

CRD IV definition of capital

I. Calculation of capital instruments

Types of capital (Basel III end state definitions)	
Common Equity Tier 1 (CET1)	$CRR.50 = CRR.25 - CRR.36$
Additional Tier 1 (AT1)	$CRR.61 = CRR.51 - CRR.56$
Tier 1 (T1)	$CRR.25 = CRR.50 + CRR.61 = CET1 + AT1$
Tier 2 (T2)	$CRR.71 = CRR.62 - CRR.66$
Own funds (OF)	$CRR.72 = CRR.25 + CRR.71 = T1 + T2$
Eligible capital*	$CRR.4.71 = T1 + \text{minimum } (T2; 1/3 T1)$
Initial capital**	$CRR.12.2 = CET1 \text{ instruments}$

* Special terminology: definition applicable in context of large exposures, and qualified holdings outside the financial sector.
** Special terminology: definition only applicable to initial capital requirements / initial own funds requirements.

Calculation of capital step by step	
1) Apply prudential filters for CET1	
2) Determine capital in relevant Tier:	
+ Positive elements	
• Items acceptable in relevant tier	
• Instruments eligible in relevant tier	
• Instruments grandfathered in relevant tier	
• Amount grandfathered in higher tier exceeding limits	
- Negative elements	
• Deductions required in relevant tier taking into account grandfathering of deductions	
• Excess deductions from lower tiers	
= Amount of capital in relevant tier	

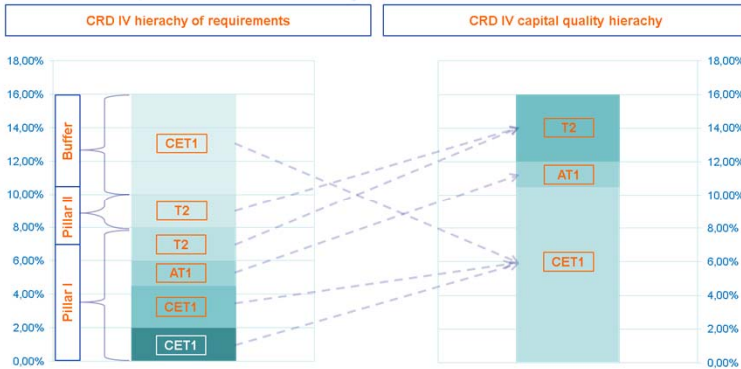
- Prudential filters**
- Valuation correction: apply requirements of prudent valuation (CRR.105) to all assets measured at fair value (CRR.34-35).
 - Securitized assets: exclude any increase in equity under applicable acc. stand. that result from securitized assets (CRR.32).
 - Filter on cash flow hedges: correct fair value reserves related to cash flow hedges of financial instruments (CRR.33.1.a).
 - Filter on own credit standing: correct for changes in value of own liabilities resulting in own credit standing (CRR.33.1.b).

II. Requirements on capital

CRD IV Own funds requirements	
Initial own funds requirement	
• €5 mln CET 1 instruments for credit institutions (CRD.12)	
• €50k-730k CET 1 instruments for investment firms; activity dependent (CRD.28-32)	
CET1 ratio requirement (CRR.92.1.a and CRR.92.2.a)	
• 4.5% CET1 capital for all institutions; exemptions for investment firms (CRR.95 + CRR.96)	
Tier 1 ratio requirement (CRR.92.1.b and CRR.92.2.b)	
• 6% Tier 1 capital for all institutions; exemptions for investment firms (CRR.95 + CRR.96)	
Total capital requirement (CRR.92.1.c and CRR.92.2.c)	
• 8% own funds for all institutions; exemptions for investment firms (CRR.95 + CRR.96)	
• Own funds requirement > Initial own funds requirement (CRR.93.1)	
Basel I floor total capital requirement (CRR.500)	
• 8% own funds for all institutions; based on risk calculation of Basel I or SA for credit risk, excluding operational risk	
Pillar II capital requirement (CRD.97)	
• Based on supervisory review and evaluation process (SREP) CRD.97	
• Set individually for every institution CRD.97	
• Set as a percentage of Total Risk Exposure Amount (TREA) above pillar I requirements in CRR.92.2.	
• Pillar II requirement may be defined in any capital Tier CRD.104	

CRD IV requirements related to capital definitions	
Large exposures (LE)	
• Limit on exposure < 25% eligible capital CRR.395	
• Actively manage every exposure above 10% eligible capital CRR.392	
• Report every exposure above EBA threshold (25 eligible capital)	
Leverage ratio (LR)	
• Reporting of leverage ratio defined as Tier 1 capital to Total Exposure Amount CRR.430	
Qualified holdings outside the financial sector (QHOS)	
• Institutions' stakes in entities outside the financial sector are limited to 15% of its eligible capital. Risk weighting or deductions are applicable where relevant. CRR.89 to CRR.91	
Buffer composition	
• Institutions are expected to hold an additional buffer on top of the own funds required under Pillar I + Pillar II.	
• The buffer may be met by CET1 only	
• Restrictions and obligations apply when buffer is not met in full	

III. Capital hierarchy



IV. Deductions from capital instruments

Deductions	CET1 CRR.36.1	AT1 CRR.56	Tier2 CRR.66
Losses for the current financial year.	a)		
Intangible assets.	b) + CRR.37		
Deferred Tax assets.	c) CRR.38-39, 48		
IRB expected losses.	d) + CRR.40, 162-163		
Defined Benefit Pension Fund assets.	e) + CRR.41		
Direct, indirect and synthetic holdings of own capital instruments.	f) + CRR.42	a) + CRR.67	a) + CRR.67
Holdings of capital instruments designed to artificially inflate own funds	g) + CRR.44	b) + CRR.58	b) + CRR.68
Non significant holdings in financial sector.	h) + CRR.44-46	c) + CRR.58-60	c) + CRR.68-70
Significant holdings in financial sector.	i) + CRR.43-45, 47-49	d) + CRR.58-59	d) + CRR.68-69
Alternative for an 1250% risk weight in:	k)		
i. Holdings outside the financial sector.			
ii. Certain securitization positions.			
iii-v. Certain free deliveries and undeterminable IRB weights.			
Any foreseeable tax charge relating to capital instruments.	l)	f)	
Excess of items to be deducted from Additional Tier 1.	j)		
Excess of items to be deducted from Tier 2.		e)	

V. Capital instrument criteria

Feature	CET 1 instruments: CRR.28.1	AT1 instruments: CRR.52.1	Tier 2 instruments: CRR.63
Issuance	a) Issued directly	a) Issued and paid up	a) Issued and paid up
Funding	b) Paid up and not funded by the institution	b, c) Not funded by the institution, not purchased by: i. The institution or its subsidiaries. ii. An undertaking in which the institution has a material holding or a participation.	b, c) Not funded by the institution, not purchased by: i. The institution or its subsidiaries. ii. An undertaking in which the institution has a material holding or a participation in the form of ownership.
Seniority	j, k) Rank below all other claims in the event of insolvency or liquidation and entitle a claim on the residual assets. l, m) Are not secured, subject to a guarantee, or to any arrangements that enhances the seniority of the claim.	d) Rank below Tier 2 instruments in the event of the insolvency. e, f) Are not secured, or subject to a guarantee, or to any arrangements that enhances the seniority of the claim.	d) The claim on the principal amount is wholly subordinated to claims of all non-subordinated creditors. e, f) Are not secured, or subject to a guarantee, or to any arrangements that enhances the seniority of the claim.
Duration	e) Are perpetual.	g) Are perpetual and have no incentive to redeem.	g, h) Have an original maturity of at least 5 years, no incentive to be redeemed prior to their maturity.
Repayment	f, g) The principal amount may not be reduced or repaid and no indication of repayment may be given.	h, i, j, k) The option to call may be exercised at the sole discretion of the issuer, but not before 5 years after date of issuance, no indication of repayment may be given.	i, j, k) The option to call may be exercised at the sole discretion of the issuer, but not before 5 years after date of issuance, no indication of repayment may be given.

VI. Capital instrument criteria

Feature	CET 1 instruments: CRR.28.1	AT1 instruments: CRR.52.1	Tier 2 instruments: CRR.63
Distribution	h) Conditions as regards distributions: i. There are no preferential distributions. ii. Distributions to holders of the instruments may be paid only out of distributable items. iii. No cap or other restriction on the maximum level of distributions. iv. The level of distributions is not determined on the basis of the amount for which the instruments were purchased at issuance. v. No obligation for the institution to make distributions to their holders. vi. Non-payment of distributions does not constitute an event of default of the institution. vii. The cancellation of distributions imposes no restrictions on the institution.	l) Conditions as regards distributions: i. They shall be paid out of distributable items. ii. The level of distributions made on the instruments will not be modified based on the credit standing of the institution or its parent undertaking. iii. Full discretion at all times to cancel the distributions on the instruments for an unlimited period and. iv. Cancellation of distributions does not constitute an event of default of the institution. v. The cancellation of distributions imposes no restrictions on the institution. Art 53: pushers, stoppers and ACSM are not accepted.	m) The level of interest or dividend payments will not be modified based on the credit standing of the institution. n) No rights for holder of instrument to accelerate the future scheduled payment of interest or principal.
Loss-absorption	j) Absorb the first share of losses as they occur.	n) The principal amount to be written down on a permanent or temporary basis upon trigger event. Art 54: In going concern:	