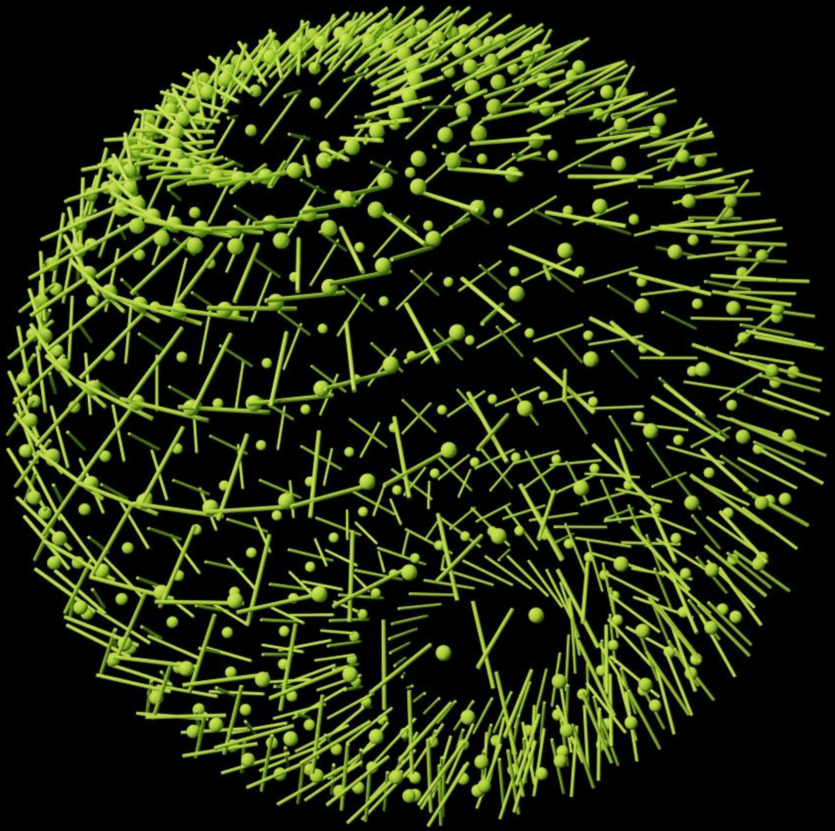
Deloitte.



CRR3

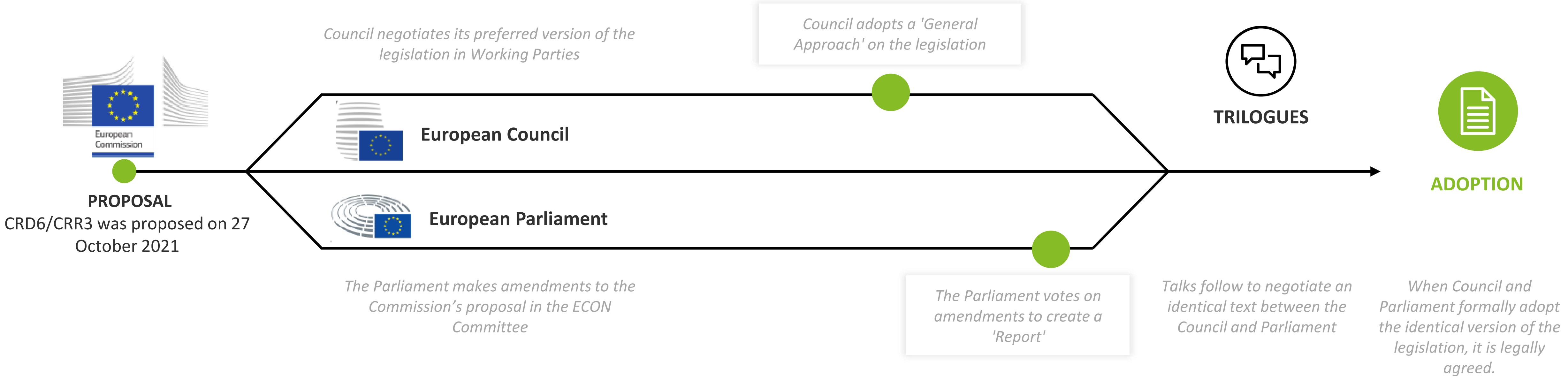
Comparison of 3 versions of CRR 3 discussed during the trilogue

MAKING AN IMPACT THAT MATTERS since 1845

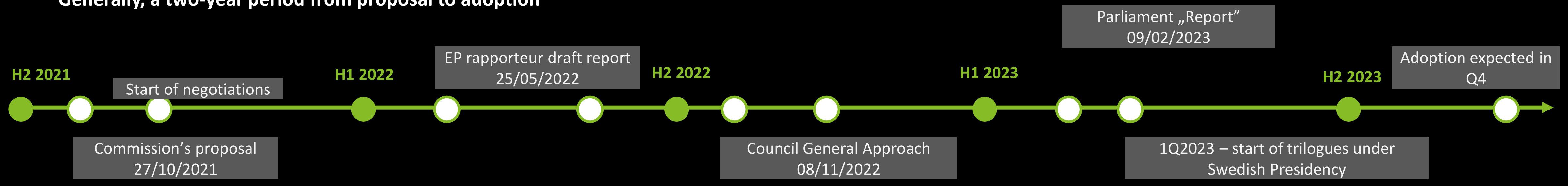
March 2023

Legislative process for the Banking Package

The presentation provides a comparison between 3 versions of CRR 3 discussed during a trilogue – European Commission's Proposal, European Council's General Approach and European Parliament's Report. The presentation includes only those provisions, for which important differences between the 3 documents have been identified.

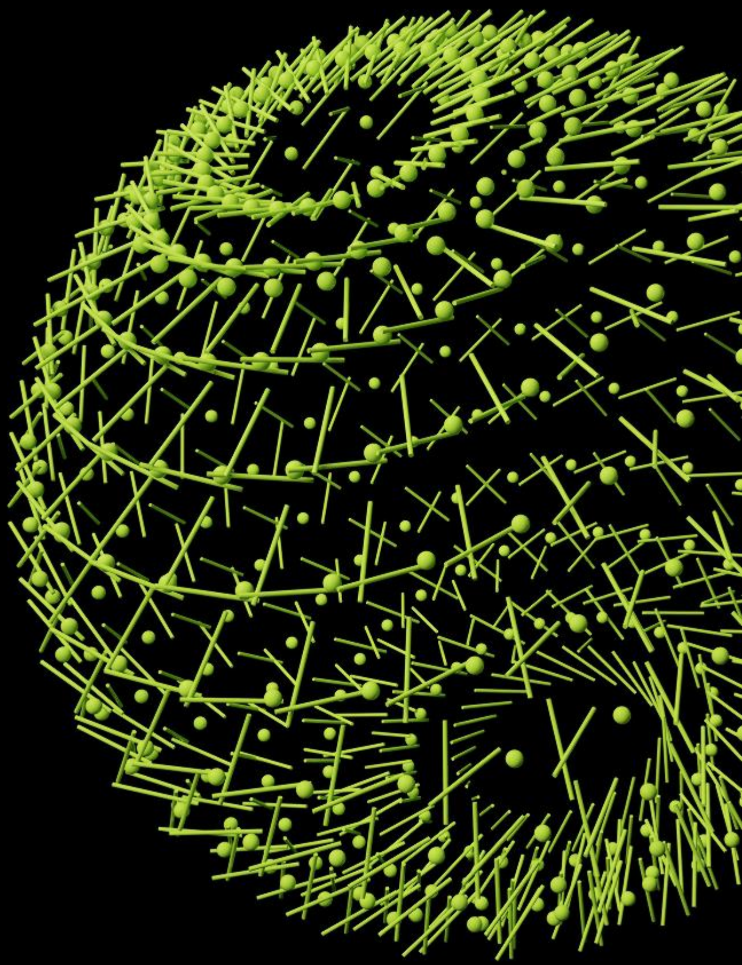


Generally, a two-year period from proposal to adoption



1

Credit risk



Credit risk

Standardised approach

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal
Exposures to regional governments or local authorities	• For rated exposures – change of mapping between credit quality steps and risk weights: for CQS=2, RW=30% instead of 50% • Change of approach of RW assignment for unrated exposures – RW assigned based on grades (internal assessment of counterparty credit risk) • No special treatment of unrated exposures with original effective maturity of 3 months or less • No special treatment of trade finance exposures	Significant amendments vs Commission Proposal: • For rated exposures – no change vs CRR2 • For unrated exposures – risk weights assigned based on CQS of central government (no change vs CRR2) • No special treatment of unrated exposures with original effective maturity of 3 months or less • No special treatment of trade finance exposures	• No significant amendments vs Commission Proposal
Exposures to public sector entities	• For rated exposures – change of mapping between credit quality steps and risk weights: for CQS=2, RW=30% instead of 50%	• No changes vs CRR2	• No significant amendments vs Commission Proposal
Exposures to multilateral development banks	• For rated exposures – change of mapping between credit quality steps and risk weights: for CQS=2, RW=30% instead of 50% • Change of approach of RW assignment for unrated exposures – RW assigned based on grades (internal assessment of counterparty credit risk)	• Significant amendment vs Commission Proposal for unrated exposures – risk weight for unrated exposures shall be 50%, instead of risk weight assigned based on internal grades	• No significant amendments vs Commission Proposal

Credit risk

Standardised approach

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal
Exposures to unrated institutions	• New approach to risk weights assignment based on internal assessment of counterparty credit risk • Additional requirements for exposures not denominated in the domestic currency of the jurisdiction of incorporation of that institution, or where that institution has booked the credit obligation in a branch in a different jurisdiction – for exposures not in the domestic currency of the jurisdiction in which the branch operates • Preferential treatments of short-term exposures and trade finance exposures are eliminated	• Change of RW for short-term exposures with grade C (vs Commission Proposal) – instead of 75%, RW=150%	• Change of RW for short-term exposures with grade C (vs Commission Proposal) – instead of 75%, RW=150%

Specialized lending exposures	• Separate treatment of specialized lending exposures (SL):
	  • For rated SLs risk weight is assigned based on CQS,
	  • For unrated SLs:
	    • RW=80% for high-quality object finance exposures
	    • RW=100% for other object finance exposures
	    • RW=100% for commodities finance exposures
	    • RW=130%, 80% or 100% for project finance exposures
		• Additional CQS added for rated exposures – CQS=6 and RW=150% for this CQS
		• For unrated SLs: RW for object finance exposures = 100% (RW=80% for high-quality object finance exposures is eliminated)
			• Additional CQS added for rated exposures – CQS=6 and RW=150% for this CQS
			• Other provisions - no significant differences vs the European Commission Proposal

Credit risk

Standardised approach

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal

Retail exposures	• New RW for transactor exposures (RW = 45 %)
	• Change of classification criteria to retail exposure class:
	  • Criterion regarding total amount owed is applicable only for SMEs (not for exposures to natural persons)
	  • Different treatment of exposures secured by residential properties in the calculation of EUR 1 mln threshold
		• Retail classification criterion regarding total amount owed is applicable to natural persons and SMEs
		• Additional RW of 100% for exposures to one or more natural persons that are not retail exposures
			• Retail classification criterion regarding total amount owed is applicable to natural persons and SMEs. However, if the criterion is not met for an exposure to one or more natural persons, the exposure shall be considered retail and the RW shall be 100%

Exposures secured on mortgages	• New requirements regarding valuation of properties, including the necessity to consider the average value measured for that property, or for a comparable property over the last **three** years in case of commercial immovable property, and over the last **six** years in case of residential property
	• Additional requirements regarding the use of statistical methods for valuation or revaluation of properties, including:
	  • a requirement to get the competent authority's approval to use statistical models
	  • a requirement to have an adequate documentation of the models and their application
	  • a requirement of regular back-testing and independent validation of the models
	  • a requirement to have up-to-date data of high quality, based on which the models are built
		• New requirements regarding valuation of properties, including the necessity to consider the average value measured for that property, or for a comparable property over the last **six** years
		• No specific requirements regarding the use of statistical methods
			• New requirements regarding valuation of properties, including the necessity to consider the average value measured for that property, or for a comparable property over the last **four** years in case of commercial immovable property, and over the last **eight** years in case of residential property
			• Elimination of requirement to get the competent authority's approval to use statistical models, with other requirements still in place

Credit risk

Standardised approach

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal
Exposures with a currency mismatch	• Additional multiplier of 1,5 for RWs of exposures to natural persons with currency mismatch classified as retail exposures or exposures secured by mortgages on residential properties	• Multiplier is applicable also for exposures to natural persons with currency mismatch classified as exposures secured by mortgages on commercial properties; • For the currency pair, euro and the currency of the economic and monetary union (ERM II) Member State, the multiplier of 1.5 is not applicable	• Multiplier is applicable also for exposures to natural persons with currency mismatch classified as exposures secured by mortgages on commercial properties
Exposures in the form of covered bonds	• Additional requirements regarding monitoring the values and valuation of immovable property collateralizing covered bonds	• For unrated covered bonds, change of mapping between RWs assigned to institutions issuing the bonds and covered bonds	• For unrated covered bonds, change of mapping between RWs assigned to institutions issuing the bonds and covered bonds
Exposures to institutions and corporates with a short-term credit assessment	• Change of mapping between CQSs and RWs	• No changes vs CRR2	• No changes vs CRR2

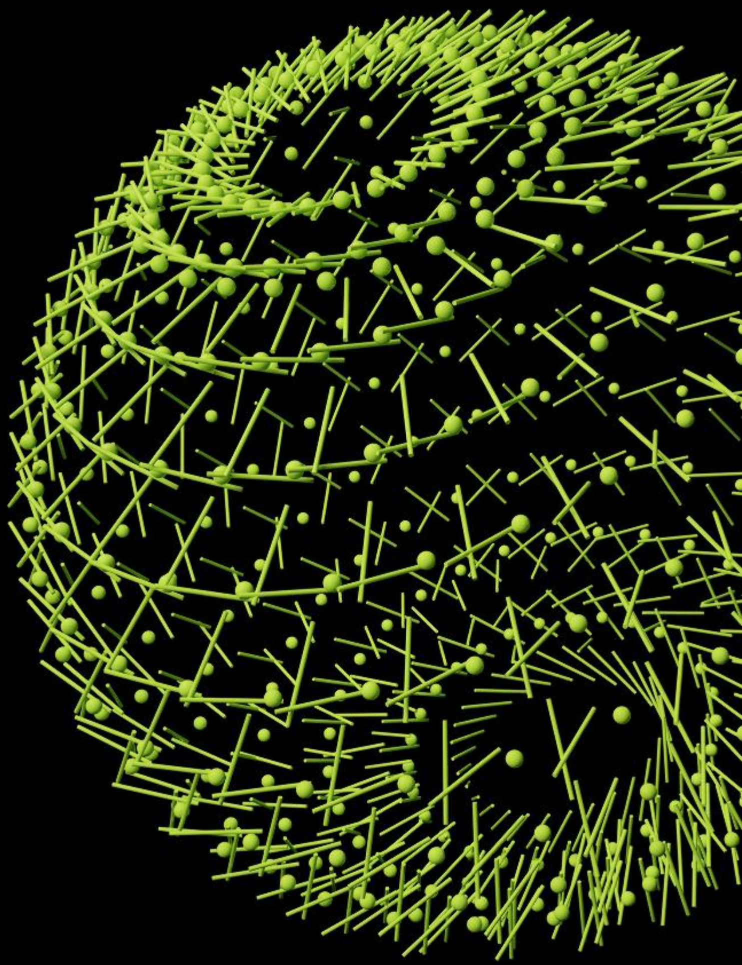
Transitional arrangements for equity exposures	• In the context of new risk weights for equity exposures, in order to mitigate the significant increase in RWA, a transitional period has been introduced to gradually introduce new risk weights, in the period from 01.01.2025. until 31.12.2029	• Additional condition applicable in the transitional period: RW value assigned to the exposure in the transitional period shall be the higher of the following:
		  • RW assigned, the day before of entry into force of amending Regulation
		  • RW consistent with the value in the transition period
			• Additional condition applicable in the transitional period: RW value assigned to the exposure in the transitional period shall be the higher of the following:
			  • RW assigned, the day before of entry into force of amending Regulation
			  • RW consistent with the value in the transition period

Credit risk
IRB approach

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal
ESG risk – IRB and standardised approach	• No changes vs CRR2	• No changes vs CRR2	• ESG risk shall be included in the stress-test scenarios for IRB approach • ESG risk shall be considered in recognising the effect of credit risk mitigation techniques (both IRB and standardised approach)
Exposures to regional and local authorities and to public sector entities (‘RGLA-PSE’)	• Exposures ‘RGLA-PSE’ shall be treated as exposures to general corporates. Any thresholds assigned to large corporate shall not apply • PD input floor = 0,05% • LGD input floors, depending on collaterals – as for exposures to corporates	• PD input floor for RGLA-PSE exposures = 0,03% • LGD input floor for RGLA-PSE exposures = 5%	• PD input floor for RGLA-PSE exposures = 0,03% • LGD input floor for RGLA-PSE exposures = 5%
Transitional arrangements for exposures to corporates	• Till 31.12.2032, in the calculation of S-TREA for output floor purposes, RW = 65% can be assigned for unrated exposures to corporates with PD no higher than 0,5%	• No significant amendments vs Commission Proposal	• Till 31.12.2030, in the calculation of S-TREA for output floor purposes, RW = 65% can be assigned for unrated exposures to corporates with PD no higher than 0,5%. Till 31.12.2032, RW=70% replaces RW=65%

02

Market risk



Market risk, CVA

Market risk

<table>
<tr><th>SUBJECT</th><th>European Commission Proposal</th><th>European Council Mandate – difference compared to European Commission Proposal</th><th>European Parliament Mandate – difference compared to European Commission Proposal</th></tr>
<tr><td>Market risk</td><td>• The following approaches for calculating the own funds requirements for market risk are available:
  • alternative standardised approach (A-SA)
  • alternative internal model approach (A-IMA)
  • simplified standardised approach (SSA)
• An institution may use a combination of the alternative standardised approaches, and the alternative internal model approach
• The institution shall not use either of those approaches in combination with the simplified standardised approach
• Calculation of capital requirements for market risk by using the simplified standardised approach is allowed only for banks meeting the specified thresholds, basis using data as of the last day of the month, equal or less than:
  • 10 % of the institution's total assets
  • EUR 500 million
• Additional multipliers are introduced to standardised approach of calculating capital requirements for market risk:
  • 1,3, for the general and specific risks of positions in debt instruments, excluding securitisation instruments
  • 3,5, for the general and specific risks of positions in equity instruments
  • 1,2, for the own funds requirements for foreign exchange risk
  • 1,9, for the own funds requirements for commodity risk</td><td>• An institution may use a combination of the alternative standardised approaches, and the alternative internal model approach, provided that the total own funds requirements for market risk calculated using the alternative internal model approach represent at least 10% of the total own funds requirements for market risk</td><td>• No significant amendments vs Commission Proposal</td></tr>
</table>

Market risk, CVA

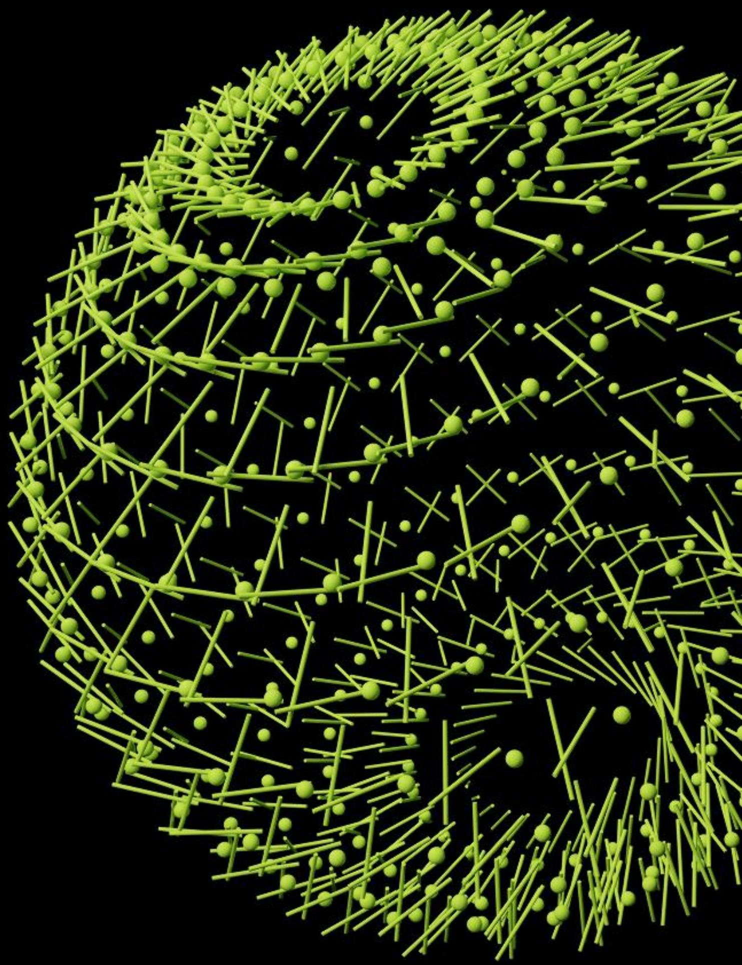
CVA

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal

CVA	• Basic approach (current standardised method):
	  • Change of formula for capital requirements calculation
	  • Change of risk weights assigned to counterparties (including differentiation between sectors)
		• Differences in risk weights assigned to counterparties and instruments compared to European Commission Proposal	• Differences in risk weights assigned to counterparties and instruments compared to European Commission Proposal

03

Other



Other
Own funds

SUBJECT	European Commission Proposal	European Council Mandate – difference compared to European Commission Proposal	European Parliament Mandate – difference compared to European Commission Proposal
Own funds – deductions	• No significant amendments vs CRR2	• No significant amendments vs CRR2	• Additional deductions from Common Equity Tier 1 items: • exposures in the form of units or shares in a CIU that are assigned a risk-weight of 1250% • Exposures purchased by a specialised debt restructurer which were non-performing at the time of purchase are excluded from deductions of insufficient coverage for non-performing exposures
Own funds – non-performing loans	• No significant amendments vs CRR2	• Exclusion of exposures guaranteed or insured by an official export credit agency from the requirements regarding NPLs insufficient coverage	• Exclusion of exposures guaranteed or insured by an official export credit agency from the requirements regarding NPLs insufficient coverage
Output floor requirement	• Introduction of the output floor requirement that shall be applied at the highest level of consolidation in the EU	• Output floor requirement shall be applied at all levels of consolidation (Member States have a discretion not to apply OF at individual level for institutions which are part of a group with a parent institution in the same Member State).	• Output floor requirement shall be applied at the highest level of consolidation in the EU. Competent authority responsible for the supervision of a subsidiary may submit a capital redistribution proposal to the consolidating supervisor if such approach would lead to an inappropriate distribution of capital among the group entities

Deloitte.