BANKING METRICS SERIES

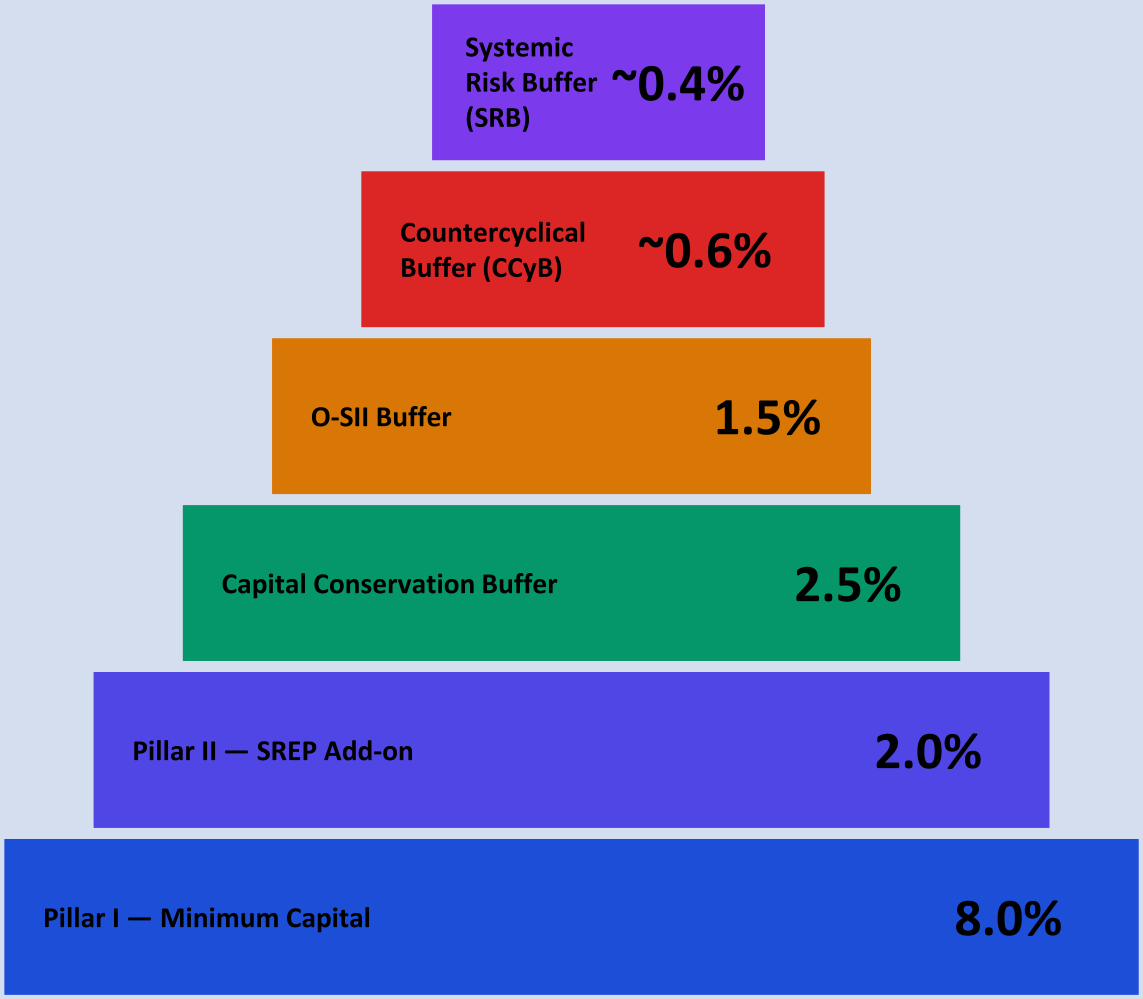
Capital Ratio

How much capital must a bank hold, and why?

BANKING METRIC SERIES

All Six Layers at a Glance

Each layer adds on top of the previous one. UniCredit, December 2025.



+ 0.35% = 14.87%

+ 0.52% = 14.52%
CET1 only, varies by geography

+ 1.5% = 14%
CET1 only, applicable only to Systematically Important Institution

+ 2.5% = 12.5%
CET1 only

+ 2.0% = 10.0%
Supervisor-assigned as part of the Supervisory Review Evaluation Process (SREP)

= 8.0% → out of which 4.5% CET1

UniCredit CET1 ratio Q4 2025

19.0% vs 14.87% requirement → 4.13% headroom above requirements

Pillar I: Minimum Capital Requirements

Set by the Basel Committee. Every bank in the world must meet these floors. No exceptions.

CET1

4.5%

Common Equity Tier 1

Ordinary shares + retained earnings. Always available. First to absorb losses.

AT1

1.5%

Additional Tier 1

Hybrid instruments between equity and bonds. Convert to equity if CET1 falls below the trigger.

T2

2.0%

Tier 2 Capital

Subordinated debt. Absorbs losses only after bank default in liquidation (gone-concern).

Total Pillar I = 4.5% + 1.5% + 2.0% = 8.0% of RWA

Why 8%?

Basel I (1988) set this minimum for banks to absorb unexpected losses, choosing a conservative value based on average bank capital ratios at that time.
Setting the value too high would have immediately triggered defaults for too many banks, while a too low value would not have addressed the structural problems the Basel Accords aimed to solve.

KEY TAKEAWAY

Pillar I is non-negotiable. Set by international law (Basel III / CRR3), it is the absolute minimum every bank must hold to protect depositors. Every other buffer adds on top.

Pillar II: SREP Capital Requirement (P2R)

Set every year by the ECB for each bank. Bank-specific. Not disclosed publicly in detail.

UniCredit P2R

+2.0%

Pillar I 8.0% + P2R 2.0% = Minimum 10.0%

(bank-specific)

What is the SREP?

Every year the ECB conducts a Supervisory Review and Evaluation Process (SREP) for each significant European bank. It assesses business model, governance, risk profile, and internal capital adequacy assessment process (ICAAP).

How is P2R determined?

The supervisor evaluates risks not fully captured by Pillar I:

- Concentration risk
- Interest rate risk in the banking book
- Model risk
- Stress-test outcomes

P2R vs P2G

P2R is a binding requirement. P2G is non-binding guidance, an additional cushion above P2R, set confidentially.

Breaching P2G triggers supervisory dialogue, not automatic restrictions. Breaching P2R is a serious matter.

KEY TAKEAWAY

Pillar II makes capital requirements bank-specific. Two banks with identical RWAs can have very different capital needs based on their risk profile, stress test results and business model complexity.

Capital Conservation Buffer (CCB): 2.5%

Mandatory for all banks. Must be met entirely in CET1. Ensures capital is preserved during good times.

UniCredit CCB

+2.5%

Pillar I 8.0% + P2R 2.0% + CCB 2.5%

= Stack 12.5%

Why does this buffer exist?

Before 2008, banks paid large dividends and bonuses even when capital was thin. When the crisis hit, they had nothing left to absorb losses.

CCB forces banks to accumulate a rainy-day fund during profitable times.

What happens if you breach it?

When the capital ratio dips below the CCB threshold (e.g., below 12.5% but above 10% for UniCredit), the supervisor restricts capital distributions.

The bank cannot pay dividends, AT1 coupons, or staff bonuses in full until the buffer is restored. A direct, automatic consequence — no supervisory discretion needed.

KEY TAKEAWAY

CCB is the first line of defense between a bank and a systemic crisis. By restricting payouts when capital erodes, regulators force conservative choices instead of distributing capital in bad times.

O-SII Buffer & Countercyclical Buffer

Bigger and more systemic banks hold more.
Banks in pro-cyclical jurisdictions hold more in booms.

O-SII Buffer — too important to fail

UniCredit O-SII: +1.5%

A bank is systemically important if its failure could cause cascading damage to the financial system and economy

Four criteria:

- Size: assets vs domestic GDP
- Interconnectedness: liabilities with other financial institutions
- Substitutability: alternatives for its services
- Complexity: cross-border, derivatives

G-SIB vs O-SII

G-SIBs identified globally by the Financial Stability Board. O-SIIs identified by national regulators in each EU country.
UniCredit was removed from G-SIB list in 2022 but remains O-SII in Italy.

Countercyclical Buffer (CCyB)

UniCredit CCyB: +0.52%

The CCyB is a shock absorber: It forces banks to build up extra capital during credit booms so they can release it during downturns period to support lending.

How it is calculated

Weighted average across jurisdictions:
CCyB = Σ (country rate × RWA share).

UniCredit Q4 2025 (illustrative):
Italy 40% (0%) + Germany 20% (0.75%) + CEE 25% (1.0%) ≈ 0.52%.

KEY TAKEAWAY

O-SII captures who you are (systemic importance). CCyB captures where you lend (credit cycle). Both are CET1-only, both stack on top of Capital Conservative Buffer.

SRB — A Country-Specific Tool

Addresses long-run structural risks not captured by CCyB or O-SII. Activated at country level.

UniCredit SRB

+0.35%

Stack (all previous) ≈ 14.52%

+ SRB 0.35% = Total 14.87%

What structural risks?

The SRB targets long-run structural vulnerabilities:

- High household/corporate debt concentration in a country
- Real estate sector overvaluation or structural imbalances
- High interconnectedness of the domestic banking sector
- Structural vulnerabilities that persist across the full cycle

CCyB vs SRB — what is the difference?

CCyB is dynamic: rises and falls with the credit cycle (quarterly basis).

SRB is structural: addresses persistent, hard-to-eliminate systemic risks.

The SRB is a flexible national tool. UniCredit currently has a capital requirement of +0.35%, to deal with possible adverse events.

This is Episode 4 of the Banking Metrics Series.
Each episode takes one key metric, breaks it down from principles, and illustrates it with real data.