



Inclusion of interim or year-end profits in Common Equity Tier 1 capital

Firms only need to obtain permission from the PRA to include interim or year-end profits in Common Equity Tier 1 capital (CET1) if they have not taken a formal decision confirming the final profit for the year. In respect of interim profits, this will mean that a firm will always need a permission to include those profits in CET1. Firms must obtain this permission through the CRR Permission process by reference to the criteria set out in Article 26(2). If firms have taken a formal decision confirming the final profit for the year, permission from the PRA is not required to include year-end profits in CET1. It should be noted that a permission is not needed for losses, whether interim or final. Losses must be deducted in full as soon as they are incurred.

The requirement for a permission in relation to the inclusion of year-end profits in CET1 will depend on the firm's governance process surrounding the confirmation of a formal decision and the timing of the decision/confirmation. For example, the formal decision to approve the interim or year-end profit may be taken or confirmed by the Board or the annual general meeting. Firms will therefore need to determine their own formal decision-making process when considering whether a CRR Permission is required under Article 26(2) in respect of year-end profits.

Firms applying for a permission are required to demonstrate that the following conditions, set out in Article 26(2), are met in relation to the profits sought to be included within the scope of the permission:

- those profits have been verified by persons independent of the firm that are responsible for the auditing of the firm's accounts; and
- that any foreseeable charge or dividend has been deducted from the amount of those profits.

To assist the review of applications, firms are asked to complete and submit the Article 26(2) self-assessment form as supporting documentation in their CRR Permission application.

Key Resources

 [CRR Permission application form](#)

 [Article 26\(2\) self-assessment form](#)

February 2015