

## Bank Pulse: Full Basel reforms to further increase European banks' capital requirements

European banks will have to face 13.7% higher minimum capital requirements by 2028. This follows a monitoring exercise by the European Banking Authority regarding the full implementation of the final Basel III reforms in the EU. But banks are already prepared and the capital shortfalls are limited



### Bank capital requirements would increase by 13.7% by 2028

The EBA has just published its monitoring exercise of the full implementation of the final Basel III reforms in the EU as compared with the full application of the current CRR/CRD IV. The report assesses the impact on 99 banks split into two groups (40 large and internationally active and 59 small banks) and one subgroup (G-SIIs) based on their size.

The report finds that the banking sector would see an average increase of 13.7% in the required

minimum level of Tier 1 capital by 2028 as compared with the CRR/CRD IV. The aggregate capital requirement would increase to €866.1bn from €762bn. The impact has been reduced when compared with previous exercises. The effect would be bigger for the large and internationally active banks (+14.4%), where the G-SIIs would carry a heavier burden of +22.7%. Smaller Group 2 banks would be less impacted and see their minimum requirements increase by 8.1% in the case of full implementation.

For G-SIIs the higher capital requirements would be notably driven by the introduction of the output floor. This would solely increase the minimum capital requirement by 7.4%. In addition, the minimum capital to be held for operational risk would increase by 6.1% by 2028. The impact of the output floor would be less for smaller banks at +2.2%. More important for them are the changes in the standardised (+6.8%) and the internal ratings-based (+3.6%) approaches for measuring credit risk.

## €3.1bn The T1 capital shortfall

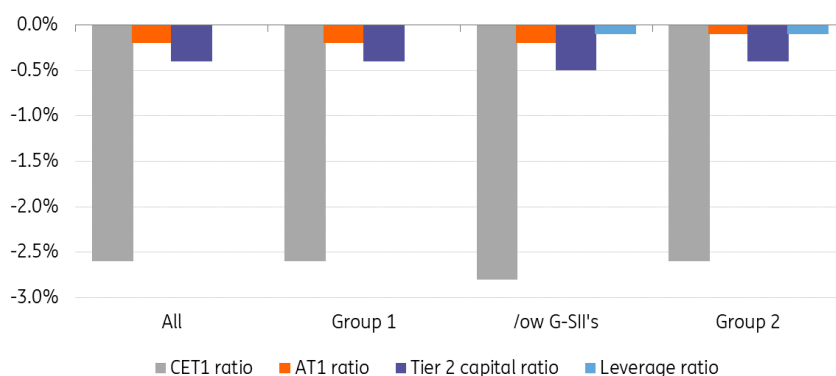
### Leverage based requirements would become less constraining

The higher risk-based capital requirements would contribute to making leverage-based requirements less constraining. According to the EBA, the number of banks constrained by the leverage ratio will halve from 32 under CRR/CRD IV to 15 under the full implementation of Basel III. Only for the G-SIIs group, the revised leverage ratio would increase the minimum T1 capital requirement (+0.7%) due to the G-SII surcharge.

The baseline impact presented above excludes the impact of three G-SIIs that have used, according to the EBA, “overly conservative data for market risk” in the new FRTB framework. Including the impact from these would result in the minimum capital requirement to increase by 23.3% for G-SII’s as compared with the 22.7% baseline. The difference is driven by a 2.9% higher market risk requirement as compared with just 0.1% higher in the baseline.

### The impact on capital ratios of fully loaded Basel III reforms

Compared with current fully loaded CRR/CRD IV by 2028



Source: ING, EBA

## Banks would need to raise more capital and extend their debt maturities

The full application of Basel III when compared with the fully loaded CRR/CRD IV rules would result in EU banks showing 260bp lower CET ratios, resulting in a CET1 capital gap of €0.7bn. The very small CET1 gap is only found in the group made up of smaller banks.

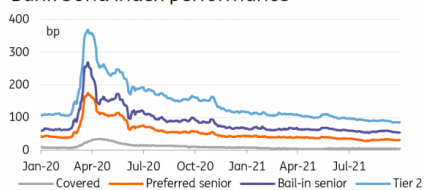
The Tier 1 shortfall for all banks would amount to €3.1bn. This would include €1.6bn for G-SIIs for the higher risk-based capital requirements. Smaller banks would instead need another €1.3bn due to the higher risk-based requirements and an additional €0.2bn due to the higher leverage-based requirements.

The shortfall of total capital for all banks would increase to €7.3bn, of which €5.3bn for G-SIIs. The relatively limited capital shortfalls reflect, in our view, banks being well prepared for the upcoming changes.

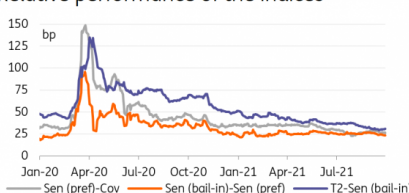
Finally, the report shows that to comply with the NSFR banks would need to raise another €8.1bn in longer-term funding, split between groups 1 (€5.6bn) and 2 (€2.4bn) with no shortfall found for the G-SIIs. We consider the funding shortfall as limited for the whole sector.

### Chart pack

Bank bond index performance

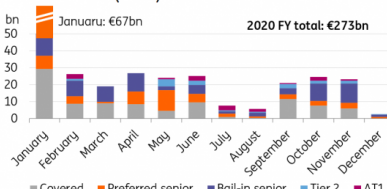
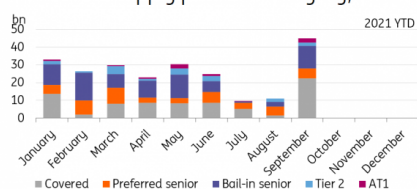


Relative performance of the indices



Source: Markit iBoxx, ING

Bank bond supply per debt category, 2021 YTD versus 2020 (€bn)\*



\*only includes public deals.Source: IGM, ING

\*only includes public deals.Source: IGM, ING

Source: ING, Markit, IGM

## Authors

### Suvi Platerink Kosonen

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

### Maureen Schuller

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.