

Bank Outlook 2026: Bank funding and exposures in motion

In this annual outlook for the banking industry, our team examines the rapid expansion of NBFIs and the rising risks this poses for banks, the evolving role of AT1 capital, and how the EU's securitisation overhaul could reshape funding strategies. We also explore key ESG themes and include our previously published outlooks for bank bond supply and ESG

In this bundle



Credit | Financial Institutions

The silent risks between banks and NBFIs

A severe shock within the NBFIs sector could increasingly spill over into the wider financial system

By Marine Leleux and Suvi Platerink Kosonen

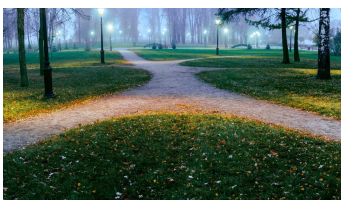


Financial Institutions

How the EU's securitisation overhaul may reshape banks' funding strategies

The European Commission is attempting to revitalise the EU securitisation market

By Maureen Schuller



Credit | Financial Institutions

AT1: Adapt or abolish?

The role of AT1 capital is in flux, we discuss potential alternatives ahead

By Suvi Platerink Kosonen



Financial Institutions | Sustainability

ESG Omnibus: Throwing the baby out with the bathwater

This will be a positive for banks which are no longer required to report on ESG but significantly complicate disclosures for those still in scope

By Marine Leleux



Credit | Financial Institutions

Bank bond supply in 2026: Still riding the wave

bank bond supply

By Marine Leleux, Suvi Platerink Kosonen and Maureen Schuller



Financial Institutions | Sustainability

Banks stick to ESG bonds, EU GBS yet to gain traction

Bank ESG supply expected to hold steady next year

By Maureen Schuller



Financial Institutions

Bank Outlook 2026: Bank funding and exposures in motion

Our Bank Outlook for 2026

By Suvi Platerink Kosonen, Marine Leleux and Maureen Schuller

The silent risks between banks and NBFIs

Non-Bank Financial Intermediaries' rapid growth is increasing their overlap with banks, raising the risk that shocks in the NBFIs sector spill over through direct exposures. While these vulnerabilities appear contained for now, more granular data is needed to fully assess these silent risks



Luxembourg is the EU Member State with the highest share of bank funding stemming from NBFIs

While banks have faced tighter regulation since the global financial crisis, Non-Bank Financial Intermediaries have expanded rapidly under lighter regulatory oversight, now even exceeding banks in size. As the sector becomes more complex and interconnected, a severe shock within NBFIs could increasingly spill over into the wider financial system, creating a new type of risk for the 'traditional' banking sector.

In this piece, we look at the recent evolution and structural vulnerabilities of NBFIs before examining the direct channels through which such risks could spill over to banks.

Non-Bank Financial Intermediaries explained

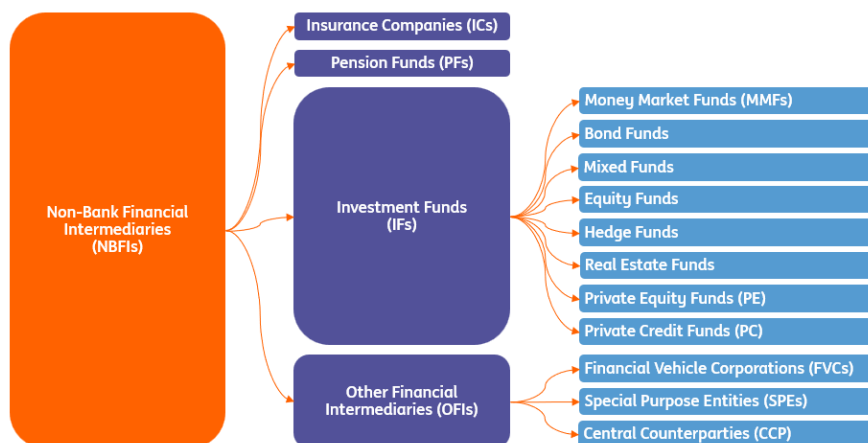
Before diving into the development of the sector, let's define what we mean by Non-Bank Financial Intermediaries (NBFIs). The term NBFIs is used to describe a large variety of institutions. We define them here as financial corporations other than banks. Most NBFIs take in cash, just as banks do,

and deploy it in various securities and derivatives.

Currently, there is no universally agreed-upon way to classify the different types of NBFIs. Therefore, the sector is often split to account for differences in regulation and risks. In this piece, we mainly differentiate between four sub-sectors.

The first two, insurance companies and pension funds, are subject to a broad range of regulations. The latter two, investment funds and other financial intermediaries (OFIs), comprise a wide variety of financial institutions that are subject to less regulatory oversight. The graph below gives a non-exhaustive view of the different types of funds and entities included in each sub-sector.

Non-exhaustive NBFi sector split



Source: ING

Part of the complexity in understanding and analysing the NBFi sector stems from the various ways of looking at it. This adds to the significant lack of data available and its overall low quality. The difficulty in identifying and estimating risks within the sector has brought a lot of attention as it has significantly grown over the last decade.

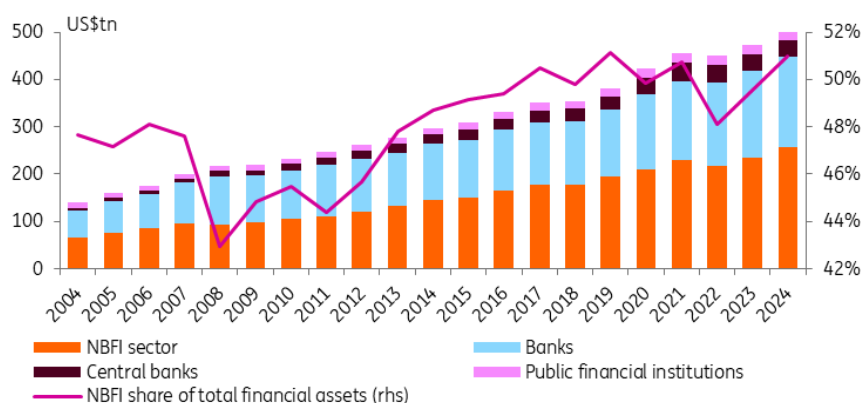
While the broad consensus points to the well-being of the banking and corporate sector, we consider that non-banks could be seen as the largest known unknown in the financial system.

NBFIs continue to expand to more than 50% of global financial assets

After a brief dip in 2022, the NBFi sector resumed its strong expansion in 2023-24, reaching 51% of global financial assets by the end of 2024.

According to the Financial Stability Board, 2024 marked the second-largest annual increase on record, with assets rising by 9.4% year-on-year. This reflects investors' increasing risk appetite in an environment with stronger asset prices and lower policy rates. By comparison, global banking sector's assets grew just 4.7% over the same period, underscoring the faster pace of NBFi growth.

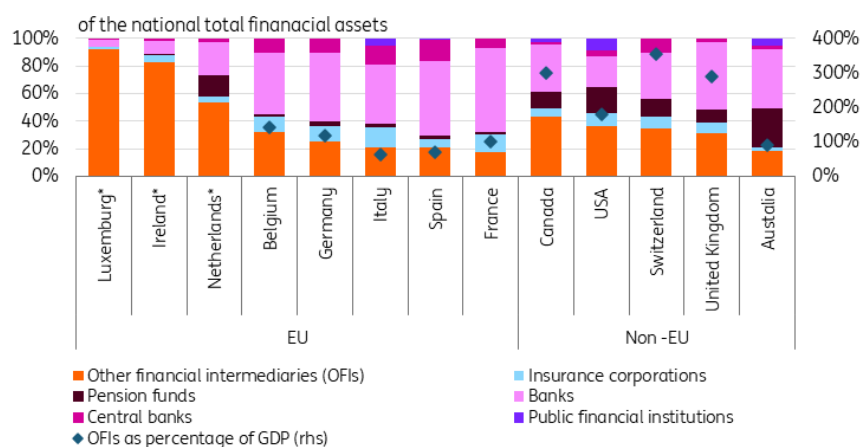
Historical evolution of the NBFI sector globally



Source: ING, FSB

On average, NBFIs represent just over 32% of total financial assets in advanced economies globally, but major pockets of concentration exist, including in the EU. While in many European countries banks still hold the largest share of the jurisdiction’s financial assets, in the Netherlands, Ireland and Luxembourg we see a significant predominance of NBFIs.

Composition of the financial system shows predominance of NBFIs in some countries



Source: ING, FSB *OFI as percentage of GDP not displayed due to scale: NL (544%), IE (1,480%), LU (20,854%)

At the global level, the role of NBFIs in providing credit to non-financial corporates (NFCs) also continues to increase, showing the importance of NBFIs in funding the real economy. The FSB highlights that the share of global OFIs' assets directed towards NFCs grew by 1.33 percentage points YoY in 2024. The increase is also noticeable in the insurance and pension fund sectors, which respectively show an increase of 0.5 and over 1 percentage point YoY.

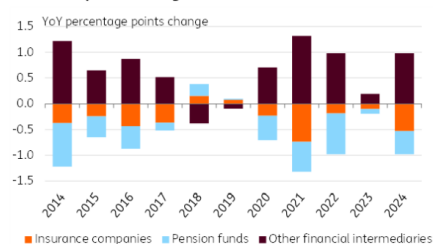
Despite the recent growth of the NBFI sector, the latest data highlights that its composition remains relatively stable year-on-year. However, over the past five years, the share of insurance companies and pension funds has decreased gradually. This coincides with the growth of

OFIs, which saw the largest increase in 2024 YoY at over 11%. The same year, both insurance companies and pension funds grew by about 6%.

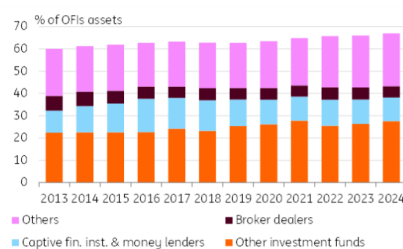
Naturally, as OFIs comprise many types of entities, we also note growth differences within the sub-sector. Investment funds (excluding money market funds and hedge funds) are the largest contributor to the recent increase, with 14.5% growth YoY. The graph below shows the composition of the OFI sub-sector over the years.

Despite recent growth, the composition of NBFi sector remains stable YoY

Other financial intermediaries' global share of NBFIs total assets keeps increasing since 2020



Global OFI sector split remains relatively stable



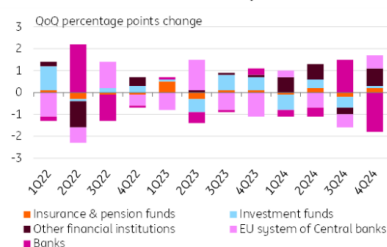
Source: ING, FSB / Other investment funds = equity funds, fixed income funds, mixed funds & other funds, excluding MMF and Hedge funds, Other = Central counterparties, Hedge funds, Finance companies, Money Market funds, Real estate investment funds, Structured finance vehicles, Trust companies and other unidentified.

Looking more specifically at the composition of the EU financial sector, data points to a relative increase in the share of investment funds and OFIs over the last quarter of 2024. Indeed, at the end of that year, OFIs made up 17% of the EU financial sector's assets. Taken together, EU investment funds and OFIs totalled €50.7tr at the end of 2024, up €3.3tr YoY. The bulk of this growth stems from a stark increase in investment funds' assets under management (AuM), reflecting equity funds' AuM growth, which is mainly driven by US equity valuations.

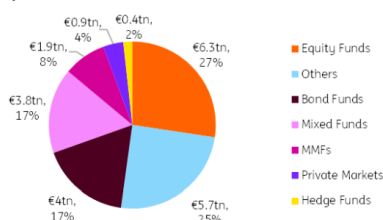
Again, while these numbers give an understanding of the trend for the largest NBFi sub-sector, there is a significant lack of granularity in the available data, especially in the evolution of specific entities within the OFI and IF segments. What is known is that equity funds make the largest share of the sector in the Union (at 27%), followed by bond funds and mixed funds.

Composition of the European NBFi sector

Evolution of EU financial sector composition



Composition of the OFIs & IFs sector in the EU



Source: ING, ESRB / ESCB = European system of Central Banks

As shown in the graph above, 4% of European OFIs are composed of private market entities. These private finance entities aim to provide funds to companies, mostly unlisted ones, via debt and equity investments. The segment aggregates private equity (the largest subsector), private credit, as well as real estate and infrastructure firms.

Over the past five years, private markets have grown in the EU to reach €900bn in 2024. The sector's inherent opacity, combined with the rapid growth, has raised concerns. Read more on this in our piece focusing on private markets [here](#).

NBFI's main vulnerabilities

The NBFI sector comprises a large variety of financial institutions whose activities are exposed to various kinds and degrees of risks. This is especially true as a large part of the sector faces lighter regulatory oversight, which restricts the availability and quality of data. This directly limits the understanding of inherent risks and exposures to the rest of the financial system.

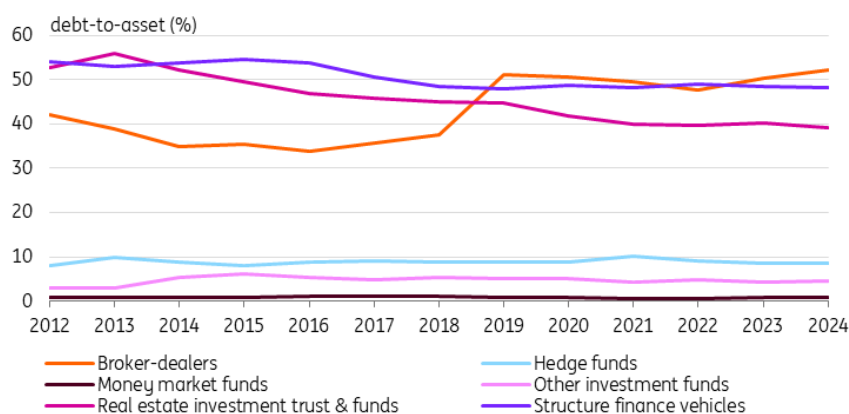
The three main risk factors the NBFI sector faces include financial leverage, liquidity risk and interconnectedness.

1. Stable, but for some, high financial leverage

The past few years' low-interest-rate environment, as well as asset price volatility, has incentivised investors to use financial leverage to boost returns. While you can argue that the build-up of leverage creates vulnerabilities, estimating the level of debt for NBFIs has proved difficult for authorities and market participants due to the complexity of the sector and the lack of data.

The FSB estimates, however, that financial leverage has been stable year-on-year across all types of NBFIs. Nonetheless, disparities within the sector remain, with some entities such as broker-dealers, structured finance vehicles and real estate funds showing the highest debt-to-asset ratios. If a shock occurs and impacts asset values or drives interest rates abruptly higher, NBFIs may be forced to de-lever, amplifying the initial price decline. High leverage remains a key vulnerability and a major "known unknown" that could deepen a market correction with wider implications.

Historical evolution of leverage for global OFIs



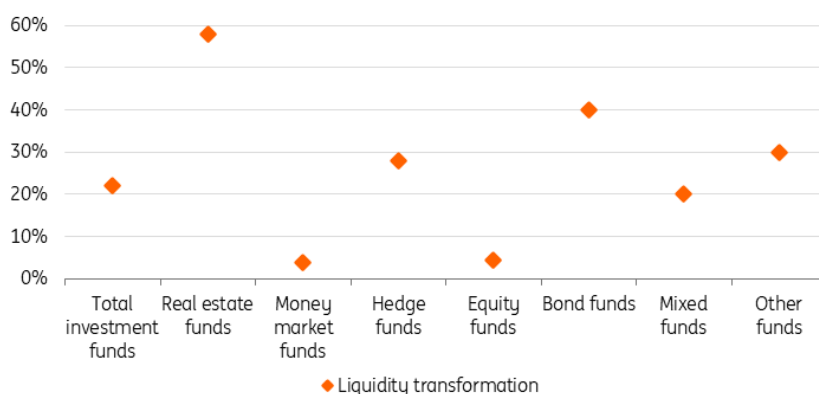
Source: ING, FSB / Investment funds = funds other than MMF & HFs

2. Liquidity risks in pockets of the NBFI sector

Liquidity risks can come in different shapes and forms. The first one consists of liquidity mismatches, which remain an important structural vulnerability for NBFIs, more specifically for investment funds. The bulk of EU investment funds are open-ended, allowing frequent redemption options. The structure may expose some funds to a sudden increase in redemptions in times of market volatility, resulting in potential liquidity stress.

However, here again, even within investment funds, entities engage in various degrees of liquidity and maturity transformation. As shown below, real estate funds show the highest degree of liquidity transformation as they invest in inherently illiquid assets.

European investment funds' liquidity transformation



Source: ING, ESRB / Liquidity transformation = Total assets – liquid assets as a share of total assets of open-ended funds.

Liquidity risks can also emerge from the use of derivatives. A derivative position may expose financial entities to a sudden and significant liquidity demand during a shock. This can trigger fire asset sales and exacerbate market stresses, triggering procyclical behaviours. Within the wide variety of NBFIs, central counterparties (CCP) could also pose a risk here. A sudden large or system-wide market move may result in substantial margin calls, posing a risk for the CCP liquidity position, which, in a worst-case scenario, could cascade further in the financial system.

Liability-Driven Investment (LDI) funds have recently shown vulnerability to fire-sale dynamics and spillover risks through liquidity pressures in recent years. Some countries, such as Luxembourg and Ireland, have taken regulatory steps to mitigate liquidity vulnerabilities for these types of funds. Both the Central Bank of Ireland and the Luxembourgish ‘Commission de Surveillance du Secteur Financier’ therefore implemented liquidity buffer requirements back in 2024.

However, aside from these examples, regulation tackling liquidity risks in the NBFIs sector remains limited and focused on specific types of entities. The broader liquidity risks thus remain a structural vulnerability for NBFIs.

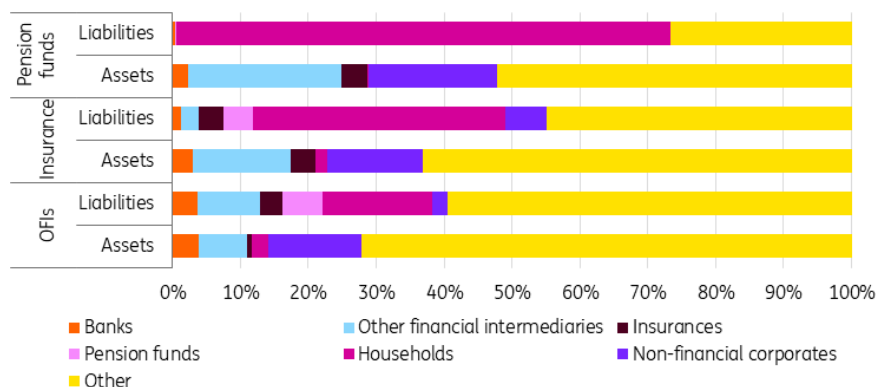
3. Growing interconnectedness

Compared to both financial leverage and liquidity risks, NBFIs' interconnection has continued to increase over the past two years. This is true both when looking at links within the sector and with the broader financial system.

The graph below depicts the aggregated linkages between the large NBFIs groups. The data shows that both insurance companies and pension funds are exposed to various types of NBFIs, with, for example, claims to OFIs representing respectively 14% and 23% of their total financial assets. For both sectors, these exposures are larger than they are for banks and non-financial corporates.

In addition, interconnection between the different types of OFIs also exists, with various degrees depending on the entities, but it remains difficult to assess.

Aggregated linkages between NBFIs globally

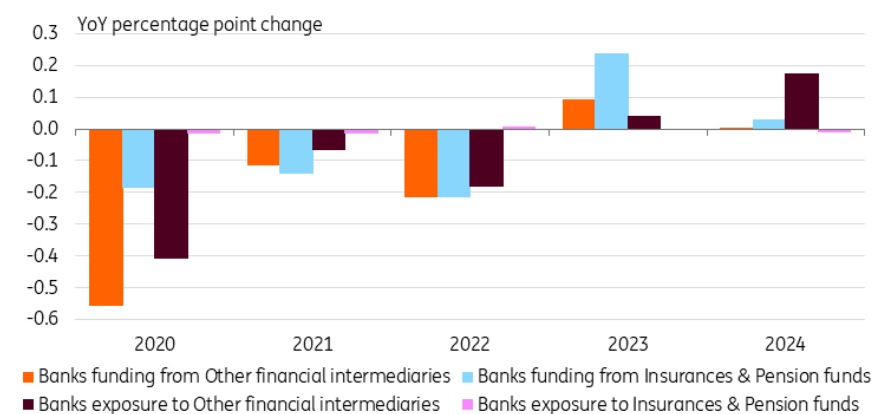


Source: ING, FSB

The rapid growth of the NBFIs sector has been accompanied by growing interconnections with banks. These links could broaden and propagate a shock in the sector and subsequently to the real economy. The interconnection between NBFIs and the banking sector takes several forms. There are direct links arising from bilateral transactions such as loans, deposits, repos and derivatives. The growing concentration of assets that are held by both NBFIs and banks instead poses more of an indirect link between the two.

At the global level, the FSB estimates that banks' funding from OFIs is around 5% of bank assets, while the exposure reaches 4%. However, there are significant national variations.

Banks interconnectedness with NBFIs has grown globally since 2023 after several years of decline



Source: ING, FSB

Channels linking NBFIs to European banks

The sustained growth of NBFIs is significantly increasing their interconnectedness with banks. European banks are now exposed to the NBFI sector on both sides of their balance sheet. We therefore see some channels through which the development in the NBFI sector could have a more direct impact on the banking sector. These include a weakening in the credit quality of the banks' NBFI exposures or sudden liquidity stress in NBFIs leading to substantial deposit outflows in banks.

Some channels may be more indirect. Some banks and NBFIs are active with the same counterparties. A realised, larger risk in one of these counterparties could therefore impact a bank both directly and via a weakening in the position of the NBFI. In instances where the NBFI reduces its exposure in times of stress, the bank counterparty may see more pressure to pick up the slack and see higher use of credit limits, for example. Lastly, while NBFIs are clients to banks, they may also be seen as competitors, with some supported by lighter regulation than banks.

Channel 1: weakness in loan quality

One main channel through which a large-scale shock in the NBFI sector could directly impact banks is via a weakening in non-bank credit quality. Weaker loan quality would reflect as higher impairments, directly pressuring banks' earnings. Large enough, they could eat into banks' capital positions and eventually reflect as higher funding costs once financial markets start pricing in a higher perceived risk. Negative credit risk migration would push risk-weighted assets (RWA) higher, a negative for capital metrics.

European banks have a total of €1.75tr in exposures to financial corporations other than credit institutions or NBFIs, based on the EBA data. Of these exposures, the bulk (about 83%) is in the form of lending and the rest as debt securities issued by these NBFIs.

In the following charts, we have included banking sectors that have above €20bn in total non-bank exposures.

European bank exposures in non-bank financials



Source: ING, EBA

Of the €1.46tr in NBFI lending, the largest exposures are in German (30% of total) and French (20%) banks. Country-wise, the five most active jurisdictions in the NBFI sector are Germany, France, the Netherlands, Italy and Spain, carrying an aggregated 85% of the European total.

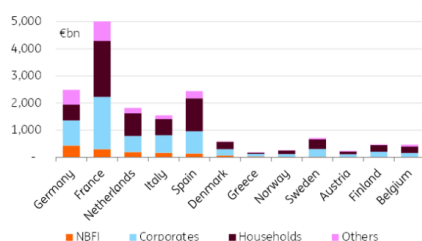
Banks increased their lending into NBFIs by some €95bn by the end of 2Q25, from €1.36tr since the end of 2024, led by the Netherlands (€32bn), France (€20bn) and Germany (€19bn).

The largest exposures to debt securities issued by NBFIs are in France (€88bn), followed by Germany (€66bn) and Italy (€57bn). However, French names have a stronger diversification, and as such their NBFi exposures account only for some 7% of total lending and debt securities, while for German names, the NBFi sector accounts for a clearly higher share of some 17% of the total.

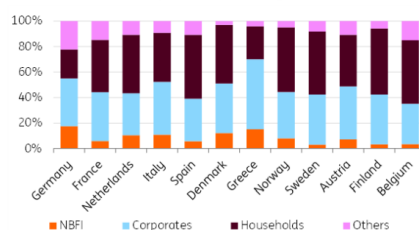
In countries like Greece, Denmark, Italy and the Netherlands, banks run with a larger than 10% NBFi exposure as of their total lending and debt securities. Of the smaller countries, Lithuania, Luxembourg and Latvia also have above 10% exposures here.

European bank lending books are diversified across segments, with NBFIs just one of them

Largest exposure into NBFi lending in Germany



French banks NBFi exposure limited by diversification



Source: ING, EBA

Obviously, only running with a large NBFi exposure doesn't necessarily tell much of the risk profile of the bank yet, as the underlying sector consists of a wide range of different types of financial counterparties with differing risk profiles. Unfortunately, the data sample gives very limited further idea of the more subtle split of the exposures. A higher exposure is likely to make the bank more exposed to potential market turbulence in case of problems in the wider NBFi sector.

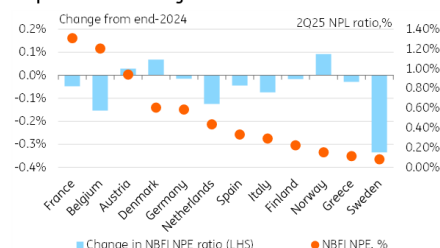
While we can see several risk factors in the sector, currently the bank lending to NBFIs is (for the most part) performing with limited non-performing lines. For the larger countries, the average non-performing exposure (NPE) ratios for NBFi exposures were in the range of 0.1-1.3%. The €7.2bn in non-bank NPEs are covered by €3.5bn in allowances, on top of which banks run with an additional €2.1bn in allowances for performing exposures and have €2.2bn in collateral and financial guarantees on top.

The largest stock of NBFi NPEs are in French banks at €2.7bn followed by €2bn in German banks. France and Belgium were running with the highest NPE ratios for NBFi exposures at 1.3% and 1.2%, both still at benign levels, with coverage at 52% and 39% for NPEs respectively (or at 67% and 84% including collateral and financial guarantees). Of the large countries, the NPEs corresponded to a limited 0.6% in Germany, with NPE coverage at 38% (or 69% with collateral and guarantees). When also including impairments on performing exposures, coverage for these countries would rise to above 100%.

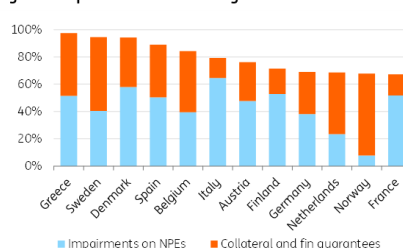
Overall, the NPEs have remained in check as of 1H25, with banks in only three countries reporting a higher NPE ratio for the NBFi sector from the year-end: Norway, Denmark and Austria.

Bank lending to NBFIs has so far remained rather healthy with strong coverage ratios overall

France and Belgium ahead of the pack in NBF1 NPE ratios, despite the ratios being down from end-2024...



...allowances on NPEs, collateral and guarantees protect against impacts from weakening in the books

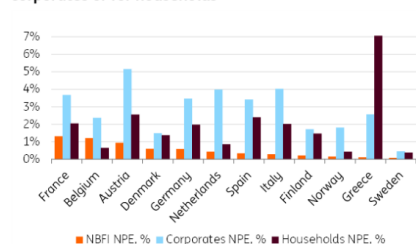


Source: ING, EBA

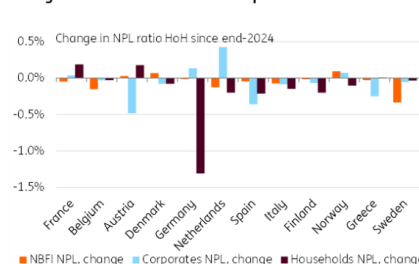
We consider that some scrutiny is of the essence when it comes to NBFIs. Currently, though, for European banks, it is rather the other segments that are leading in terms of non-performing exposures. Non-performing loans (NPL) ratios are higher for non-financial corporates and, for most, also for households than for the NBF1 sector.

It is not NBFIs that lead in problem loans but either household or corporate lending

NBF1 book quality is overall stronger than for non-financial corporates or for households



Change in NPL ratios for the most part towards lower



Source: ING, EBA

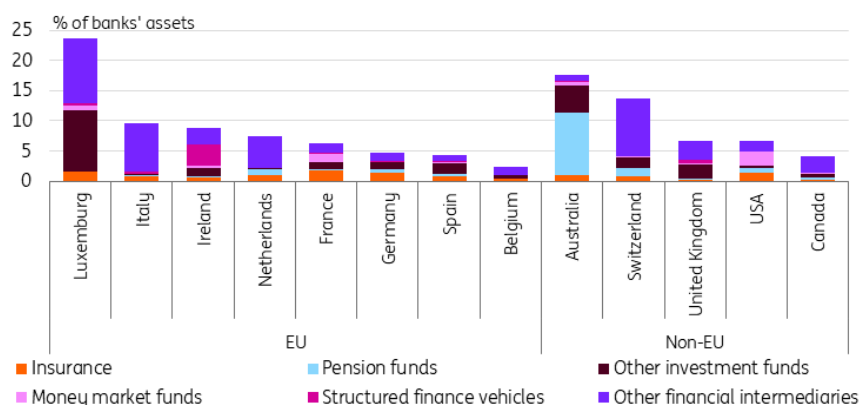
Channel 2: a risk to bank liquidity and funding stability

NBFIs contribute to the funding of European banks, among others, via deposits and repos. If the NBF1 sector experienced sudden liquidity stress, it could trigger corresponding deposit outflows from banks, putting pressure on their liquidity and funding profiles.

The chart below shows the share of funding different NBF1 entities provide to banks. For European banks, outside insurance companies, the use of NBF1 financing varies a lot across countries. For example, in France, banks rely to a larger degree on money market funds, while in Ireland structured finance vehicles provide the bulk of NBF1 funding.

Luxembourg is the EU Member State with the highest share of bank funding stemming from NBFIs, making nearly 24% of the sector's total assets. While the share is high, it is good to note that any systemic consequences are likely to be limited by the relatively limited total size of the country's banking sector.

Different types of NBFIs provide funding to banks



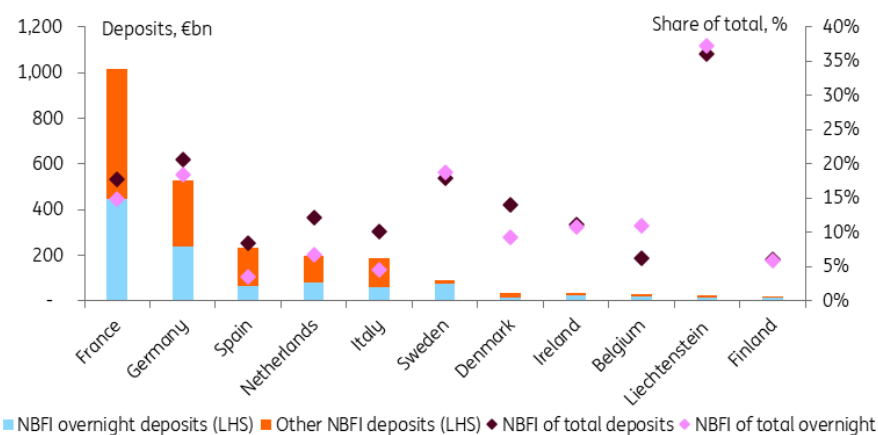
Source: ING, FSB / Other financial intermediaries = Broker-dealers, Financial corporations, Captive financial institutions and money lenders, Central counterparties, Hedge funds, trust companies and other unidentified OFIs.

NBFIs have deposited closer to €2.47tr in European banks with 44% of this in overnight deposits, based on EBA data. If the NBFIs sector were, for some reason, to suddenly withdraw a more substantial part of this, it could obviously have clear consequences for bank funding and liquidity profiles.

NBFIs deposits correspond to some 14% of the overall total deposit bases and 10% of total overnight deposits. They comprise just below 9% of the aggregated bank balance sheet total, or just below the aggregate liabilities. The substantial size means that weakness in this sector acts as a risk factor also for banks as a whole.

The largest NBFIs deposit base is clearly in French banks at €1.01tr, corresponding to some 18% of total deposits. German banks housed €527bn of non-bank deposits (21% of total deposits) and Spanish ones €233bn (9% of total deposits). The largest relative deposit exposures are in smaller countries such as in Liechtenstein (36% of deposits), Luxembourg (22% of deposits) and Estonia (21% of deposits).

NBFIs deposits have become an important bank funding source



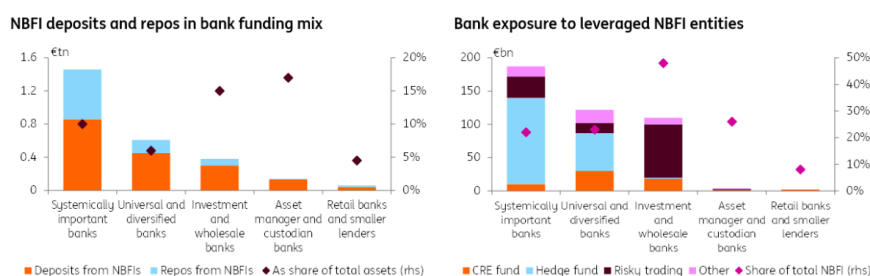
Source: ING, EBA

Within European banks, it is mainly the large names that are more active in the NBFi sector. The ECB shows that the bulk of short-term liabilities from NBFis are concentrated at the level of a handful of individual institutions with systematically important banks (SIB) showing the largest exposures, followed by universal and diversified banks.

NBFis contribute both via deposits and repos to the funding palette of systemic banks, while for the smaller banks the bulk of NBFi funding exposure is in the form of deposits. Although the absolute exposures are larger in systemic and universal and diversified banks, the relative share of total assets is more noteworthy in the case of asset managers and custodian banks, as well as investment and wholesale banks. This makes the latter two groups more exposed to potential funding risks coming from NBFi sector, in our view.

Some NBFi entities have business models that are based on a large use of leverage. The ECB has pointed towards commercial real estate funds, hedge funds and risky trading among those with higher risk profiles. At the EU level, about 26% of the lending to NBFis involves highly leveraged firms. Most of the higher risk exposure is concentrated in the largest banks, with hedge funds, in particular, among the larger exposures.

The larger European banks are more active in the NBFi sector



Source: ING, ECB

Conclusion

The NBFi sector's growth in both size and complexity implies greater links with banks. Interconnections with the rest of the financial sector is one of the three main structural vulnerabilities NBFis are facing, alongside liquidity and financial leverage risks. However, while the latter two stabilised over the past years, interconnectedness keeps increasing.

Greater overlap between the two sectors may pose problems if the wider NBFi sector faced a sudden shock that, in turn, impacted banks directly via their exposures. This is especially true as banks are linked to NBFis via both sides of their balance sheet.

The largest NBFi exposures are in German and French banks. Of the two, for German names the relative share is clearly higher as French names benefit from stronger diversification. On the funding side, it is French banks that rely a bit more on NBFis in their funding mix than their German counterparts. Overall, mainly the larger systemic banks are active in NBFis and, as such, they are also the ones that would be more exposed in case of trouble in the sector.

We identify several channels through which NBFi developments could impact European banks. These include, in particular, weaker NBFi loan quality and sudden NBFi deposit

outflows from banks. Concentration of risks with the same counterparties may exaggerate credit risks of these counterparties for banks. Lighter-regulated NBFIs may also impact the competitive landscape for some products where both sectors are active.

We consider that these direct risks to banks remain in check, at least for now. Banks are also likely to benefit from the increased ties between the two sectors, offering growth opportunities. That being said, some scrutiny is of the essence when it comes to NBFIs especially as more granular and frequent information is necessary to paint a complete picture of the risks and developments of the sector.

For the time being, the NBFIs remain a large unknown, casting a shadow on the relative well-being of the financial and corporate sector.

Author

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

How the EU's securitisation overhaul may reshape banks' funding strategies

The European securitisation package lays the groundwork for a more diversified European funding landscape. While the full benefits remain subject to Trilogue negotiations and will only be realised in time, the reforms will reinforce the role of securitisation as a complementary rather than competing instrument to covered bonds



Securitisations provide capital relief and diversify funding, helping finance a wider range of loans than those typically eligible for covered bonds

After Mario Draghi flagged the absence of a well-functioning securitisation market as a key constraint on European banks' lending capacity, Europe has made its revival a major policy priority.

On 17 June 2025, the European Commission unveiled a package designed to revitalise the EU securitisation market, marking the first initiative under the Savings and Investment Union (SIU) launched earlier that year.

The securitisation package introduces targeted amendments to the Securitisation Regulation, Capital Requirements Regulation (CRR), Solvency II delegated regulation and the Liquidity Coverage Ratio (LCR) delegated act, aiming to ease both supply and demand-side frictions in the current framework.

The securitisation package promotes issuance and investments

Legislation	Issuance	Investment
Securitisation Regulation	✓	✓
Capital Requirements Regulation (CRR)	✓	✓
Liquidity Coverage Ratio (LCR) Delegated Act		✓
Solvency II Delegated Act		✓

Source: European Commission, ING

The Council adopted its position on 19 December 2025. On 15 January 2026, the European Parliament's ECON Committee reviewed the draft proposals presented on 12 December 2025 by the German centre-right lead negotiator in Parliament, Rapporteur Ralf Seekatz. The final parliamentary position remains pending before the Trilogue negotiations between the European Commission, Council and Parliament can begin. Hence, a final Trilogue deal will probably not be reached before the end of this year.

While Europe's securitisation market is unlikely to see meaningful benefits from the package in 2026, the reforms should strengthen banks' future use of securitisation for funding and/or capital relief purposes. This will be especially important if other SIU initiatives, such as Savings and Investment Accounts or reforms to Europe's supplementary pension system, end up weakening banks' access to their cheapest funding source, deposits.

At the same time, we do not expect securitisation for funding purposes to materially cannibalise Europe's robust covered bond market. Even so, an endorsement by the European Parliament of Rapporteur Seekatz's proposals to reduce the risk-weight treatment of covered bonds, followed by a Trilogue agreement, would certainly help to preserve their competitiveness relative to securitisation.

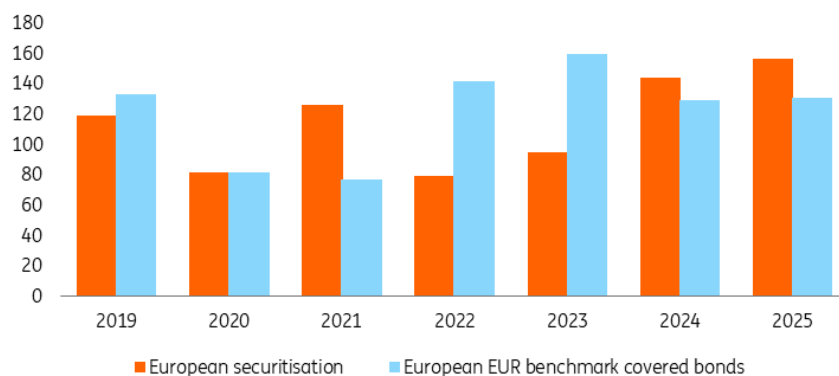
Supply considerations

With the expiration of the ECB's Targeted Long-term Refinancing Operations (TLTRO-III) between September 2022 and December 2024, eurozone banks' capital markets funding needs increased substantially. As a result, 2022 and 2023 saw a significant rise in EUR covered bond issuance by European banks, while placed securitisation volumes remained muted.

EUR covered bond supply stayed high in 2024 and 2025, but the issuance of placed securitisations also picked up in these two years, according to AFME statistics. This partly reflects banks' response to the Basel reforms and the introduction of the output floor in Europe, with securitisation increasingly used to transfer risk and free up capital. In addition, the securitisation market offered banks opportunities to diversify their higher funding needs across different products and reach a broader investor base.

Placed European securitisation and EUR benchmark covered bonds

€bn



Source: AFME, ING

While securitisation issuance has already picked up in recent years, the securitisation framework reforms aim to make this route even easier for banks by streamlining transparency requirements and reducing reporting burdens. Mandatory reporting fields would be cut by at least 35%, with some becoming voluntary. For highly granular, short-term asset pools, issuers may provide aggregate rather than loan-level data.

Beyond these transparency changes, the package also broadens the homogeneity rules under the framework for Simple, Transparent and Standardised (STS) securitisations. SME-focused pools will already qualify as homogeneous when at least 70% of the exposures are SME-related. The remaining portion of the pool can include other exposures, including from different member states. This should support the STS securitisation of SME loans and facilitate cross-border securitisations.

Besides, in its response to the European Commission's Call for Advice on covered bonds, the EBA expressed no urgency in exploring the introduction of a covered bond-like dual-recourse instrument for SME financing (European Secured Notes (ESN)), postponing this to the medium term, subject to market developments and interest. Hence, for now, there is no low-cost dual-recourse alternative to securitisation for these loans.

Regardless of these measures making securitisation more accessible, we do not expect them to materially erode the covered bond market. Securitisation largely involves loans that are not used as collateral for covered bonds. In that regard, they are more complementary than supplementary to covered bonds.

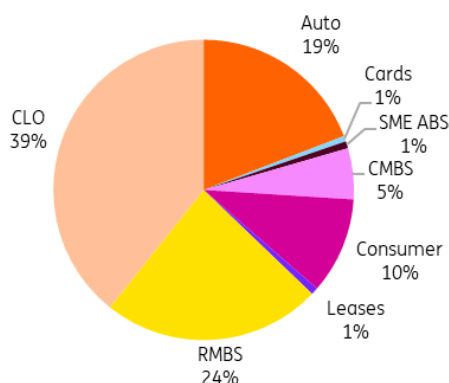
In 2025, residential and commercial mortgage-backed securities (MBS) accounted for less than a third of the placed securitisations by European banks. Even if the securitisation package makes MBS issuance more competitive to covered bonds, e.g. through lower risk weights or the removal of the 5yr remaining weighted average life (WAL) criterion for LCR eligibility purposes, not all banks may have the mortgage loan balance sheet capacity to issue both covered bonds and MBS.

Since the global financial crisis, the mortgage-backed securities market has steadily lost issuer market share to covered bonds, largely due to the latter's more favourable regulatory treatment

and funding cost advantages, but also due to the larger complexities of setting up and maintaining a securitisation transaction. Issuers with smaller balance sheets are unlikely to reduce their visibility in the covered bond market for an occasional RMBS transaction, unless such a switch would make sense from a funding cost perspective. We expect them to continue using their residential mortgage portfolios for covered bond issuance to maintain a benchmark curve and a regular market presence.

Distribution of total placed securitisations by type

(1Q 25 – 3Q 25)



Source: AFME, ING

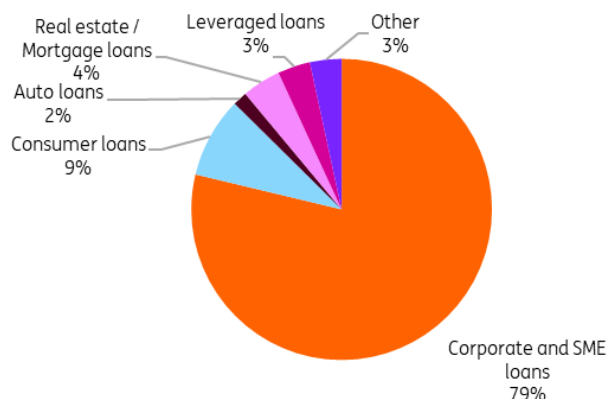
SRTs: Capital relief on corporate/SME loans, less on mortgages

European banks are increasingly using **Significant Risk Transfers (SRTs)** as traditional (Art. 244 CRR) and synthetic (Art. 245 CRR) securitisation for capital relief purposes. Under the EU CRR, banks can only benefit from lower capital requirements on securitised exposures if a significant portion of the risk is transferred by the securitisation. The EU securitisation package proposes changes to the CRR to promote the further growth of the SRT market. These include replacing the existing ‘CRR mechanical test’ with a ‘principle-based approach (PBA) test’, and the harmonisation of the supervisory SRT assessment via, among others, a fast-track process.

Since January 2026, the ECB has been applying an SRT fast-track process, which reduces its response time from three months to eight working days. The process is used for standardised securitisations where the SRT does not lead to a capital reduction of more than 25bp. SRTs are primarily used to obtain capital relief on portfolios with higher risk weight density, such as corporate, SME and consumer loans, rather than on mortgage loans. Another indication that the low-risk mortgage loans that typically serve as collateral for covered bonds are not the primary target of banks’ capital relief activities.

Asset classes used for SRTs

(1Q 25 – 3Q 25)



Source: AFME, ING

Demand considerations

A sustained revival of Europe’s securitisation market will also depend on investor demand driving future issuance. To support this, the securitisation package puts forward a broad set of measures to strengthen demand, which the Council and Parliament’s Rapporteur further refine where the Commission’s proposals were seen as insufficient or counterproductive.

The proposals help narrow parts of the gap between securitisations and covered bonds in terms of due diligence, risk-weight and LCR treatment, though not enough to fully shift the competitive balance in favour of securitisations, at least not compared with covered bonds issued by EEA credit institutions. The situation is different for covered bonds from third-country issuers, which will be placed at a relatively greater disadvantage compared with the highest quality securitisation positions.

1 Securitisation regulation

Securitisations are subject to stricter due diligence requirements for investors than covered bonds, making the securitisation route currently a more time-consuming and burdensome process for issuers. Hence, making these due diligence requirements more proportional would significantly enhance issuance abilities.

The securitisation package eases part of the burden on investors by removing certain due diligence verification requirements for EU-supervised sell-side entities and by simplifying checks for repeat transactions and senior tranches. Institutional investors would no longer need to separately verify STS compliance and receive additional time to document due diligence for secondary-market trades. Moreover, due diligence and risk retention requirements are waived when a multilateral development bank (MDB) guarantee is in place or when a public entity guarantees a first loss-tranche of at least 15%.

At the same time, the Council and Parliament Rapporteur seeks to nip in the bud the potential negative impact of the European Commission’s proposals for a broader sanctioning regime under the securitisation regulation. The Commission had proposed expanding supervisory sanctioning powers to include due diligence breaches. Institutional investors would also remain legally

responsible for meeting due diligence requirements even when delegating investment and due diligence tasks. To avoid unwanted consequences for investor demand, the Council removes the expansion of sanctioning powers, while the draft of the Parliament's Rapporteur calls for a more proportionate regime. The Council also notes that delegating investors should monitor the delegate's ability to conduct due diligence but refrains from stating that legal responsibility cannot be transferred.

Besides, where the European Commission merely floated the idea of amending the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive to allow UCITS funds to invest more than 10% in a single securitisation issue, the Council takes a more decisive step by raising this limit to 50%. This is twice the 25% limit that applies to covered bonds complying with the European Covered Bond Directive (or the former UCITS 52(4) provisions for bonds issued before 8 July 2022).

2 CRR amendments

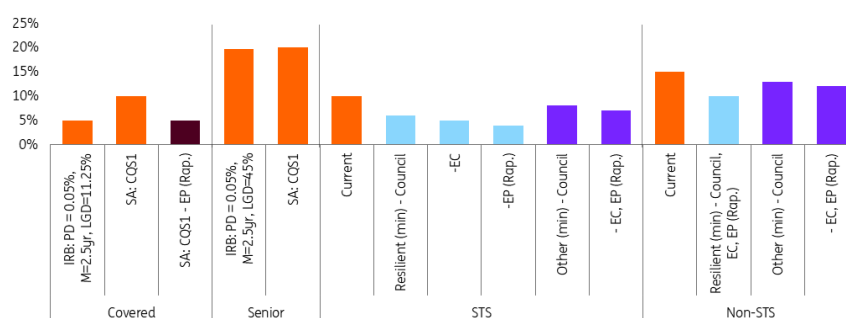
The proposed CRR amendments aim to significantly lower the capital requirements for high-quality senior securitisations, making them a closer substitute for investors for covered bonds from a prudential perspective.

This is mainly achieved through the recalibration of the risk weight floors for senior securitisation positions, which will become more risk-sensitive to the underlying exposures, with floors potentially as low as 4% to 6%, depending on the legislative outcome.

In addition, the (p) factor, i.e., the parameter determining the bank's capital requirements for securitised positions relative to the capital required for the (non-securitised) underlying exposures, is made less conservative and more risk sensitive.

On top of that, "resilient securitisation positions" are introduced as a lower risk category, with less agency and model risks and better loss-absorption capacity. They can therefore benefit from additional reductions in the risk weight floor or (p) factor.

The lowest possible risk weights by instrument type per proposal



Source: European Commission (EC), European Parliament Rapporteur (EP (Rap.)), Council, ING

The orange bars reflect the current situation, the coloured bars the proposed changes by the different bodies

At their new risk-weight floor, resilient STS securitisations will have risk weights virtually

comparable to those of CRR-eligible covered bonds issued by highly rated issuers under the Internal Ratings-Based (IRB) Approach. However, under the Standardised Approach, which also has output floor relevance for institutions using internal models, the new risk weight floor for both resilient and non-resilient STS is even lower than the risk weights for CRR eligible covered bonds.

As such, to keep the prudential treatment of both instruments comparable, and to avoid any unintended consequences for the covered bond market, European Parliament Rapporteur Seekatz recommends lowering the preferential risk weights of CQS 1-rated CRR Article 129-compliant covered bonds from 10% to 5%.

The Parliament Rapporteur also proposes a 4% risk weight floor for high-quality resilient-STS securitisations, which is lower than the Commission's 5% and Council's 6%, maintaining a slight advantage over covered bonds.

Nonetheless, if the 5% risk weight proposal for covered bonds is endorsed by the European Parliament and survives the Trilogue negotiations, this would be a beneficial outcome of the securitisation package for the legislative covered bonds of banks based in the European Economic Area (EEA).

For third-country issuers, it would even further increase the merits of an EU equivalence regime for their covered bonds. Third-country covered bonds are currently treated as senior exposures in the EEA, subject to a 20% risk weight treatment under both the Standardised Approach and the Foundation Internal Ratings-Based Approach.

This is double the current risk weight treatment applicable to high-quality senior STS tranches, and double the current risk weight treatment of CRR eligible covered bonds under the Standardised Approach. An increase in the risk weight disadvantage from 10% points to 15% points for third-country covered bonds could prompt bank HQLA portfolios to request more spread pickup for these covered bonds.

3 LCR amendments

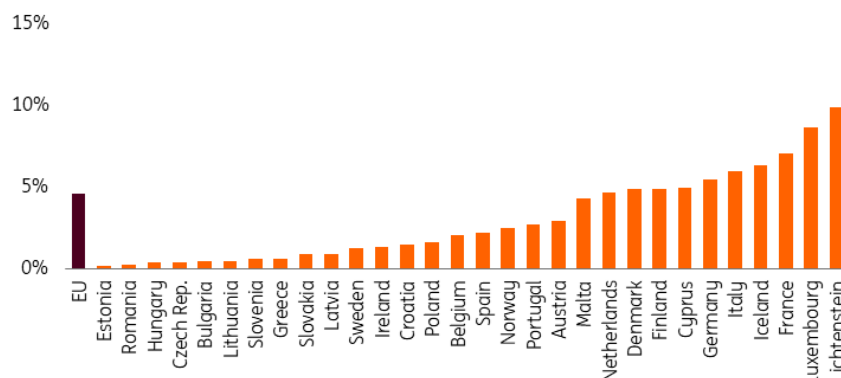
Senior STS securitisations currently qualify as level 2b LCR assets if they are CQS1-rated (AAAsf) and backed by a homogeneous pool of high-quality EEA loan exposures. These loan exposures should be originated by an EU-authorized credit institution that is not holding the securitisation position as liquid assets. Besides, the tranche size should be at least €100m and have a remaining weighted-average life (WAL) of no more than five years.

Such senior STS securitisations are subject to a 25% haircut, unless they are secured by commercial or consumer loans, in which case a 35% haircut applies. This compares with a 15% haircut for level 2a covered bonds and a 7% haircut for level 1 covered bonds.

In combination with other Level 2b liquid assets, senior STS securitisations can also only represent a maximum 15% of the total liquidity buffer of the credit institution.

In practice, this 15% cap is hardly a constraint. According to the European Commission, senior STS securitisations only represent 0.4% of the liquid assets of European banks. Even with L2A assets, L2B assets account for only 4.6% of European banks' liquidity buffers. There is not one single European jurisdiction where the two asset classes together exceed 10% of the total high-quality liquid assets.

L2A & L2B assets represent together less than 10% of liquid assets



Source: EBA, ING

Against this backdrop, the proposed LCR amendments aim to diversify EU bank liquidity buffers, support securitisation market liquidity, and align the scope of LCR eligible senior STS securitisations with the CRR and Securitisation Regulation.

To this purpose, the LCR eligibility criteria are widened by restoring eligibility for AA_{sf} up to AA_{sf} (CQS1–CQS4) securitisations and extending eligibility to A_{sf} up to A_{sf} (CQS5–CQS7) senior STS tranches, subject to a 50% haircut. The 5yr WAL limit is removed to accommodate LCR eligibility of longer maturity structures of RMBS. The loan_{type}-specific criteria are removed, and asset eligibility will be defined by the general homogeneity rules of the Securitisation Regulation, while the haircut for commercial and consumer loan ABS will be aligned with other securitisations at 25%. Certain high-quality resilient senior STS securitisations can even benefit from a 15% haircut if they are at least AA_{sf} rated and have a minimum issue size of €250m.

In terms of LCR treatment, Level 2b securitisation positions will continue to have a disadvantage versus similarly rated covered bonds of EEA credit institutions, which are subject to a 7% haircut and are not restricted by the 40% cap applicable to Level 2a and 2b assets or the 15% cap applicable to Level 2b assets. However, the disadvantage is reduced, with AA-rated resilient senior STS securitisations subject to the same haircut as Level 2a AA- or better-rated third-country covered bonds. Third country covered bonds will still benefit from a less restrictive 40% cap on their inclusion in the HQLA portfolio, but this is not much of an advantage, as in practice the combined holdings of all Level 2a and Level 2b assets do not even approach 15%.

Simplified overview proposed LCR regime for securitisations versus covered bonds

HQLA	Bond type	Haircut	Cap	
Level 1	Sovereigns	0%	>30%	>60%
	Covered bonds (AA- or better)	7%		
Level 2a	Covered bonds (A+ to A-, or third country AA- or better)	15%		
Level 2b	Resilient senior STS securitisations (AA- or better)	15%	15%	40%
	Senior STS securitisations (AA- or better)	25%		
	Covered bonds (BBB+ or lower)	30%		
	Senior STS securitisations (A+ to A-)	50%		

Source: European Commission, ING

All based on qualifying EEA exposures except for reference to third country covered bonds

4 Amendments to the Solvency II Delegated Regulation

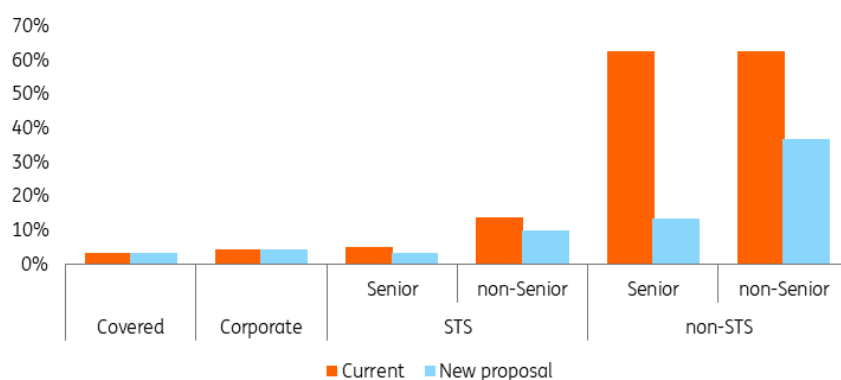
The Solvency II Delegated Regulation amendments also lower the capital requirements for securitisation notes. This should encourage insurers to invest more in these transactions, helping banks to transfer risk and expand lending. To this purpose,

- The risk factors (a_i and b_i) for the spread risk of senior tranches of STS securitisations will become fully aligned with the treatment of similarly rated covered bonds as referred to in CBD Article 3(1).
- The risk factors for non-senior STS securitisations are lowered to a similar extent, with the new capital charges for AAA-rated non-senior notes at around 70% of the current capital charge, and for AA-rated non-senior notes at 75% of the current requirement.
- The difference in the capital treatment between STS and non-STS securitisations is currently far more significant for insurers than for banks. This difference will be reduced substantially, while the capital charge remains capped at 100%.
- The current Solvency II regime makes no distinction between senior and non-senior non-STS securitisation notes, exaggerating the spread risk of senior compared to non-senior tranches. Hence, lower risk factors are introduced for senior non-STS compared to non-senior non-STS transactions.

The graphic below shows the capital charge implications of the proposed amendments for AAA-rated securitisation notes with a 5yr duration.

Solvency II capital requirements for spread risk

(AAA rated note, 5yr duration)



Source: European Commission, ING

As of the end of January 2027, AAA senior STS securitisation notes will have the same capital treatment as CBD-compliant covered bonds under Solvency II. At wider spread levels, this will make these securitisation notes a stronger competing asset class to covered bonds for insurer investment purposes.

AAA-rated third-country covered bonds, which are not CBD-compliant, continue to be treated as AAA-rated corporate bonds with a similar capital charge as AA-rated CBD-compliant covered bonds. These bonds will have a capital charge disadvantage versus AAA senior STS securitisations for insurers once the Solvency II amendments apply.

Considering the limited exposure of insurers to both covered bonds and securitisations, we doubt, however, that the (closer) alignment in their risk weight treatment will have a noteworthy performance impact on covered bonds.

In summary

The European securitisation package forms an important step toward revitalising the securitisation market. It eases supply-and-demand frictions and narrows the gap with covered bonds. Simplified transparency and due diligence requirements and more favourable risk weight, LCR and Solvency II capital treatments will support both issuance and investor demand. This will facilitate the growth of the securitisation market, but not necessarily at the detriment of Europe’s covered bond market.

Securitisations will be a valuable complementary tool used for capital relief and funding source diversification purposes, which help finance a broader range of loans than typically eligible as collateral for covered bonds. Still, backing from the European Parliament and Trilogue, for Rapporteur Seekatz’s proposed lower risk weights for covered bonds would help preserve their competitiveness relative to securitisation as a funding tool for mortgage loans.

Author

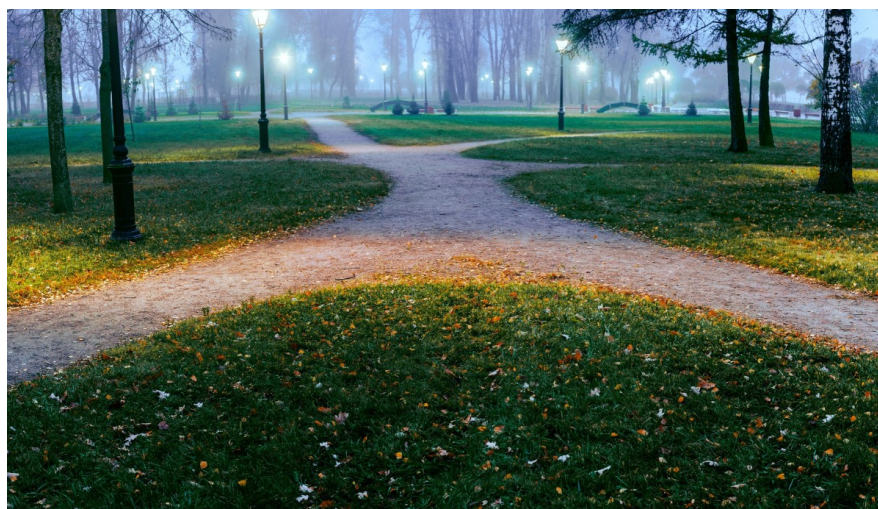
Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

AT1: Adapt or abolish?

The discussion on the role of bank capital instruments is set to continue in 2026. There are three main worries related to Additional Tier 1 (AT1) instruments in their current form. These are related to loss absorption, coupons and the permanence of these instruments. We present some alternative paths ahead



The role of AT1 capital is in flux, we discuss potential alternatives ahead

Main issues related to AT1 in bank capital structure

The discussion on the role of bank capital instruments is set to continue in 2026. The main worry is related to the capacity of Additional Tier 1 (AT1) instruments to absorb losses before a bank fails or is likely to fail (i.e., on a *going concern* basis), which was the original purpose for these instruments.

The criticism has mainly targeted three factors, including:

1. **Loss absorption:** are AT1 instruments truly loss-absorbing (via principal write-down or conversion to shares) before a bank is failing or likely to fail (going concern) or do they rather absorb losses only after the point of non-viability has been reached (gone concern).
2. **Coupons:** banks tend to continue to pay coupons on AT1 instruments in times of stress, despite the possibility of skipping the payments.
3. **Permanence:** banks may prefer to redeem AT1 instruments even though refinancing is, strictly speaking, more costly than extending the outstanding one (non-economic calls).

Within its simplification proposals published in December 2025, the European Central Bank (ECB) proposed two alternatives to improving the going concern loss absorption capacity of the capital

stack. The first alternative was to enhance the features of AT1 debt such that the product would better align with the requirements for going concern capital and be more similar to equity. The more drastic alternative would be to abolish the instruments altogether from bank capital stacks.

The ECB stopped short of giving any further details on its thoughts on AT1. Based on comments by Luis de Guindos, Vice President of the ECB, in January 2026, the Governing Council seems to have a preference for the less dramatic alternative, including tweaking the terms. Furthermore, he stressed already in December that any change to the AT1 product will not be done retroactively, but instead will be about the way forward. We present some potential alternatives below.

Enhancing features of AT1 capital

1 Loss absorbency

One of the major criticisms concentrates on whether AT1 instruments can be truly loss-absorbing *before* the bank even approaches the point of non-viability.

In the EU, resolution authorities have statutory powers to write down or convert AT1 debt independently of resolution action and without a breach of the set trigger levels. The usage of these powers is, however, complicated in practice by the requirement that resolution authorities have to exercise the write-down or conversion in accordance with the priority of claims under normal insolvency proceedings. These rank AT1 debtholders with a higher priority than CET1 capital. The Single Resolution Board and the ECB have confirmed their intention to respect the hierarchy of claims in crisis interventions: it should be the shareholders first that absorb losses and only after the full use of CET1 capital would AT1 instruments be written down. This stands to clearly limit the potential use cases of these powers.

In addition, while the EU AT1 instruments come with quantitative loss-absorption triggers, you could see the bulk of these triggers as more or less obsolete.

Bank failures are not always driven by an accounting loss and a resulting hit to capital buffers. Instead, it is rather the deposit outflows and stress in the funding and liquidity position that may become detrimental and fast.

Most euro-denominated AT1 instruments have a mechanical trigger set at 5.125% and some at 7% of the CET1 ratio. Breaching the trigger leads to a write-down of the principal or a conversion of the instrument to CET1 instruments. While bank fundamentals may be deteriorating at a fast pace on the liquidity or funding side, it is often the case that the capital ratios are still well above these mechanical trigger levels.

Furthermore, for most banks with notes with a 5.125% trigger, the aggregated level of the minimum Pillar 1 CET1 requirement and the Pillar 2 requirement is *higher* than the loss absorption trigger level. Adding the combined buffer requirements further increases the more normalised level of CET1 capital, and further distances this from the mechanical triggers.

In practice, we consider that a bank could end up in a resolution long before these mechanical trigger levels are reached, at which point the notes would not be absorbing losses on a *going concern* basis but rather on a *gone concern* basis.

The trigger levels come from EU (and Basel) rules. A trigger event occurs when the CET1 ratio falls below 5.125% or a level higher than this, as specified in the bond documentation. Revisiting these

trigger levels is likely to be among the alternatives to be discussed in the case of enhancing AT1 features to make the debt better loss-absorbing. We consider that higher trigger levels would be, from the point of view of AT1 holders, a negative and, from the point of view of shareholders, a positive.

Even a complete removal of the mechanical triggers is likely to be considered. The ranking of shareholders and AT1 debtholders may, in some cases, cause some uncertainty. In case of a breach of a trigger, only AT1 absorbs losses, while in the case of statutory loss absorption, both shareholders and AT1 stand to absorb losses. This may be seen as providing uncertainty in times of stress with contrasting interests for the two layers. A conversion instead of a write-down structure could be seen as aligning the two interests a tad more. In the EU, the bulk of AT1 instruments have a write-down structure and only a smaller proportion are structured as convertibles.

2 Payment of coupons

For AT1 instruments to be eligible for Tier 1 capital, the bank must, at its own initiative, be able to cancel the coupons of the bonds at all times and for as long as they like under the EU rules. A coupon cancellation can't constitute an event of default, and there can be no obligation for the bank to pay these skipped coupons at a later stage. Also, the level of distributions can't be driven by the basis of the credit standing of the institution.

A coupon skip has been intended to be among the measures that banks can take to provide more flexibility, for example, in the case of deteriorating fundamentals. However, banks have been very reluctant to do so in the past and have continued to pay coupons even under more substantial duress.

A coupon skip comes with a strong negative stigma. A coupon cancellation can be seen as a clear signal of trouble by financial markets and potentially even as the bank approaching the point of non-viability. In some cases, the actual direct saving from a skipped coupon may also seem limited as compared with the potential adverse market reaction impacting all outstanding instruments and thereby, the funding costs of the bank.

Another factor that likely also contributes to banks being unwilling to skip coupons is related to their nature. AT1 coupons are non-cumulative. Any skipped coupons will not be paid at a later stage. This could be seen as problematic from the point of view of the creditor hierarchy. If a bank skips a dividend to its shareholders, once its situation improves later on, it can pay extra dividends. This is not the case for AT1 instruments.

Banks may also take a more cautious approach to lending in times of stress to reduce the risk of negative consequences for AT1 coupons. The capacity of banks to pay AT1 coupons gets restricted if the CET1 capital ratio no longer meets the combined buffer requirement. In this case, the bank can only distribute the so-called maximum distributable amount as dividends, AT1 coupons or variable remuneration. A review of whether the calculation and functioning of the MDA (and M-MDA) framework works as intended could be among the potential avenues forward.

In the past, the ECB has indicated support for strengthening the features of AT1 paper to reduce the stigma effect associated with cancelling coupon payments. One alternative it presented was to review the CRR2 definition of distributable items such that only profitable banks or banks with positive retained earnings could make AT1 coupon payments or dividend payments.

The ECB has not previously supported adding a power to introduce a system-wide restriction on distributions, even in exceptional circumstances, due to several potential drawbacks. During Covid-19, the ECB instead published a *recommendation* for banks to refrain from distributions due to the high uncertainty at the time. However, this was not extended to AT1 distributions.

Features, including more mechanical restrictions on coupons or coupon accumulation, could also be considered.

3 Permanence of AT1 capital

AT1 instruments are perpetual, i.e., they don't have a final maturity date. The notes, however, come with a call date (minimum of five years after issuance), when they can be redeemed. To get supervisory approval for a call, 1.) the notes either have to be replaced with own funds instruments of equal or higher quality or 2.) the institution has to demonstrate that its capital buffers following a call would remain in excess of the requirements, including the combined buffer requirement by a necessary margin.

A replacement has to be done at terms that are sustainable for the income capacity of the institution. This needs to include an assessment of the extent to which the replacement instruments would be more costly than those they would replace. The profitability of the institution should continue to be sound and not see any negative change after the replacement of the instruments at that date and for the foreseeable future.

Banks, however, have a preference to redeem AT1 instruments at the first opportunity, as this is seen as market practice and a failure to do so may impact secondary spreads. Also, an extension may raise questions about the reason behind the extension. Banks may prefer to call even though refinancing them could, strictly speaking, be seen as more costly than retaining the existing instruments. While more and more banks run with an economic call policy, there is quite some room still to move even within this strategy. Larger banks with more substantial AT1 layers may take more of a portfolio approach to AT1 refinancing instead of a bond-to-bond approach. Refinancing in a different currency also provides its own touch to the matter.

In current markets, replacement economics are not really an issue as most calls look economic in any case. This may, however, change once the secondary markets weaken, and consequently it gets more expensive to issue a new AT1 instrument. Getting supervisory approval for a call is also likely to get more difficult in a weaker macroeconomic environment, in the case that the bank's capital buffers get thinner.

Stricter rules regarding the possibility to call AT1 are likely one route that is being looked at to make AT1 instruments better fit for their purpose. The ECB already suggested in 2022 that the features could be improved by limiting the possibility to call only if replaced with a CET1 instrument or a *cheaper* AT1 instrument.

Abolishment of AT1 instruments from bank capital stacks

The more drastic alternative to addressing the said AT1 problems would be to completely remove non-CET1 instruments from the going concern capital stack. This was one of the suggestions floated around by the ECB in December 2025, likely coming from the German bank regulators.

The ECB suggested that the AT1 instruments could then either be fully or partially replaced with

CET1 capital or eliminated without replacement in the going concern capital stack.

A complete removal of AT1 instruments from the going concern capital stack would leave CET1 capital as the only means for banks to absorb losses before the bank fails or is likely to fail. This would reduce complexity quite a bit. If banks were required to replace AT1 capital with CET1 capital (fully or partly), this alternative would, however, increase CET1 capital requirements, which would go against the wishes of the ECB regarding maintaining the “current resilience”. A higher CET1 requirement only for European banks would also place the sector at a disadvantage compared with their international peers, a potential drag on the availability of lending and the European economies. AT1 instruments could also be replaced by Tier 2 capital, although this would not really solve the underlying issue with loss absorption.

Removing AT1 without a replacement with CET1 capital would mean that the total going concern capital requirements would be lowered. The importance of CET1 capital in bank capital stacks would increase. The European rules would no longer be in compliance with the international Basel rules.

A full elimination of AT1 instruments would mean scarcity and a very high likelihood of a call for the outstanding instruments once they reach the first call date.

Wider loss absorbency stack discussion

The layering of new capital and loss-absorbency requirements since the global financial crisis, on top of old ones, has resulted in a rather complex set of rules. While this piece has mainly concentrated on the impacts for AT1 instruments, potential changes to the instruments may come with a larger remodelling of the bank's capital and loss-absorption stack. The ECB has indicated that changes to the loss absorbency framework should be done without reducing the components on banks' balance sheets which can be used to absorb losses and recapitalise in case they fail.

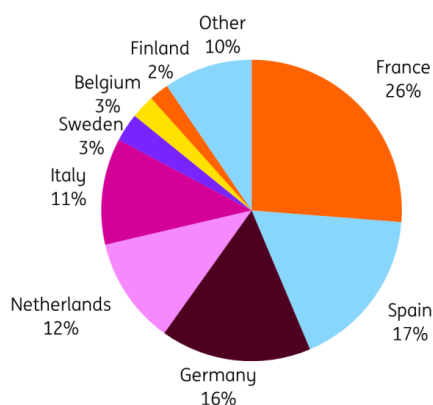
One alternative floated would be to rely more on CET1 capital as the main source of capital to absorb any weakness, while loss-absorbing but non-CET1 capital could be used to meet requirements for resolution buffers on a gone concern basis. An FSB working paper, for example, suggested a single minimum going concern capital requirement based on CET1 capital with simplified CET1 buffers on top. Requirements for other capital instruments and loss-absorbing capacity would be replaced by a requirement for additional resources for loss-absorbing capacity that could be fully met with eligible debt. The breach of the single minimum requirement would lead to a resolution, while a breach of the resolution requirement would come first, with other types of penalties.

If the regulatory capital stack were changed to only CET1 capital, the role of the different subordinated and senior debt layers could also be seen as less evident. How many different gone concern loss-absorbing layers would a bank really need in the end? It is doubtful whether the answer would be four, which is more or less the current structure.

AT1 instruments are widely used

We consider that the potential changes to the bank capital structure and AT1 instruments could have substantial consequences for European banks. AT1 instruments have become an important part of bank capital structures. Abolishing or changing AT1 instruments could potentially impact some €140bn in AT1 instruments within 107 European banks based on the EBA transparency data.

AT1 instruments are widely used across Europe

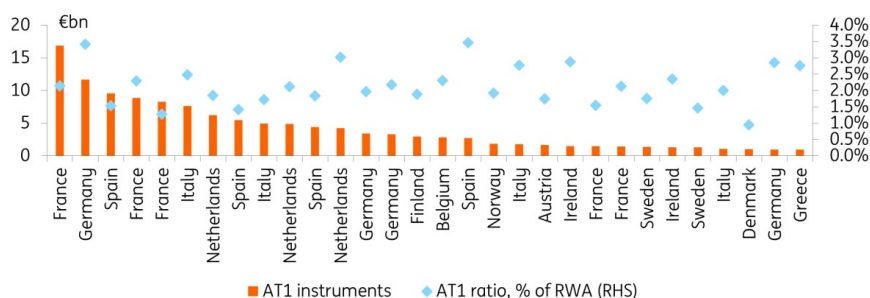


Source: ING, EBA

France, Spain, Germany and the Netherlands rank at the top in AT1 volumes for European banks. While 60% of the total is issued by the 10 largest banks, AT1 instruments are relatively widely used, with 69 banks out of 107 utilising AT1 paper. In particular, larger banks with a more binding leverage requirement have been active in AT1 markets. For banks with AT1 outstanding, the average AT1 layer was closer to 2.1% of RWA, and 52 banks were running with an AT1 layer of at least 1.5%. Replacing all this with CET1 capital would come with a substantial cost to banks across the board.

The numbers compare with some further €235bn in Tier 2 instruments in these banks, which are a bit more split across the names, with the top 10 corresponding to some 48% of the total. These capital layers are on top of some €1.5tr in CET1 capital.

Top 30 European AT1 issuers by issuer nationality



Source: ING, EBA

Conclusion

We see the ongoing discussion related to bank capital as part of a larger one. The entire bank loss absorption stack has become a rather complex creature with parallel capital and loss absorption requirements both on an RWA and leverage basis.

The European Commission is working to simplify bank rules. Our base case would be that Europe is reluctant to move too far away from international rules. Also, in a more international arena, there are signs of a desire to reconsider the composition of bank capital

layers and, as such, the role of bank capital instruments in it. Any larger change would take years to complete.

We don't see a complete abolition of AT1 instruments as likely any time soon. A change would be complicated by the substantial size of the market, with a large share of EU banks using these instruments to top up their capital positions. A requirement to replace these instruments with CET1 capital would be costly, and place European banks at a disadvantage compared with their international peers. Not replacing them would mean that European rules would fall short of the Basel standards. A more radical change would make AT1 instruments more likely to get called, as banks would shift to a new regime.

We consider that the current rules, however, already allow for quite a bit stricter application than what we have seen in the past. Some tweaks to AT1 features could be forthcoming at least.

Quite some expectations have already been priced in, with the spreads for euro-denominated AT1 instruments this week reaching new lows since the beginning of 2014. We would continue to navigate this potentially changing market by having a preference for shorter calls with higher resets.

Author

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

ESG Omnibus: Throwing the baby out with the bathwater

Now that the EU has finalised the sustainability Omnibus, we analyse the changes and impact these will have on European banks. This will be a positive for banks which are no longer required to report on ESG but significantly complicate disclosures for those still in scope



The background

At the start of 2025, the European Commission proposed an overhaul of the EU's sustainability reporting directives. What followed was a year of debates, diverging proposals and unprecedented political alliances. The sustainability Omnibus (or Omnibus I) was eventually approved by the European Parliament in December 2025. While some have welcomed the simplification and anticipate productivity gains for corporates, we believe the impact will be less positive for European banks.

An Omnibus to streamline EU sustainable reporting directives

So, what does the first Omnibus actually change? It targets three sustainable reporting policies: the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the European Taxonomy.

Using an Omnibus package (the Union's legal mechanism for merging and streamlining multiple regulations), the EU simplified the three policies. However, by doing so, the essence of these has also been altered. In the next section, we review the changes before diving into the impact these will have on European banks.

What changes with the sustainability Omnibus?

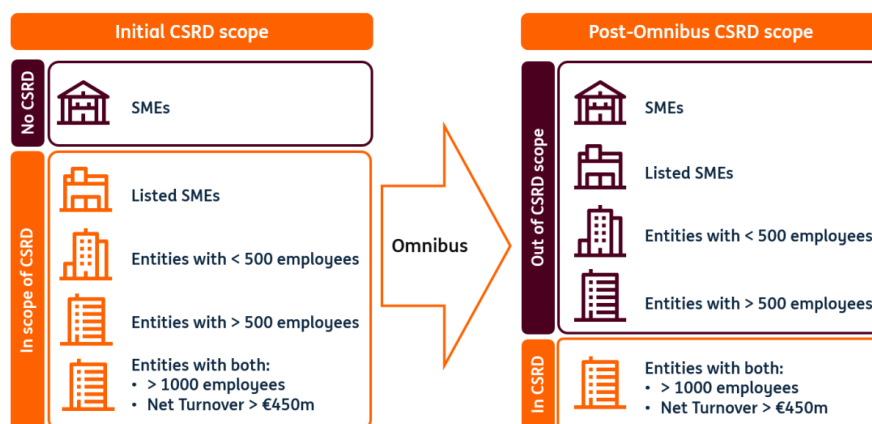
CSRD: A massive scope reduction

The initial proposal by the European Commission introduced an 80% reduction to the CSRD scope. The final text goes further than that, with an estimated staggering scope reduction of 90%. Indeed, the **CSRD will now only include entities with over 1,000 employees and with a net annual turnover of over €450m.**

The revised Directive also introduces new thresholds for non-European entities operating within the Union. Only those generating more than €450million in annual net turnover in the EU will fall within the scope of the CSRD. Subsidiaries and branches of non-European entities will be required to report under the CSRD once they exceed €200million in net turnover generated in the EU.

The graph below summarises the changes compared to the scope that the CSRD was initially supposed to cover.

Reduction of the CSRD scope for EU entities



Source: ING

In addition to the scope reduction, the Omnibus I also introduces changes to (but not exclusively):

- **Data requirements:** a simplification of the framework by reducing the number of data points to collect as well as focusing on quantitative information and deleting sector-specific disclosures (made voluntary). The European Financial Reporting Advisory Group (EFRAG), in charge of drafting the new European Sustainability Reporting Standards (ESRS), submitted

its proposal to the Commission at the end of last year. The Commission now has until June 2026 to finalise the simplified set of reporting standards.

- **The value chain cap threshold** has been raised to protect companies with less than 1,000 employees from having to provide information to larger business partners (that are required to report their sustainability information). The protection of smaller companies is a negative for banks as they inherently rely on their clients' data to build their own sustainability reporting, but we will come back to this in the section focusing on the impact on banks.

CSDDD: A delayed implementation

The final sustainability Omnibus also introduces significant changes to the CSDDD scope by drastically reducing it to **only include entities with over 5,000 employees and a net annual turnover of over €1.5bn**. The financial threshold also applies to non-European entities operating in the EU. Importantly, **the revision delays the implementation of the Directive until 26 July 2029**.

In addition to these two changes, the CSDDD review also alters the essence of the initial Directive which aimed to increase supply chain transparency. Indeed, European entities remaining in scope of the CSDDD will not have to disclose information on their entire supply chain but instead only identify and disclose violation risks detected. Also, the changes specify that companies should request information from entities not in scope only when the data cannot be obtained in another way.

Aside from the scope reduction and the inclusion of a risk-based analysis of the value chain, the Omnibus I also (among other things):

- **Removes** the requirement to establish **transition plans**
- **Removes** the European-level **civil liability clause**
- Implements a **maximum fine of 3%** of the entity's net worldwide turnover in case of infringements.

European Taxonomy: simplified reporting and materiality threshold

The European Taxonomy is also impacted and simplified by the sustainability Omnibus.

However, as it is enforced at the Union level through the Taxonomy Disclosures, Climate and Environmental Delegated Acts, the legislative process differed from the CSRD and CSDDD.

The Commission published an initial proposal in July 2025 after which the Parliament and Council had six months to review it. This period ended at the beginning of January, and the Commission officially published and applied the new rules as of 1 January 2026. That being said, entities have the option to introduce these changes in 2027 (for the financial year 2026), giving them a year to introduce the changes in their reporting.

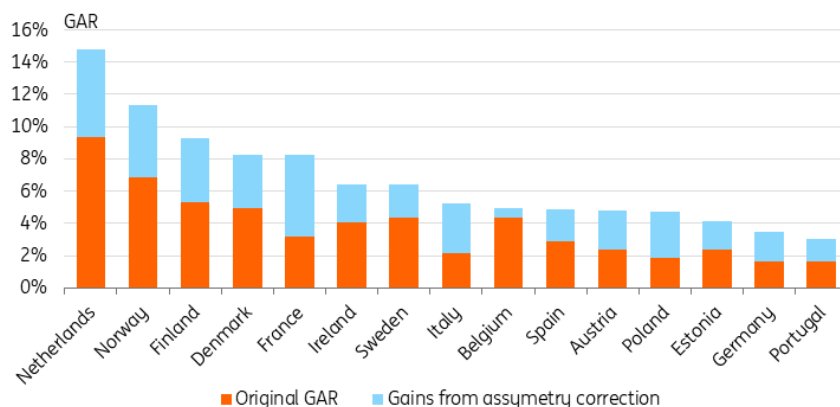
The text includes five main changes to the original Delegated Act:

- **Introduction of a materiality threshold:** Activities representing less than 10% of the entity's net turnover, CapEx and OpEx are considered "non-material" and are exempted from Taxonomy eligibility and alignment assessment. However, those should be reported separately as "non-material". The Commission justifies the materiality threshold as a tool to allow undertakings to focus on the most significant part of their activity.
- **Operational expenditure exemption:** When the operational expenditure (OpEx) KPI is

immaterial for the entity's business model, the undertaking is exempted from assessing Taxonomy eligibility and alignment for the KPI. Instead, it is only required to report the total value of operational expenditure without any further assessment.

- Simplification for financial institutions:** KPIs for financial undertakings (such as the Green Asset Ratio (GAR)) will exclude, from the denominator, exposure to entities falling out of scope of the sustainability reporting requirements. The GAR asymmetry has been a central criticism since the start of its enforcement as it mathematically brought down the results. The significant reduction of the CSRD scope and consequent adjustment of the denominator should resolve that issue. However, we don't expect the change to significantly improve the average GAR result. Indeed, using banks' Pillar 3 disclosures from end-2024, our calculation shows less than a three percentage point increase in banks' GAR on average. Dutch banks would see the largest increase in average GAR with a 5.5 percentage point gain. The delegated act also contains the exclusion from the denominator: derivatives, cash and cash equivalents, on-demand bank loans, goodwill and commodities. The inclusion of trading book KPIs and Fees and Commission KPI is postponed until 2028. **The reviewed Delegated Act also allows financial undertakings not to disclose the detailed Taxonomy templates until 31 December 2027.** Instead, banks can, during the period, publish a statement indicating that they do not claim that their activities are associated with environmentally sustainable activities under the EU Taxonomy.

The GAR asymmetry correction is expected to have only a limited impact on results



Source: ING

- Reporting template simplification:** The Delegated Act lays out a simplified reporting template reducing the number of data points from 78 to 28 or a 64% reduction for non-financial entities and 89% for financial undertakings. It also introduces the removal of the separate annex on the performance and exposures to the fossil gas and nuclear activities.
- Do No Significant Harm simplification:** The text also introduces the simplification of the DNSH criteria for pollution prevention and control related to chemicals. However, it only targets those technical screening criteria but does not change the ones related to the objectives of climate change mitigation and adaptation. The Commission plans to further review the European Taxonomy in the second quarter of 2026. Additional changes to the DNSH criteria are therefore expected this year.

While these changes simplify Taxonomy disclosures, the largest impact stems from the reduction

of the enforcement scope. Indeed, Taxonomy disclosures are mandatory for all entities falling under the Corporate Sustainability Reporting Directive (CSRD).

Following the major scope reduction of the CSRD introduced with the sustainability Omnibus, **only entities with over 1,000 employees and a net annual turnover above €450m will be required to disclose their Taxonomy eligibility and alignment.**

What does it mean for banks?

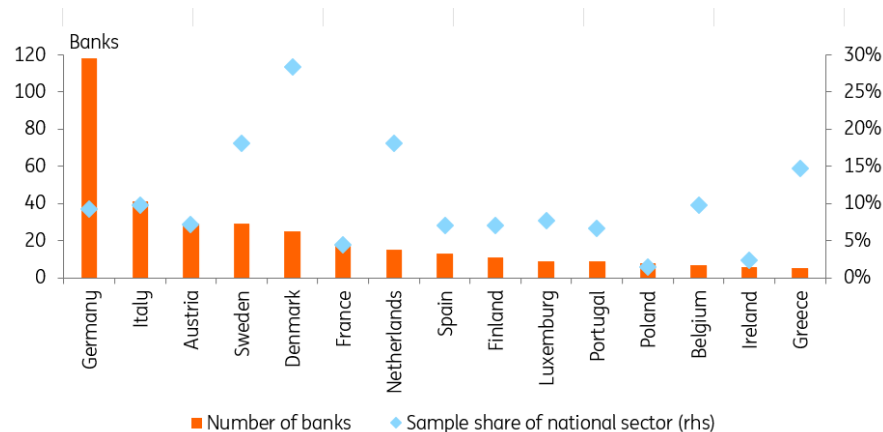
The Omnibus I was introduced with the aim of simplifying reporting and allowing corporates and financial institutions to boost productivity. However, in this section, we review the various ways this will affect EU banks and highlight what we see as (at best) ambiguous impacts for the sector. We identify three main impacts: (1) smaller banks falling out of scope, (2) lower data availability and (3) regulatory discrepancies.

Smaller banks falling out of scope

Starting with the change of the enforcement threshold, we estimate the number of credit institutions that would be exempt from the CSRD and Taxonomy disclosures.

To do so, we compiled a sample of over 340 banks from 15 EU Member States. It includes both globally significant institutions (under the direct supervision of the European Central Bank) and smaller banks (supervised by their national regulator). Despite some variations, on average, our sample captures just above 10% of all financial institutions nationally.

Number and share of banks included in our sample



Source: ING

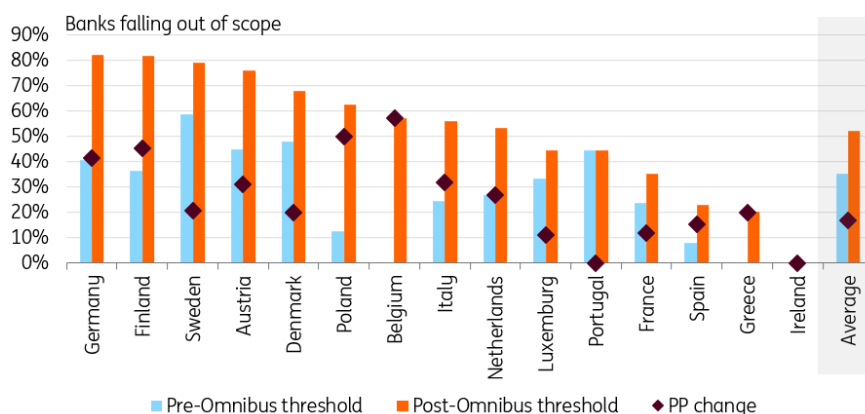
For each financial institution, we collected data on the number of employees and the latest net turnover metric available (revenue for banks). Using the thresholds adopted in the sustainability Omnibus, we estimated the number and share of banks that will fall out of scope of the CSRD and consequently also of the European Taxonomy disclosures.

When the legislative process for the sustainability Omnibus started, the first wave of disclosures was already in place. It included all entities with over 500 employees. Looking at our sample, it implies that nearly 220 banks were already in scope and had to disclose both the CSRD and ESRS in 2025 (for the financial year 2024). Consequently, about 35% of our sample was already outside the

scope of the CSRD before the Omnibus proposal.

Unsurprisingly, this share increases significantly with the new threshold. On average, now about 52% of the sample falls out of the Directive’s scope. More importantly, this share rises to 80% of the national sample of banks in countries like Germany, Finland and to over 70% in Sweden and Austria. This reflects the structural characteristics of these jurisdictions, where the banking sectors are made up of a large number of smaller institutions. This contrasts with other jurisdictions such as Ireland, Greece, Spain and France, where the banking sector mostly comprises larger institutions. Therefore, these countries see their share of banks not required to disclose remain below the 50% mark.

Share of banks falling out of scope of the CSRD



The massive reduction of the CSRD scope will therefore directly benefit banks that were included in the first wave of enforcement but are now falling out of scope of the disclosures. These institutions will see their reporting burden drop. For the smaller financial institutions that were going to start reporting with the second implementation wave, this also results in a reduction in their reporting requirements and puts an end to a year of regulatory uncertainty.

That being said, for banks still in scope, this will have the opposite impact by complicating compliance through more complex data collection. We further discuss this point in the next section.

More complex data collection

Considering that banks inherently rely on their client’s data for their own sustainability disclosure, the significant scope reduction will adversely affect institutions still reporting. Research estimates that only about 6,000 companies will still be required to disclose their sustainable information under the CSRD following the Omnibus. This represents a 92% drop from the initial scope of the Directive.

While corporates that are not required to report on their ESG data can still do so through voluntary disclosures, the change implies that the bulk of banks’ corporate clients will not have to gather or share their information. That is specifically true as the ‘value chain cap’ protects any entity not in scope of the CSRD from being forced to disclose information to any business partner requesting it (thus including banks).

In the event that the banks' clients are collecting and willing to share data gathered through the voluntary disclosure framework, this doesn't ensure that it will cover all necessary data points and can imply major disparities between disclosures in terms of both data points collected and the reporting quality.

To address this, banks have two solutions: Firstly, they can develop bilateral agreements with their clients to gather and share the necessary data points. However, considering the data collection cost for clients, it remains difficult to imagine this as a viable solution.

Secondly, financial institutions could make use of more proxies in their report to compensate for the lack of data from their clients. While this solution would offer the benefit of limiting costs, the current state of the Directive limits the use of such proxies. To be a realistic option, the regulator should review and loosen those limits to allow a broader use of these methods. Additionally, relying on proxies could raise questions about the reliability of the data, as it would not accurately reflect the true state of banks' books.

To conclude, even if some corporates may still choose to voluntarily collect and disclose ESG data, the sustainability Omnibus increases the reporting complexity for banks still in scope. This could translate into both higher costs and lower quality disclosures.

Regulatory discrepancies

The finalisation of the Omnibus I answers questions related to the enforcement scope after a year of legislative uncertainty. However, it raises new questions for banks.

It is now clear that most banks will not have to disclose their ESG data under the CSRD. It is also certain that institutions still in scope will have to disclose fewer data points and that reporting standards will be simplified by mid-2026. That being said, the simplification did not affect all ESG disclosures that credit institutions are subject to.

Indeed, under the Capital Requirement Regulation (CRR), banks are also required to disclose sustainability-related information. More specifically, the Pillar 3 reporting requires banks to collect and share a significant amount of ESG data. Unlike the CSRD and the Taxonomy, these requirements were not part of the sustainability Omnibus and therefore not subject to any simplification yet.

The European Banking Authority (EBA) proposed some changes to the Pillar 3 requirements and launched a consultation in 2025 with the aim of aligning Pillar 3 disclosures with the Omnibus package, reflecting the scope reduction. While the consultation concluded, the EBA hasn't implemented changes to reflect the Omnibus simplification, at this point in time.

Banks are therefore left stuck between a rock and a hard place with, on one side, fewer and simplified requirements and on the other side, unchanged regulations. As long as a discrepancy between the various ESG disclosures exists, banks will have to collect the same amount of ESG data. This occurs while banks receive less information from their clients - and when data is provided, it is often of lower quality.

A successful simplification or a baby thrown out with the bathwater?

Our analysis of the sustainability Omnibus points to ambiguous impacts on the European banking sector. While the smaller financial institutions will benefit from falling (or remaining) out of scope of the CSRD and Taxonomy, those remaining in scope will not see this as a positive.

The main channel through which the Omnibus I will negatively affect banks still in scope of the sustainable disclosure is the data quality and availability. As the overwhelming majority of corporates are now out of scope of ESG reporting requirements, banks will not have access to these necessary data points.

In addition to the difficulty of gathering the data, one may question the quality of the information still available and shared, especially through entities' voluntary disclosures. Overall, this will have a negative impact on bank reporting both in terms of cost and quality of the final disclosures.

While the reporting burden related to the CSRD and Taxonomy might be lowered through the simplification, banks are still subject to other regulatory requirements, also including ESG data points.

These regulations have not been simplified yet and don't reflect the changes brought by the Omnibus I. Therefore, banks are faced with heightened discrepancies between ESG requirements - all while having reduced access to clients' data. The EBA suggested changes to its Pillar 3 requirements to adjust to the Omnibus and lower the discrepancies, but the finalisation will still take time.

While the existing versions of the CSRD and the European Taxonomy were far from perfect, one can question whether the changes brought by the sustainability Omnibus will really benefit financial institutions. More importantly, these changes have, in several respects, altered the very essence and original purpose of the Directives. While the CSRD and the Taxonomy were designed to channel greater investment towards sustainable activities, the extent to which that objective survives this wave of simplification is now open to question. Did the Commission succeed in simplifying the overly complex ESG disclosure requirements or did it throw out the baby with the bathwater?

Author

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Bank bond supply in 2026: Still riding the wave

Next year's EUR bank bond supply is expected to stay high, though likely below the 2025 total. We've identified several variables that will weigh on issuance levels in 2026



2025 bank bond supply in review

EUR bank bond issuance increased slightly in 2025, with full year issuance expected to reach €435bn by the end of the year. On a year-to-date basis, issuance stands just above €415bn, about €20bn above the 2024 YTD supply level. However, trends vary depending on the segment of the liability structure.

Covered bond issuance stands at €153bn in 2025 YTD (including benchmark, sub-benchmark, and floating-rate notes), just €3bn below last year's level. This slight shortfall is offset by the senior unsecured segment where we note the most supply growth. Issuance reached €206bn YTD, up €18bn versus 2024. The main driver is the senior non-preferred segment (senior bail-in or HoldCo notes), which climbed to €137bn, €24bn higher than last year. In contrast, senior preferred issuance fell to €69bn, down €5bn YTD.

Given the increase in senior unsecured supply, and issuers' clear preference for senior bail-in instruments, we adjusted the split of expected supply within the segment. We therefore raised our forecast for senior non-preferred issuance to €140bn while reducing senior preferred to €72bn.

Bank capital issuance has also accelerated, reaching €57bn YTD, up €6bn from 2024 YTD. We have adjusted full-year estimates upward to €38bn for Tier 2 and €25bn for AT1 segments.

Euro-denominated Tier 2 supply is running at €35bn year-to-date, broadly aligned with last year’s €34bn at this time of the year and just below the full year 2024 figure of €36.5bn. We are on track for another decade-high this year: we forecast Tier 2 supply to reach €38bn this year. Strong issuance has been supported by a sharp rise in redemptions – just under €13bn higher than last year – combined with accommodative market conditions.

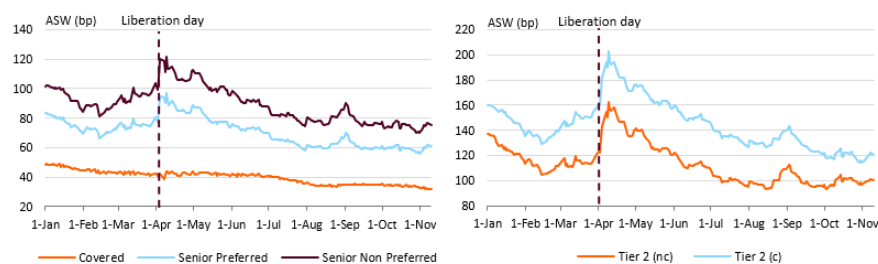
Euro-denominated AT1 issuance is running at €22bn YTD, clearly ahead of €17.3bn last year at this time of the year and ahead of the full year 2024 figure of €20bn. We believe the very strong supply reflects a combination of drivers: namely the relatively large redemptions in 2025-26, the very strong demand for bank capital, and the tight reset spread levels. In our view, banks have been taking a slightly more conservative approach to redemptions due to the uncertainty of the outlook, including geopolitical and political risk factors.

If spread conditions remain favourable, we could see a few additional deals as banks position for next year. However, we believe most institutions have largely completed their capital plans for this year. We had expected capital issuance to remain high in 2025, but the realised supply has clearly surpassed our original estimate of €15bn for this year. With limited further activity, we expect the full year figure to land at closer to €25bn this year, with a clearly net positive supply picture.

Overall, the EUR bank bond primary market remained very active this year despite several factors that could have dampened supply. While the end of the ECB’s Targeted Longer-Term Refinancing Operations III (TLTRO-III) supported issuance in 2024, the shift from central bank funding to bond markets no longer provided support in 2025. The main reason issuance did not decline was the rise in redemptions, which drove bond supply higher throughout the year.

This year has been marked by numerous geopolitical developments, at times triggering volatility in financial markets. The most notable one for bank bonds was the US announcement of import tariffs in early April. Despite a quick recovery afterwards, “Liberation Day” triggered a sudden widening in bank bond spreads in the senior unsecured and Tier 2 segments, with the latter widening up to 40bp.

Covered, senior unsecured and Tier 2 bonds iBoxx index performance over 2025



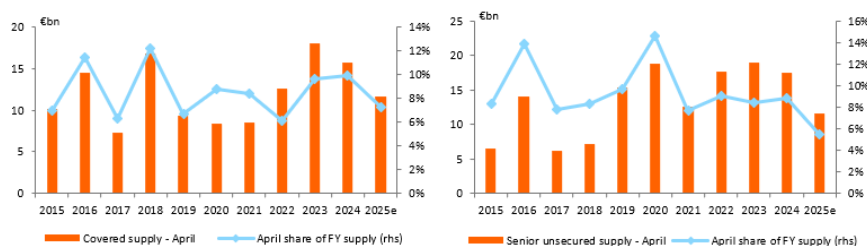
Source: ING, IHS Markit

Although markets have swiftly recovered and spread levels are now approaching historically tight levels, the import tax announcement initially weighed on issuance. This was particularly evident in April, when primary market activity declined. Covered bond issuance accounted for less than 8% of the projected full-year supply during the fourth month, marking a two percentage-point drop compared to the previous two years. A similar trend was observed in the senior unsecured

segment, where April issuance represented under 6% of the expected 2025 total, versus the 9% average recorded over the past three years.

That said, we believe the significant volatility in April likely served as a reminder to issuers of how quickly conditions can change if markets begin to fully price in the numerous risk factors. This may have contributed to the very strong issuance, particularly across riskier segments, once markets calmed again.

Covered and senior unsecured bond supply shows issuance drop following 'Liberation Day'



Source: ING

Despite a series of interest rate cuts by the ECB, EU GDP growth remained sluggish in 2025, with 1.6% growth in the first quarter and expected growth of less than 1% in the last two quarters of the year. The absence of an economic growth miracle in Europe did not translate into a negative impact on bank bond supply this year.

Nevertheless, the combination of tighter spreads, sustained investor demand, and elevated redemption volumes helped keep overall bank bond issuance at a robust level throughout 2025.

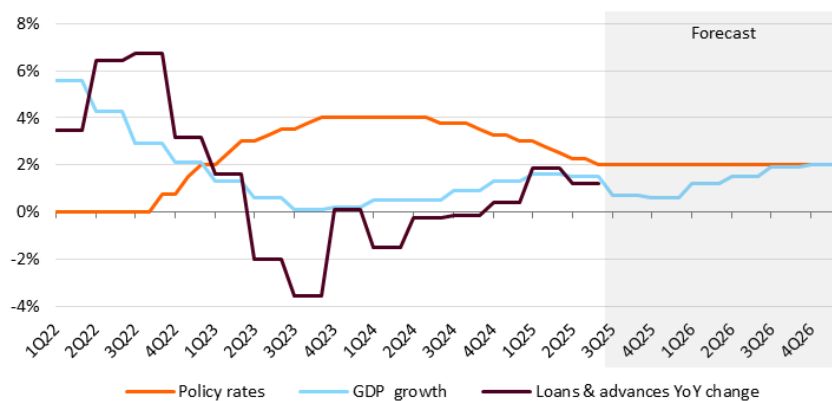
Variables affecting bank bond supply in 2026

These points explain this year's supply, but what can we expect for next year? Overall, we foresee bank bond issuance remaining high over 2026, but not more than what we have seen this year. Our full year estimate is €420bn. Before diving into the split of issuance per segment, the following section explores the main variables affecting next year's supply.

1 Modest macroeconomic and stable monetary policy outlooks

The ECB has announced three rate cuts so far this year, bringing policy rates to 2% from 3% at the start of 2025. Our economists don't foresee further rate cuts this year or in 2026. That being said, despite this year's effort to revitalise the economy, our economists anticipate GDP growth remaining below 1% until the end of the year. They foresee a gradual pickup resulting from this year's easing, noticeable as of the second half of 2026. In our view, this could support a further pick-up in lending growth next year, aided by interest rates remaining at lower levels. Consequently, **the macroeconomic and monetary policy outlook will only be a slight positive driver for bank bond supply in 2026.**

Policy rates, GDP and bank lending growth



Source: ING, ECB, EBA

2 Increase in bond redemptions

While macroeconomic variables are expected to provide only a modest positive influence on bank bond supply, **the overall increase in bank bond redemptions will likely remain the primary driver of elevated issuance levels.** In fact, total redemptions are set to reach their highest level in five years.

Covered Bonds:

Redemptions are projected to rise by €20bn to €155bn in 2026 and climb further to €180bn in 2027.

Senior Unsecured:

Redemptions will increase by €30bn, reaching €172bn in 2026.

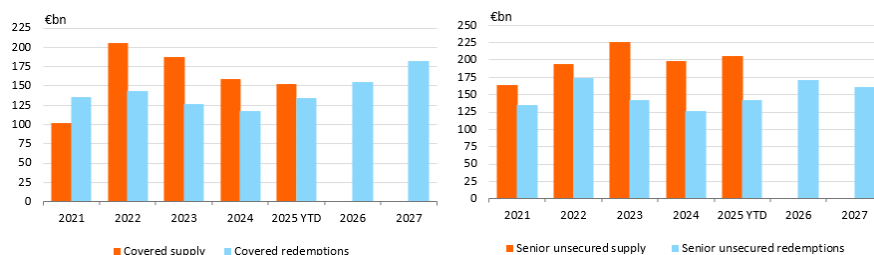
Bank Capital:

After nearly doubling between 2024 and 2025, capital redemptions will stabilise at €36bn in 2026 and €42bn in 2027. Next year's breakdown includes €27bn in Tier 2 bonds and €10bn in AT1 instruments.

Unlike the large shift seen in 2025, euro-denominated Tier 2 redemptions will remain high but steady in 2026 and 2027. In 2026, €26bn will reach effective maturity, with €18bn set to hit the call date, down from €30bn (€21bn callable) in 2025. In 2027, €29bn is set to mature, including €23bn in callable paper.

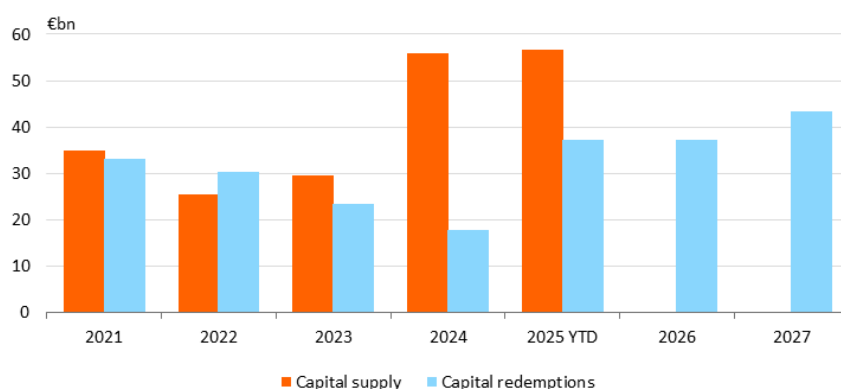
AT1 redemptions based on first calls will remain relatively stable across 2025–2027, with 2026 slightly lower. In 2025, €13.5bn reached first call dates, and banks called an additional €1.7bn of previously extended AT1 debt, bringing total redemptions to just over €15bn. For 2026, first call redemptions are expected to reach €12bn (with €9.6bn still outstanding after tenders), rising to €13.6bn in 2027.

Covered and senior unsecured bond redemptions will continue to increase in 2026



Source: ING

Bank capital redemptions will however plateau in 2026

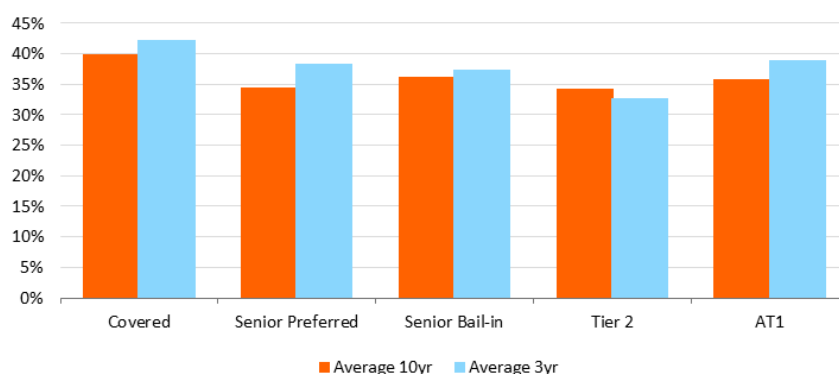


Source: ING

3 Spread environment

Over the last decade, banks have preferred to issue over the first quarter of the year. This is true for all segments of the liability structure. Historical data shows that the first quarter of the year represents, on average, nearly 37% of the full-year supply. This trend has intensified over recent years. Looking at the three-year average, we note that the first quarter of the year represented nearly 40% of the total supply. This number is even higher when looking at covered bonds, with the first three months making up 43.5% of the full year supply.

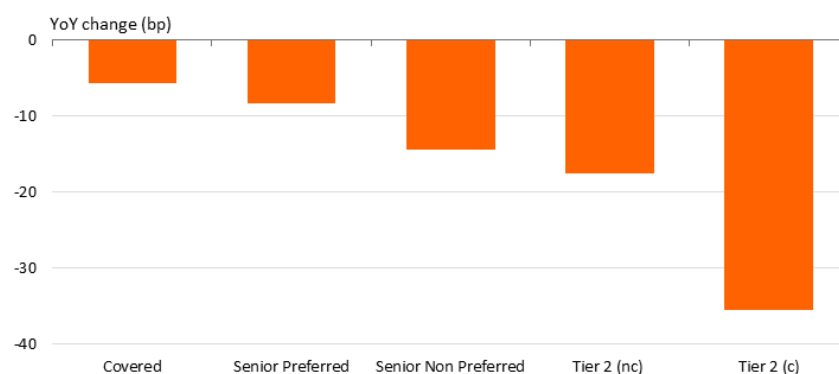
Average share of full year supply issued over the first quarter of the year per segment



Source: ING

Despite the volatility seen in April, spreads have fully recovered and are now trading near historically low levels, even amid rising geopolitical uncertainty. Over the past year, all segments of the liability structure have tightened, with the most pronounced moves in callable Tier 2 instruments.

Year-on-year spread changes show significant tightening across the liability structure



Source: ING, IHS Markit

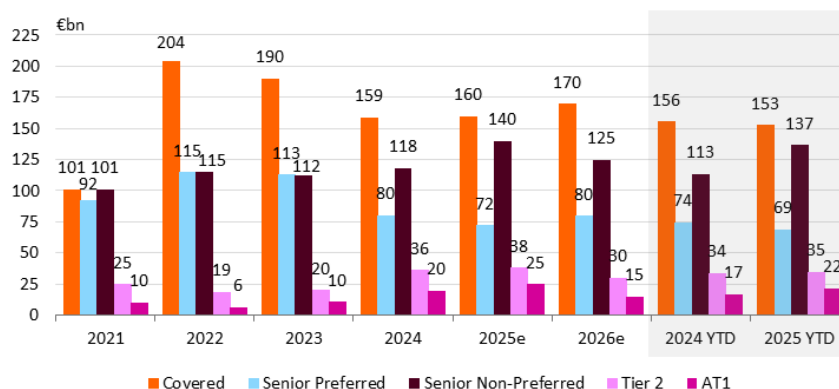
We expect liability structure spread compression to once again drive a strong supply focus on capital instruments and senior bail-in bonds at the beginning of next year. However, spread volatility and a potential shift in investor demand could impact the supply dynamics later in the year.

Overall, we expect banks to remain active in the EUR bank bond market, with issuance plateauing in 2026. We foresee total supply at approximately €420bn across the liability structure next year, with elevated redemption volumes continuing to be the primary driver of significant supply.

Our 2026 bank bond supply expectations

We expect banks to continue to ride the wave with bond supply remaining at very high level, reaching €420bn in 2026. This is split between €170bn in covered bonds, comprising about €165bn in benchmark size issuances and another €5bn in sub-benchmark and floating rate notes. We expect senior unsecured issuance to reach €205bn in 2026 with €80bn in senior preferred bonds and €125bn in senior non-preferred issuances. Lastly, Tier 2 supply is foreseen to reach €30bn while the AT1 segment is expected to stand at €15bn.

Bank bond supply forecast for 2026



Source: ING

Covered bond supply picking up due to higher redemptions

We forecast that covered bond issuance will pick up, to reach €170bn in 2026. That represents a €10bn increase compared to the 2025 full year estimate. The expected increase mainly stems from the significant rise in redemptions in both 2026 and 2027. Indeed, redemptions will increase by €20bn to €155bn in 2026 and reach €180bn in 2027. Concurrently, repayments to the CBPP3 are set to decline from €42bn in 2025 to €32bn in 2026. This makes the CBPP3 adjusted net supply technicalities less negative. A further pick-up in mortgage lending growth against the backdrop of lower interest rate levels is expected to support covered bond issuance volumes.

Senior unsecured issuances to mark a slight decline

We expect senior unsecured bond supply to ease slightly to €205bn in 2026. This will include €80bn in the senior preferred segment, up €8bn from this year's expected €72bn. The increase is primarily driven by €13bn in additional redemptions in 2026 and further supported by a shift in issuance from senior bail-in to the preferred segment.

Conversely, senior non-preferred issuance is forecasted to slow to €125bn in 2026, down from €140bn in 2025. Following the past year's spread tightening, we see limited scope for further outperformance in senior bail-in bonds. While spread volatility remains a possibility, a persistently compressed spread environment could also redirect investor demand toward the upper tiers of the liability structure. Moreover, the heavy issuance at the end of this year likely reflects issuers' prefunding of 2026 supply, which will weigh on next year's volumes. Therefore, despite higher redemptions, we expect senior bail-in issuance to remain high, though below 2025 levels.

Capital issuances to decline

We expect Tier 2 issuance to remain active next year, and we forecast another €30bn to be printed. This issuance will likely be driven by a combination of factors, including somewhat lower redemptions, prefunding activity, and banks continuing to reach for more efficient capital layers. While our forecast for 2026 is lower than 2025, issuance should still remain historically elevated. In fact, outside of 2024–2025, €30bn would represent the highest annual level in over a decade.

For AT1, we forecast issuance of €15bn in 2026, slightly below the volumes seen in 2024 and 2025. We expect banks to refinance upcoming redemptions, and the ongoing shift towards more efficient capital layers should create additional room for AT1 issuance. A tender and a new deal combination is likely to remain part of the toolkit.

ING's bank bond issuance estimates (€bn)

(€bn)	FY2022	FY2023	FY2024	FY2025F	FY2026F	2024 YTD	2025 YTD
Covered bonds	204	190	159	160	170	156	153
<i>Covered redemptions</i>	143	126	117	134	155		
Bank senior unsecured bonds	230	225	198	212	205	188	206
<i>Preferred senior unsecured</i>	115	113	80	72	80	74	69
<i>Bail-in senior unsecured</i>	115	112	118	140	125	113	137
<i>Senior unsecured redemptions</i>	174	142	127	142	172		
Bank subordinated bonds	25	30	56	63	45	51	57
<i>Tier 2 debt</i>	19	20	36	38	30	34	35
<i>Additional Tier 1 debt</i>	6	10	20	25	15	17	22
<i>Bank capital redemptions</i>	31	24	18	37	37		
Total bank supply	459	445	413	435	420	394	415

Source: ING

Author

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Banks stick to ESG bonds, EU GBS yet to gain traction

ESG bond supply from banks is expected to hold steady in 2026 at around €80bn. However, the uptake of the EU Green Bond Standard is expected to remain limited ahead of the review of the EU Taxonomy's technical screening criteria



Bank ESG supply is expected to hold steady in 2026

Steady ESG issuance by banks amid limited EU GBS adoption

Banks continued to issue sustainable bonds at a robust pace in 2025, despite the diminishing regulatory support for ESG.

They issued €68bn in sustainable debt in 2025 YTD, which is close to the volumes issued over the same period last year. The comparable ESG print to last year resembles the roughly similar total bank bond supply volumes versus 2024.

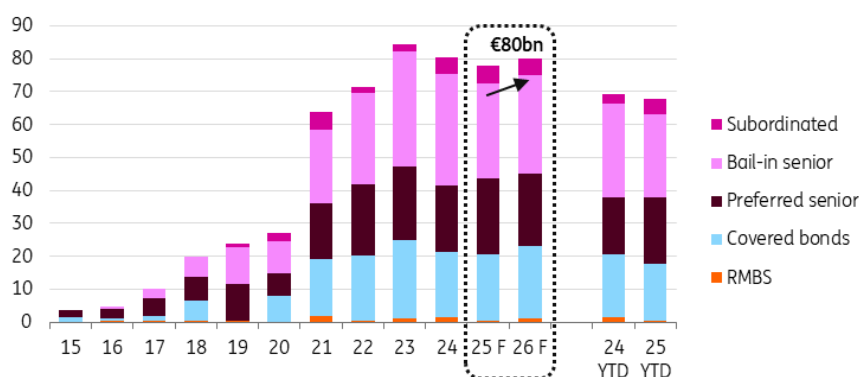
Sustainable issuance maintained a solid pace due to the growth in sustainable loan portfolios and the increase in sustainable debt redemptions. Asset availability made issuers sufficiently comfortable with tagging the ESG label to their supply, despite the arguably limited added value of doing so from an execution point of view or a greenium perspective.

Banks issued slightly more in unsecured and subordinated instruments and slightly less in secured

debt, but the differences versus last year are truly negligible. The distribution across green and social is also roughly comparable to last year, albeit with slightly more issuance in sustainability format, with a combined green and social use of proceeds. Also, one sustainability-linked loan bond (SLLB) added to the YTD ESG supply in euros.

Sustainable bank bond supply will be slightly up in 2026

(€bn)



Source: IGM, ING

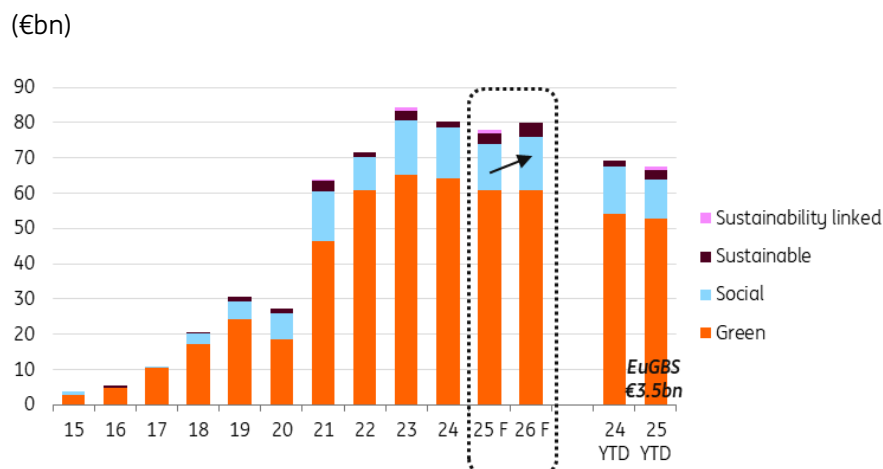
Includes only EUR bank bonds with a minimum size of €250m

Sustainable bank bond supply is projected to finish 2025 close to the €80bn issued last year. Looking ahead, issuance is expected to remain steady, at around €80bn in 2026, supported by a modest rise in overall bank bond issuance.

Europe's focus on the competitiveness and simplification agenda could cause the bond market's supply focus to drift slightly away from the ESG theme. However, with few constraints seen on the asset availability side, we expect banks to continue to print some 20% of their EUR supply in sustainable format. Particularly when faced with market uncertainty, banks will rely more on sustainable issuance as a means of ensuring sufficient investor demand in the primary market.

Bonds will remain the main source of sustainable financing, regardless of the additional bank offerings of deposits or commercial paper for the same purpose.

Green issuance remains stable while social issuance picks up a little



Source: IGM, ING

Includes only EUR bank bonds with a minimum size of €250m

Lending growth and ESG redemptions support green issuance

The current state of bank sustainable asset portfolios provides a solid foundation for ESG issuance in 2026. Positive lending growth against the backdrop of improving macroeconomic conditions will also support the origination of new sustainable assets.

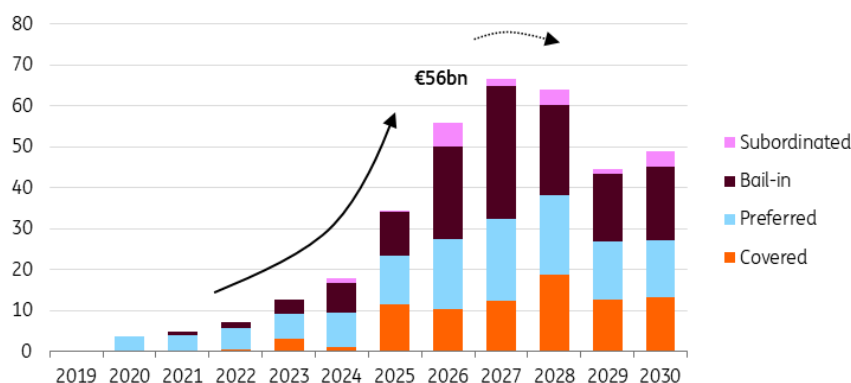
The financing of climate change mitigation remains the dominant objective for green bond issuance, with green buildings, renewable energy projects and clean transportation as the most important use of proceeds categories. Green portfolio growth from the financing of other environmental objectives, such as climate change adaptation or the circular economy, is expected to remain muted.

Some 20% of the projected sustainable bond issuance will be directed to social projects, with issuance in unsecured format tilted towards employment generation and access to essential services, and issuance in covered bond format towards social housing.

Additionally, EUR ESG redemptions for banks are set to increase from €36bn in 2025 to €56bn in 2026. Although factors such as look-back periods, stricter use-of-proceeds criteria, or loan repayments since issuance may limit the full sustainable refinancing of maturing bonds, a portion of the freed-up assets will be available for new issuance.

Sustainable bank bond redemptions rise to €56bn in 2026

(€bn)



Source: IGM, ING

Includes only EUR bank bonds with a minimum size of €250m

Not all is negative from a regulation point of view

Europe's efforts to simplify its sustainability disclosures regime for companies could slightly shift banks' attention away from identifying sustainable loans on their balance sheets and from the necessity to originate new sustainable loans.

The Omnibus I package proposed by the European Commission in February this year reduces the disclosure scope of the Corporate Sustainability Reporting Directive (CSRD) to large companies with more than a thousand employees (instead of 250) and a net turnover of €50m or €25m in total assets. It also provides for an opt-in clause for Taxonomy disclosures for companies with less than €450m turnover. The European Parliament's legal affairs committee recently reached a compromise advocating a scope reduction to 1000 employees and a €450m turnover, also applicable to Taxonomy disclosures.

The reduced disclosure scope raises the bar for banks to gather ESG information from clients, facilitating the identification of loans as sustainable on their balance sheet. On top of that, the Omnibus I package results in a two-year postponement in the CSRD disclosure requirements for non-listed large companies and listed SMEs, while the revisions to the European Sustainability Reporting Standards (ESRS) will significantly lower the future disclosures to be made.

Besides, smaller-sized credit institutions will fall outside the disclosure scope themselves. Unless they opt in to provide voluntary disclosures, they will have less incentive to identify, for instance, taxonomy-aligned loans on their balance sheet. The impact thereof on ESG bond issuance should be modest, though. The balance sheet size of most of these institutions was probably already too small to set aside sufficient sustainable assets for the issuance of green or social bonds.

Despite the simplification efforts on the ESG side, it is important to bear in mind that most large institutions will remain within the CSRD reporting scope and have set net-zero pathways, committing them to a further greening of their balance sheet. The same will also apply to banks that may fall out of scope in the future, but have already made all the preparatory efforts for the CSRD disclosures.

Implemented regulatory changes in the field of the Energy Performance of Buildings Directive (EPBD) will also support an ongoing focus on the renovation and greening of the building stock in the decades to come. In addition, the European Commission is set to publish its first European Affordable Housing Plan later this year, which may provide future impetus for the origination of affordable housing loans.

Issuance under the EuGBS fails to impress

Banks did not jump massively on the opportunity to start issuing bonds under the EU Green Bond Standard (GBS) in 2025. Only three European banks used Europe’s ‘golden standard’ for their green supply for a total amount of €3.5bn.

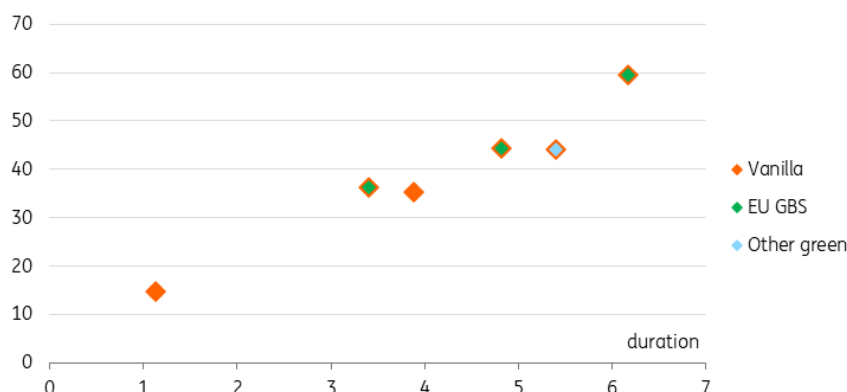
With the EuGBS - in principle - requiring full taxonomy alignment, its take-up is set to remain low in 2026. Even though the EU Taxonomy’s technical screening criteria for substantial contribution are broadly embedded in the green bond frameworks, full taxonomy alignment often remains a soft ‘best effort’ commitment.

The advocated reductions in the scope of ESG disclosures, the postponements in Taxonomy alignment reporting, the lack of clarity on certain interpretations related to the EuGBS legal text (especially for issuers utilising the portfolio approach), and the upcoming review of the Taxonomy’s technical screening criteria will probably contribute to a wait-and-see approach by banks.

Moreover, the deals issued so far under the EU GBS lack convincing funding advantages versus incumbent ICMA-aligned green bond structures. The secondary curve of one of the issuers that issued bonds according to the EU GBS illustrates that all three EU green bonds are quoted at wider spread levels than the other conventional and green preferred senior bonds of the bank. Whilst recognising that this effect may have other reasons for causality, this hardly encourages issuers to go the extra mile for EuGB issuance.

Issuance under the EU GBS does not result in tighter spread levels

(ASW, bp)



Source: IHS Markit, ING

Takes the preferred senior unsecured curve of one EU green bond issuer as an example

Sustainability-linked & transition labelled issuance remains niche

The issuance of sustainability-linked bonds (SLBs) also remains virtually non-existent in the banking segment. The incompatibility of step-up coupon features linked to sustainability KPIs, with the eligibility for banks' minimum requirements for own funds and eligible liabilities (MREL), has prevented bank SLB issuance from taking off.

Bond issuance with the purpose of financing sustainability-linked loans (SLLBs) bypasses these difficulties as the KPIs and step-up/-down features are set at the level of the sustainability-linked loans. Yet also the issuance of SLLBs remains a scarcity so far, with only one bank issuing them in the EUR market so far, of which €1bn this year. Apart from that, very few banks have an SLLB framework in place, despite the ICMA's Sustainability-Linked Loans financing Bond Guidelines (SLLBG) of June 2024.

Having said that, regardless of the watering down of Europe's sustainability disclosure framework, the transition planning and client engagement efforts of banks could promote more sustainability-linked loan origination. The issuance volumes in SLLBs should nonetheless be expected to stay low in 2026. Equally, given the contentiousness of the transition label (targeting, for instance, hard-to-abate sectors or 'brown-to-green' activities), any transition bond issuance should not be expected from the banking sector.

Author

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Bank Outlook 2026: Bank funding and exposures in motion

Our team examines the rapid expansion of NBFIs and the rising risks this poses for banks, the evolving role of AT1 capital, and how the EU's securitisation overhaul could reshape funding strategies



Author

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

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