and branches of foreign banks. Investment firms are also subject to LE.

Administrative and Accounting Requirements: The banks are required to set up an adequate information system and accounting procedures for on-going monitoring of exposures to single clients and groups of connected clients, and shall provide accurate and timely reporting to the Bank of Slovenia. The banks' internal audit department shall pay special attention to checking the adequacy and implementation of internal policies and procedures.

Banks shall within the framework of their policy to monitor and control credit risk and procedures for effective monitoring of these policies pay particular attention to exposure to single clients, groups of connected clients, clients who are in a special relationship with the bank, banks, countries, and economic sectors.

Trading Book: Use the derogation in Art 28; do not use that from 30(4) (is envisaged to be used in the future). The limits may be exceeded if the conditions in Article 31 are all met.

The use of alternative determination of own funds per 32(2) is allowed but is insignificant in practice.

Summary by Country: Spain

Exposure: The Spanish definition mirrors the definition in the Directive. Exposures, either on or off-balance, are taken without application of risk weighting or conversion factors.

Exposure Value: The exposure value of on-balance sheet exposures (and other off-balance sheet items) shall be equal to the value presented in the financial statements, net of specific provisions and partial write-offs, and without taking into account unrealised gains or losses when they are not accounted for in the profit and loss account and provided that they are not included in regulatory capital.

Derivatives mentioned in annex IV shall be valued according to annex III.

Elements covered by own funds: If credit institutions exceed the limits, they must deduct the amount above the limits from regulatory own funds. However, Banco de España's supervisory policy states that the use of this possibility must be exceptional (i.e. institutions may not benefit from a capital surplus to exceed LE limits frequently).

Connected Clients: Two clients are deemed to be "connected" if: (a) they belong to the same group or are linked by significant participations, (b) one is a member of the governing bodies or high level management of the other or (c) they are economically interlinked, meaning that, should one of the clients be in a stressful situation, the other might have difficulties meeting its obligations.

In addition, Banco de España, basing its judgement on the above mentioned criteria, may determine that some clients should be treated as a group.

Scope of the Large Exposure Regime: In principle Spain does not intend to apply these two waivers. But Spain is considering the possibility of applying Article 69 (1) in the case of LE. Credit institutions subject to the LE regime are those subject to capital requirements. LE limits have to be met both on a consolidated and on an individual basis, the latter subject to certain particular conditions.

Administrative and Accounting Requirements: Spanish law establishes that in addition to individual exposures institutions should monitor risk concentration by sectors and geographical areas, and shall secure an appropriate degree of diversification if allowed by the corporate purpose and market conditions.

Trading Book: Only Article 29(1) is used for trading book.

Summary by Country: Sweden

Exposure: Any assets and off-balance sheet items.

Exposure Value: The net book value. For exposures in the trading book, the market value. For off-balance sheet items, the nominal amount. For equity-based, interest-based commodity-based and currency-based contracts, the converted amounts (market valuation method).

Elements covered by own funds: Holdings in institutions, financial institutions and insurance companies that are deducted from the capital base are excluded from the determination of large exposures. In addition other exposures, which are deducted from the capital base, are also excluded from the determination of large exposures.

Connected Clients: Two or more clients, which, unless proven otherwise, constitute from a risk perspective, one unit since one of them possesses directly or indirectly, ownership influence over one or more of the others in the group; or, without possessing such a relationship as referred to above, they are mutually related such that any or all of the others may encounter financial difficulties where one of them is subject to financial problems.

Scope of the Large Exposure Regime: All credit institutions, investment firms and financial groups are subject;

Administrative and Accounting Requirements: Have implemented the requirements in Article 109; have not stipulated more detailed requirements.

Trading Book: Sweden makes use of all derogations (albeit some very limited) for Articles 28, 30(4), 31 and 32(2).

Summary by Country: United Kingdom

Exposure: The UK Handbook contains the list of exposures set out at BCD Article 79(1), BCD Annex II and BCD Annex IV and CAD. The items listed are exposures whether held in the trading book or the non trading book, and before any application of risk weighting or degree of risk. In addition to this provision an exposure does not include:

- an exposure which is entirely deducted from a firm's capital resources;
- in the case of foreign exchange transactions, exposures incurred in the ordinary course of settlement during the 48 hours following payment;
- in the case of transactions for the purchase or sale of securities, exposures incurred in the ordinary course of settlement during the five working days following payment or delivery of the securities, whichever is earlier; or
- endorsements on bills with a maturity of 1 year or less already endorsed by another firm.

While not specifically asked about them, the UK wished to note that one of the most difficult areas for recognising and defining an exposure is within the context of complex instruments and transactions. This includes, for example, situations where a firm seeks to "look through" the direct counterparty to underlying counterparties (e.g. as part of a securitisation, CIU or other complex transaction).

Exposure Value: UK does not permit firms to offset non-trading book and trading book exposures. Within the UK concentration risk regime, and for the purpose of calculating the value of an exposure, the UK divides exposures into counterparty exposures and issuer exposures. This will still be the approach taken by the UK under the new Directive.

Elements covered by own funds: The current UK definition of exposure for the purposes of the concentration risk regime does not include an exposure that is entirely deducted from a firm's capital resources. The UK intends to continue with this approach in the new regime. Such exposures are not subject to the LE limits.

Connected Clients: Two or more persons who (a) unless it is shown otherwise, constitute a single risk because one of them is the parent undertaking, direct or indirect, of the other or others; or (b) two or more persons between whom there is no relationship as set out in (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

Scope of the Large Exposure Regime: Regime will apply to banks, building societies and investment firms irrespective of what approach the institution adopts (i.e. standardized, foundation IRB or advanced IRB). The UK is also considering exercising the discretion in Article 45(a) with respect to commodity firms and exempt them from Article 107.

Administrative and Accounting Requirements: The UK proposes to incorporate Article 109 into their Handbook as follows:

A firm must have sound administrative and accounting procedures and adequate internal control mechanisms for the purposes of identifying and recording all large exposures and subsequent changes to them, and for monitoring those large exposures in the light of the firm's own exposure policies. In addition UK requires:

- a firm to be able to demonstrate to the FSA that it has written policies and procedures to address and control the concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, including in particular risks associated with large indirect credit exposures (e.g. to a single collateral issuer), and that its policies and procedures are implemented.
- a firm must not:
 - (1) treat an exposure as having been transferred to another person if that transfer is temporary; or
 - (2) treat an exposure as having been closed out by a transaction or arrangement if that transaction or arrangement is artificial; if that transfer, transaction or arrangement would otherwise have the effect of reducing the Concentration Risk Capital Component Charge (CNCOM) or preventing or reducing a breach of the limits in the concentration risk regime.

Trading Book: It is the intention of the UK to use the Article 28 derogation in relation to LE limits for the trading book. This approach follows the UK's current approach of applying the LE Limits to both Trading and Non Trading Books; the UK also propose including a list of recognized clearing houses, exchanges, recognized third country investment firms, and recognized third country clearing houses to which the Article 30(4) derogation applies. For Article 31, the UK has permitted firms to exceed the limits on LE to a counterparty which is held in their trading book providing the firm calculates and holds an additional capital charge on the amount which exceeds the 25% limit in line with those conditions outlined in the CRD.

UK has established procedures for Article 32(1) and also requires that a firm must not treat an exposure as having been transferred to another person if that transfer is temporary; or treat an exposure as having been closed out by a transaction or arrangement if that transaction or arrangement is artificial; if that transfer, transaction or arrangement would otherwise have the effect of reducing the Concentration Risk Capital Component Charge(CNCOM) or preventing or reducing a breach of the limits in the concentration risk regime

In addition, the UK seeks to discourage the practice of 'top slicing', by which a firm systematically collateralises part only of an exposure to bring it within the limits of the concentration risk regime. If a firm 'top slices' its exposures, the FSA takes such activity into account when assessing the firm's risk profile.

The UK has incorporated the provision of Article 32(2) for the purposes of monitoring the trading book limits, charge regime, and calculating a firm's concentration risk capital component, to include Tier 3 capital within their capital resources.