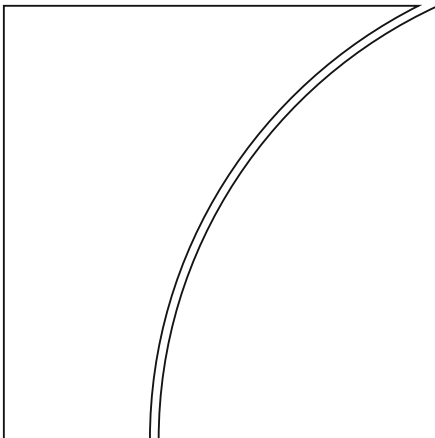


# Basel Committee on Banking Supervision



## **Results of the Basel III monitoring exercise as of 30 June 2012**

March 2013



BANK FOR INTERNATIONAL SETTLEMENTS



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ISBN 92-9131-924-4 (print)

ISBN 92-9197-924-4 (online)



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# Results of the Basel III monitoring exercise as of 30 June 2012

## Executive summary

To ascertain the impact on banks of the Basel III framework that was published in December 2010 and revised in June 2011,<sup>1</sup> the Basel Committee on Banking Supervision<sup>2</sup> monitors the impact of the Basel III framework in order to gather full evidence on its dynamics. For this purpose, a semi-annual monitoring framework has been set up on the risk-based capital ratio, the leverage ratio, and the liquidity metrics using data collected by national supervisors on a representative sample of institutions in each jurisdiction. This report is the third publication of results of the Basel III monitoring exercise<sup>3</sup> and summarises the aggregate results using data as of 30 June 2012. The Committee believes that the information contained in the report will provide the relevant stakeholders with a useful benchmark for analysis.

Information considered for this report was obtained by data submissions of individual banks to their national supervisors on a voluntary and confidential basis. A total of 210 banks participated in the study, including 101 Group 1 banks and 109 Group 2 banks.<sup>4</sup> Members' coverage of their banking sector is very high for Group 1 banks, reaching 100% coverage for some jurisdictions, while coverage is comparatively lower for Group 2 banks and varied across jurisdictions. The Committee appreciates the significant efforts contributed by both banks and national supervisors to this ongoing data collection exercise. The report focuses on the following items, assuming the assets as of 30 June 2012 would be subject to the Basel III standards:

- Changes to bank capital ratios under the new requirements, and estimates of any capital deficiencies relative to fully phased-in minimum and target capital requirements (to include capital charges for global systemically important banks – G-SIBs);
- Changes to the definition of capital that result from the new capital standard, referred to as common equity Tier 1 (CET1), including a reallocation of deductions to CET1, and changes to the eligibility criteria for Additional Tier 1 and Tier 2 capital;
- Increases in risk-weighted assets resulting from changes to the definition of capital, securitisation, trading book and counterparty credit risk requirements;
- The Basel III leverage ratio; and
- One of the Basel III liquidity standards – the net stable funding ratio (NSFR).

<sup>1</sup> Basel Committee on Banking Supervision, *Basel III: A global framework for more resilient banks and the banking system*, December 2010 and revised June 2011; *Basel Committee on Banking Supervision, Basel III: International framework for liquidity risk measurement, standards and monitoring*, December 2010; Basel Committee on Banking Supervision, *Results of the comprehensive quantitative impact study*, December 2010. These documents are available at [www.bis.org/bcbs/basel3.htm](http://www.bis.org/bcbs/basel3.htm).

<sup>2</sup> The Basel Committee on Banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent Secretariat is located.

<sup>3</sup> Previous public reports were published in April 2012, based on data as of 30 June 2011, and in September 2012, based on 31 December 2011 data. See Basel Committee on Banking Supervision, *Results of the Basel III monitoring exercise as of 30 June 2011*, April 2012 ([www.bis.org/publ/bcbs217.htm](http://www.bis.org/publ/bcbs217.htm)) and Basel Committee on Banking Supervision, *Results of the Basel III monitoring exercise as of 31 December 2011*, September 2012 ([www.bis.org/publ/bcbs231.htm](http://www.bis.org/publ/bcbs231.htm)).

<sup>4</sup> Group 1 banks are those that have Tier 1 capital in excess of €3 billion and are internationally active. All other banks are considered Group 2 banks.

With the exception of the transitional arrangements for non-correlation trading securitisation positions in the trading book, this report does not take into account any transitional arrangements such as phase-in of deductions and grandfathering arrangements. Rather, the estimates presented assume full implementation of the final Basel III requirements based on data as of 30 June 2012.<sup>5</sup> No assumptions have been made about banks' profitability or behavioural responses, such as changes in bank capital or balance sheet composition, since this date or in the future. For this reason, the results are not comparable to current industry estimates, which tend to be based on forecasts and consider management actions to mitigate the impact, and incorporate estimates where information is not publicly available.

## Key results

### Capital shortfalls

Assuming full implementation of the Basel III requirements as of 30 June 2012, including changes to the definition of capital and risk-weighted assets, and ignoring phase-in arrangements, Group 1 banks would have an overall shortfall of €3.7 billion for the CET1 minimum capital requirement of 4.5%, which rises to €208.2 billion for a CET1 target level of 7.0% (ie including the capital conservation buffer); the latter shortfall also includes the G-SIB surcharge according to the update published by the Financial Stability Board in November 2012 where applicable.<sup>6</sup> As a point of reference, the sum of profits after tax prior to distributions across the same sample of Group 1 banks between 1 July 2011 and 30 June 2012 was €379.6 billion.

Compared to the previous report, the aggregate CET1 shortfall with respect to the 4.5% minimum for Group 1 banks has improved – it is €8.2 billion or 68.7% lower than previously. At the CET1 target level of 7.0% (plus the surcharges on G-SIBs as applicable), the aggregate CET1 shortfall for Group 1 banks has also improved – it is €175.9 billion or 45.8% lower than previously. The revised G-SIB surcharges did not change significantly the amount of the shortfalls.

Under the same assumptions, the capital shortfall for Group 2 banks included in the Basel III monitoring sample is estimated at €4.8 billion for the CET1 minimum of 4.5% and €16.0 billion for a CET1 target level of 7.0%. The sum of Group 2 bank profits after tax prior to distributions in 2011 was €22.9 billion.

Further details on additional capital needs to meet the Basel III requirements are included in Section 2.

### Capital ratios

Compared to the current regulatory framework, the average CET1 ratio under the Basel III framework would decline from 10.8% to 8.5% for Group 1 banks and from 10.9% to 9.0% for Group 2 banks. The Tier 1 capital ratios of Group 1 banks would decline, on average from 12.0% to 8.7% and total capital ratios would decline from 14.4% to 9.9%. As with the CET1 ratios, the decline in other capital ratios is comparatively less pronounced for Group 2 banks; Tier 1 capital ratios would decline on average from 11.4% to 9.5% and total capital ratios would decline on average from 14.7% to 11.3%.

<sup>5</sup> The new rules for counterparty credit risk are not fully accounted for in the report, as data for capital charges for exposures to central counterparties (CCPs) have not been captured in reported results.

<sup>6</sup> See Financial Stability Board, *Update of group of global systemically important banks (G-SIBs)*, 1 November 2012 ([www.financialstabilityboard.org/publications/r\\_121031ac.pdf](http://www.financialstabilityboard.org/publications/r_121031ac.pdf)).

## Regulatory adjustments to capital

As in the previous report, regulatory adjustments to Group 1 CET1 capital are driven mainly by goodwill and deferred tax asset (DTA) deductions (ie the combined full deduction of DTA arising from other than temporary timing differences and the partial deduction of DTA arising from temporary timing differences that exceed the 10% threshold). Regulatory adjustments to Group 2 CET1 capital result primarily from goodwill and investments in financial companies.

## Changes in risk-weighted assets

As compared to current risk-weighted assets, total risk-weighted assets increase on average by 16.1% for Group 1 banks under the Basel III framework. This increase is driven largely by charges against credit valuation adjustment risk, trading book exposures, and securitisation exposures (principally those risk-weighted at 1250% under the Basel III framework that were previously 50/50 deductions under Basel II).<sup>7</sup> Banks that have significant exposures in these areas influence the average increase in risk-weighted assets heavily. As Group 2 banks are less affected by the revised counterparty credit risk and trading book standards, these banks experience a comparatively smaller increase in risk-weighted assets of only 8.4%. Even within this sample, higher risk-weighted assets are attributed largely to Group 2 banks with counterparty and securitisation exposures (ie those subject to a 1250% risk weighting). As discussed in Section 4.1, the increase in risk-weighted assets contains certain estimates pertaining to trading book exposures for banks that have already adopted the Basel 2.5 enhancements.

## Leverage ratio

The average Basel III Tier 1 leverage ratio for all banks is 3.8%, for Group 1 banks it is 3.7%, and for Group 2 banks the average is 4.4%.

## Liquidity standards

The LCR has recently been revised by the Committee<sup>8</sup> and will be introduced as planned on 1 January 2015. The minimum requirement will be set at 60% and rise in equal annual steps to reach 100% in 2019. Given these revisions, precise LCR results could not be calculated based on the data collected as of June 2012. However, LCR results will be presented in the report on December 2012 data.

The NSFR is currently subject to an observation period which includes a review clause to address any unintended consequences prior to their respective implementation dates of 1 January 2018. Basel III monitoring results for the end-June 2012 reporting period give an indication of the impact of the calibration of the standards based on the December 2010 text and highlight several key observations:

- A total of 101 Group 1 and 108 Group 2 banks participated in the liquidity monitoring exercise for the end-June 2012 reference period.
- The weighted average NSFR for the Group 1 bank sample is 99% for Group 1 banks, compared to 98% at both the June and December 2011 reporting dates. For Group 2 banks, the average NSFR was 100%, compared to 95% as of June 2011 and 99% as of December 2011. The aggregate shortfall of stable funding is €2.4 trillion.

<sup>7</sup> See Section 3.1 for further information.

<sup>8</sup> Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013 ([www.bis.org/publ/bcbs238.pdf](http://www.bis.org/publ/bcbs238.pdf)).

## 1. General remarks

At its 12 September 2010 meeting, the Group of Governors and Heads of Supervision (GHOS), the Committee's oversight body, announced a substantial strengthening of existing capital requirements and fully endorsed the agreements it reached on 26 July 2010.<sup>9</sup> These capital reforms, together with the introduction of two international liquidity standards, delivered on the core of the global financial reform agenda presented to the Seoul G20 Leaders summit in November 2010. Subsequent to the initial comprehensive quantitative impact study published in December 2010, the Committee continues to monitor and evaluate the impact of these capital, leverage and liquidity requirements (collectively referred to as "Basel III") on a semi-annual basis. The first public report was published in April 2012, based on data as of 30 June 2011, and the second public report on 31 December 2011 data was published in September 2012.<sup>10</sup> This report summarises results of the latest Basel III monitoring exercise using 30 June 2012 data.<sup>11</sup>

### 1.1 Scope of the monitoring exercise

All 27 Committee member jurisdictions participated in the Basel III monitoring exercise as of 30 June 2012. The estimates presented are based on data submitted by the participating banks to their national supervisors in reporting questionnaires and in accordance with the instructions prepared by the Committee in February 2012.<sup>12</sup> The questionnaire covered components of eligible capital, the calculation of risk-weighted assets (RWA), the calculation of a leverage ratio, and components of the liquidity metrics. The final data were submitted to the Secretariat of the Committee in November 2012.

The purpose of the exercise is to provide the Committee with an ongoing assessment of the impact on participating banks of the capital and liquidity proposals set out in the following documents:

- *Revisions to the Basel II market risk framework*<sup>13</sup> and *Guidelines for computing capital for incremental risk in the trading book*;<sup>14</sup>
- *Enhancements to the Basel II framework*<sup>15</sup> which include the revised risk weights for re-securitisations held in the banking book;
- *Basel III: A global framework for more resilient banks and the banking system* as well as the Committee's 13 January 2011 press release on loss absorbency at the point of non-viability;<sup>16</sup>

<sup>9</sup> See the 26 July 2010 press release "The Group of Governors and Heads of Supervision reach broad agreement on Basel Committee capital and liquidity reform package" ([www.bis.org/press/p100726.htm](http://www.bis.org/press/p100726.htm)) and the 12 September 2010 press release "Group of Governors and Heads of Supervision announces higher global minimum capital standards" ([www.bis.org/press/p100912.htm](http://www.bis.org/press/p100912.htm)).

<sup>10</sup> See Basel Committee on Banking Supervision, *Results of the Basel III monitoring exercise as of 30 June 2011*, April 2012 ([www.bis.org/publ/bcbs217.htm](http://www.bis.org/publ/bcbs217.htm)) and Basel Committee on Banking Supervision, *Results of the Basel III monitoring exercise as of 31 December 2011*, September 2012 ([www.bis.org/publ/bcbs231.htm](http://www.bis.org/publ/bcbs231.htm)).

<sup>11</sup> The data for Japan are as of the end of September 2011, as banks in that country report on a biannual basis as of the end of March and the end of September to correspond to the fiscal year-end period. Further, the data for Canada reflect a reporting date of 31 October 2011, which corresponds to Canadian banks' fiscal fourth-quarter end.

<sup>12</sup> See Basel Committee on Banking Supervision, *Instructions for Basel III implementation monitoring*, February 2012 ([www.bis.org/bcbs/qis/](http://www.bis.org/bcbs/qis/)).

<sup>13</sup> Basel Committee on Banking Supervision, *Revisions to the Basel II market risk framework*, July 2009 ([www.bis.org/publ/bcbs158.htm](http://www.bis.org/publ/bcbs158.htm)).

<sup>14</sup> Basel Committee on Banking Supervision, *Guidelines for computing capital for incremental risk in the trading book*, July 2009 ([www.bis.org/publ/bcbs159.htm](http://www.bis.org/publ/bcbs159.htm)).

<sup>15</sup> Basel Committee on Banking Supervision, *Enhancements to the Basel II framework*, July 2009 ([www.bis.org/publ/bcbs157.htm](http://www.bis.org/publ/bcbs157.htm)).

- *International framework for liquidity risk measurement, standards and monitoring*,<sup>17</sup> and
- *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement* as well as the updated list of G-SIBs published by the Financial Stability Board in November 2012.<sup>18</sup>

## 1.2 Sample of participating banks

A total of 210 banks participated in the study, including 101 Group 1 banks and 109 Group 2 banks. Group 1 banks are those that have Tier 1 capital in excess of €3 billion and are internationally active. All other banks are considered Group 2 banks. Banks were asked to provide data as of 30 June 2012 at the consolidated level. Subsidiaries are not included in the analyses to avoid double counting.

Table 1 shows the distribution of participation by jurisdiction. For Group 1 banks members' coverage of their banking sector was very high reaching 100% coverage for some jurisdictions. Coverage for Group 2 banks was comparatively lower and varied across jurisdictions.

Not all banks provided data relating to all parts of the Basel III framework. Accordingly, a small number of banks are excluded from individual sections of the Basel III monitoring analysis due to incomplete data. In certain sections, data are based on a consistent sample of banks. This consistent sample represents only those banks that reported necessary data at the June 2011 (labelled "H1 2011"), December 2011 ("H2 2011") and June 2012 ("H1 2012") reporting dates, in order to make more meaningful period-to-period comparisons.

<sup>16</sup> The Committee's 13 January 2011 press release on loss absorbency at the point of non-viability is available at [www.bis.org/press/p110113.htm](http://www.bis.org/press/p110113.htm).

<sup>17</sup> Basel Committee on Banking Supervision, *Basel III: International framework for liquidity risk measurement, standards and monitoring*, December 2010 ([www.bis.org/publ/bcbs188.htm](http://www.bis.org/publ/bcbs188.htm)).

<sup>18</sup> Basel Committee on Banking Supervision, *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*, November 2011 ([www.bis.org/publ/bcbs207.htm](http://www.bis.org/publ/bcbs207.htm)); Financial Stability Board, *Update of group of global systemically important banks (G-SIBs)*, 1 November 2012 ([www.financialstabilityboard.org/publications/r\\_121031ac.pdf](http://www.financialstabilityboard.org/publications/r_121031ac.pdf)).

Number of participating banks		Table 1
	Group 1	Group 2
Argentina	0	2
Australia	4	1
Belgium	1	2
Brazil	2	0
Canada	6	2
China	6	0
France	5	5
Germany	8	25
Hong Kong SAR	0	7
India	5	5
Indonesia	0	2
Italy	2	11
Japan	13	4
Korea	5	3
Luxembourg	0	1
Mexico	0	7
Netherlands	3	16
Russia	0	1
Saudi Arabia	3	0
Singapore	3	0
South Africa	3	3
Spain	2	3
Sweden	4	0
Switzerland	2	4
Turkey	6	0
United Kingdom	5	5
United States	13	0
<b>Total</b>	<b>101</b>	<b>109</b>

### 1.3 Methodology

Unless otherwise noted, the impact assessment was carried out by comparing banks' capital positions under Basel III to the current regulatory framework implemented by the national supervisor.<sup>19</sup> With the exception of transitional arrangements for non-correlation trading securitisation positions in the trading

<sup>19</sup> Although banks in the United States are currently subject to Basel I capital requirements, most submitted data for this exercise on a Basel II basis. Banks in China report on a Basel I basis.

book,<sup>20</sup> Basel III results are calculated without considering transitional arrangements pertaining to the phase-in of deductions and grandfathering arrangements.

Reported average amounts in this document have been calculated by creating a composite bank at a total sample level, which effectively means that the total sample averages are weighted. For example, the average common equity Tier 1 capital ratio is the sum of all banks' common equity Tier 1 capital for the total sample divided by the sum of all banks' risk-weighted assets for the total sample. Similarly, the average Tier 1 leverage ratio is the sum of all banks' Tier 1 capital for the total sample divided by the sum of all banks' leverage ratio exposures for the total sample.

To maintain confidentiality, many of the results shown in this report are presented using box plot charts. The median value is represented by a thick horizontal line, with 50% of the values falling in the range shown by the box. In contrast to the presentation in previous reports, the upper and lower end points of the thin vertical lines show the range of the entire sample unless noted otherwise.

To estimate the impact of implementing the Basel III framework on capital, comparisons are made between those elements of Tier 1 capital which are not subject to a limit under the national implementation of Basel I or Basel II, and CET1 under Basel III.

## 1.4 Data quality

For this monitoring exercise, participating banks submitted comprehensive and detailed non-public data on a voluntary and best-efforts basis. As with the previous studies, national supervisors worked extensively with banks to ensure data quality, completeness, and consistency with the published reporting instructions. Banks are included in the various analyses that follow only to the extent they were able to provide sufficient quality data to complete the analyses.

Data quality has improved significantly throughout the iterations of the Basel III monitoring exercise, although it is still the case that some differences across banks could be attributed to differing interpretations of the standards, rather than underlying differences in risk.

## 1.5 Interpretation of results

The following caveats apply to the interpretation of results shown in this report:

- When comparing results to prior reports, sample differences as well as minor revisions to previous periods' data need to be taken into account.
- A number of countries represented in the sample adopted Basel 2.5 revisions pertaining to market risk exposures at the beginning of 2011 (Switzerland) or during 2011 (EU countries and Singapore). Banks in other countries such as Australia, Canada, Hong Kong, Japan, Korea and South Africa have begun reporting charges for market risk exposures under Basel 2.5 beginning with this report. Therefore, "current" capital requirements reflect Basel 2.5 implementation for most countries in the sample.
- The new standards for counterparty credit risk are not fully accounted for in the report, as banks have not been asked to provide data for capital charges for exposures to central counterparties (CCPs).
- The actual impact of the new requirements will almost surely be lower than shown in this report given the phased-in implementation of the standards and interim adjustments made by the

<sup>20</sup> For non-correlation trading securitisations in the trading book, capital charges are calculated as the larger of the capital charge for net long or net short positions. After 31 December 2013, the charge for these positions will change to the sum of capital charges for net long and net short positions.

banking sector to changing economic conditions and the regulatory environment. For example, the results do not consider bank profitability, changes in capital or portfolio composition, or other management responses to the policy changes since 30 June 2012 or in the future. For this reason, the results are not comparable to industry estimates, which tend to be based on forecasts and consider management actions to mitigate the impact, as well as incorporate estimates where information is not publicly available.

- The Basel III capital amounts shown in this report assume that all common equity deductions are fully phased in and all non-qualifying capital instruments are fully phased out. As such, these amounts underestimate the amount of Tier 1 capital and Tier 2 capital held by a bank as they do not give any recognition for non-qualifying instruments that are actually phased out over nine years.
- The treatment of deductions and non-qualifying capital instruments also affects figures reported in the leverage ratio section. The under-estimation of Tier 1 capital will become less of an issue as the implementation date of the leverage ratio nears. In particular, in 2013, the capital amounts based on the capital requirements in place on the Basel III monitoring reporting date will reflect the amount of non-qualifying capital instruments included in capital at that time. These amounts will therefore be more representative of the capital held by banks at the implementation date of the leverage ratio.

## 2. Regulatory capital and capital shortfalls

Table 2 shows the aggregate capital ratios under the current and Basel III frameworks and the capital shortfalls if Basel III were fully implemented ("view 2022"), both for the definition of capital and the calculation of risk-weighted assets, as of June 2012.

	Fully implemented requirement, in per cent		Capital ratios, in per cent		Capital shortfalls, in billions of euros	
	Minimum	Minimum plus capital conservation buffer	Current	Basel III	Minimum	Minimum plus capital conservation buffer <sup>2</sup>
Group 1						
CET1	4.5	7.0	10.8	8.5	3.7	208.2
Tier 1	6.0	8.5	12.0	8.7	16.2	198.5
Total	8.0	10.5	14.4	9.9	61.8	222.2
Group 2						
CET1	4.5	7.0	10.9	9.0	4.8	16.0
Tier 1	6.0	8.5	11.4	9.5	1.6	7.3
Total	8.0	10.5	14.7	11.3	5.0	12.0

<sup>1</sup> The shortfall is calculated as the sum across individual banks where a shortfall is observed. The calculation includes all changes to risk-weighted assets (eg definition of capital, counterparty credit risk, trading book and securitisation in the banking book). The Tier 1 and total capital shortfalls are incremental assuming the higher tier capital requirements are fully met. <sup>2</sup> The shortfalls including the capital conservation buffer also include the capital surcharges for 28 G-SIBs as applicable.



## 2.1 Capital ratios

As compared to current CET1, the average CET1 capital ratio of Group 1 banks would have fallen by more than one-fifth from 10.8% to 8.5% (a decline of 2.3 percentage points) when Basel III deductions and risk-weighted assets are taken into account. The reduction in the CET1 capital ratio of Group 2 banks is smaller (from 10.9% to 9.0%), which indicates that the new framework has greater impact on larger banks. Results show significant variation across banks as shown in Graph 1.

The reduction in CET1 ratios is driven by the new definition of eligible capital, deductions that were not previously applied at the common equity level of Tier 1 capital in most jurisdictions (numerator), and by increases in risk-weighted assets (denominator). Banks engaged heavily in trading or counterparty credit activities tend to show the largest denominator effects as these activities attract substantively higher capital charges under the new framework.

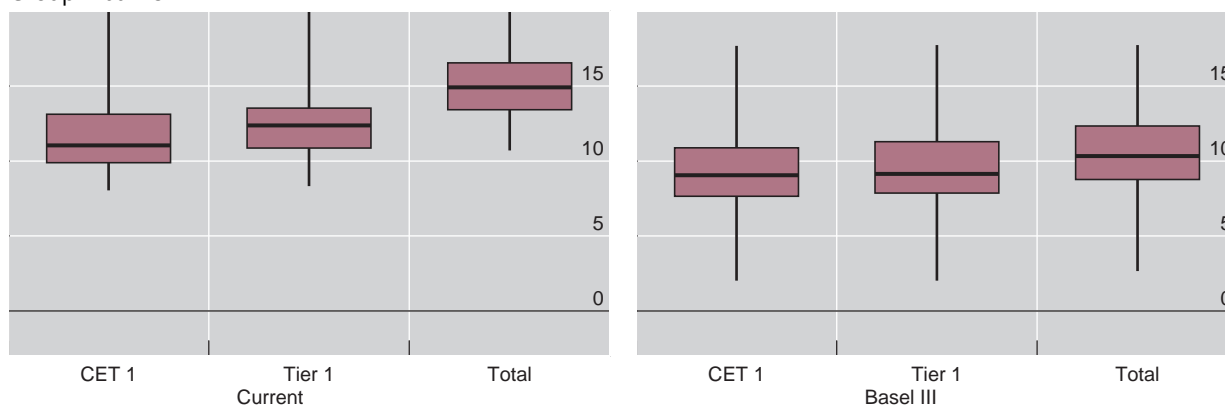
Tier 1 capital ratios of Group 1 banks would on average decline 3.3 percentage points from 12.0% to 8.7%, and total capital ratios of this same group would decline on average by 4.5 percentage points from 14.4% to 9.9%. As with CET1, Group 2 banks show a more moderate decline in Tier 1 capital ratios from 11.4% to 9.5%, and a decline in total capital ratios from 14.7% to 11.3%.

### CET1, Tier 1 and total capital ratios

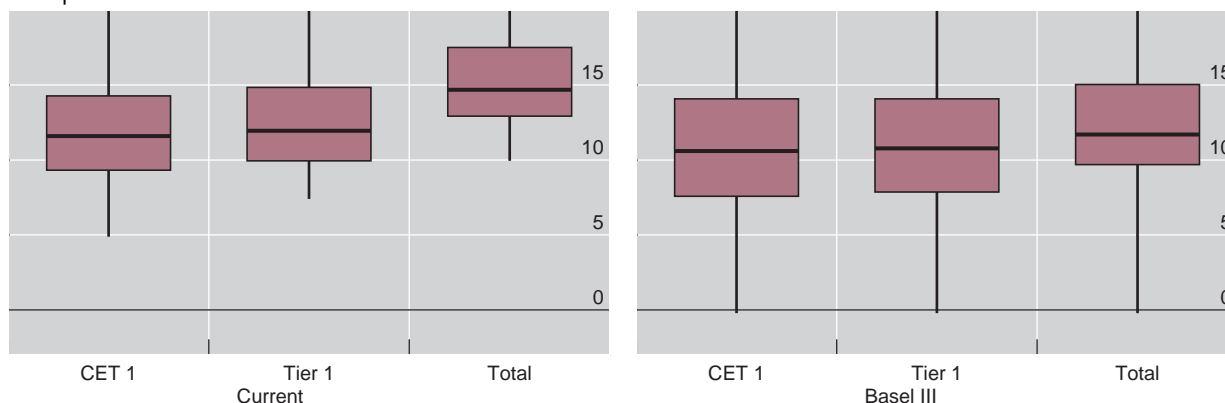
In per cent

Graph 1

#### Group 1 banks



#### Group 2 banks

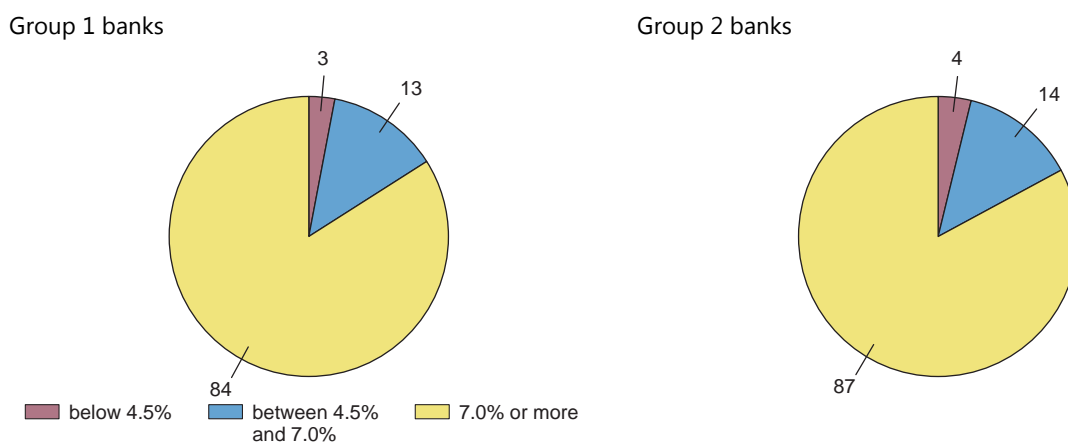


<sup>1</sup> The median value is represented by a thick horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the vertical lines show the range of the entire sample. Some banks with capital ratios above 20% or below 0% are included in the calculation but are not shown in the graph.

Graph 2 shows that out of the 100 banks in the Group 1 sample, 97% show a CET1 ratio under Basel III that is at least equal to the 4.5% minimum capital requirement and 84% show a CET1 ratio above the 7.0% target ratio (ie, the minimum capital requirement plus the capital conservation buffer). Of the 105 banks in the Group 2 sample, 101 (96%) report a CET1 ratio equal to or higher than 4.5%; while 87 banks (83%) also achieve the target of 7.0%.

Distribution of Basel III CET1 ratios

Graph 2



The Basel III framework includes the following phase-in provisions for capital ratios:

- For CET1, the highest form of loss absorbing capital, the minimum requirement will be raised to 4.5% and will be phased-in by 1 January 2015;
- For Tier 1 capital, the minimum requirement will be raised to 6.0% and will be phased-in by 1 January 2015;
- For total capital, the minimum requirement remains at 8.0%;
- Regulatory adjustments (ie possibly stricter sets of deductions that apply under Basel III) will be fully phased-in by 1 January 2018;
- An additional 2.5% capital conservation buffer above the regulatory minimum capital ratios, which must be met with CET1, will be phased-in by 1 January 2019; and
- The additional loss absorbency requirement for G-SIBs, which ranges from 1.0% to 3.5%, will be phased in fully by 1 January 2019. It will be applied as the extension of the capital conservation buffer and must be met with CET1.

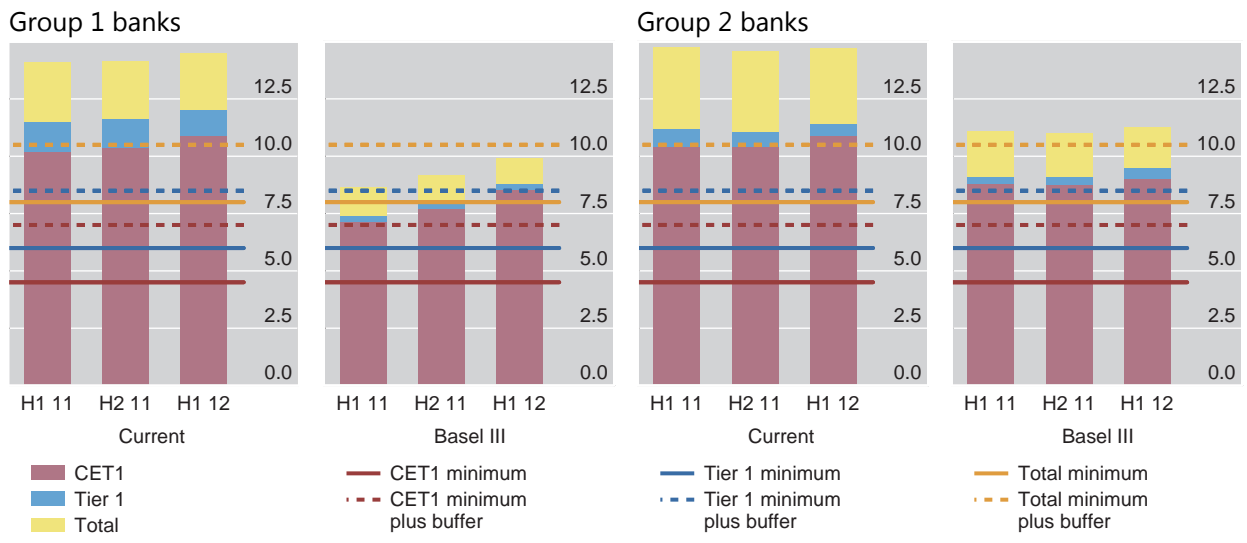
The Annex includes a detailed overview of the Basel Committee's phase-in arrangements.

Graph 3 shows the average capital ratios under the current regime and Basel III for Group 1 and Group 2 banks for the periods end-June 2011, end-December 2011 and end-June 2012. Current capital ratios remained the same or improved only slightly for both Group 1 and Group 2 banks. However, the CET1, Tier 1 and total capital ratios for Group 1 banks under the Basel III framework improved by 1.4, 1.4 and 1.3 percentage points, respectively, over the previous year. For Group 2 banks, there were 0.2, 0.4 and 0.2 percentage point increases in CET1, Tier 1 and total capital ratios, respectively. The general improvement in Basel III capital ratios for both groups is due to Basel III-eligible capital added and to a lesser extent due to lower levels of deductions that reduce CET1.

## Average CET1, Tier 1 and total capital ratios

Consistent sample of banks, in per cent

Graph 3



## 2.2 Composition of capital

Graph 4 shows the composition of total capital for Group 1 and Group 2 banks under the current national regime and after full implementation of Basel III.

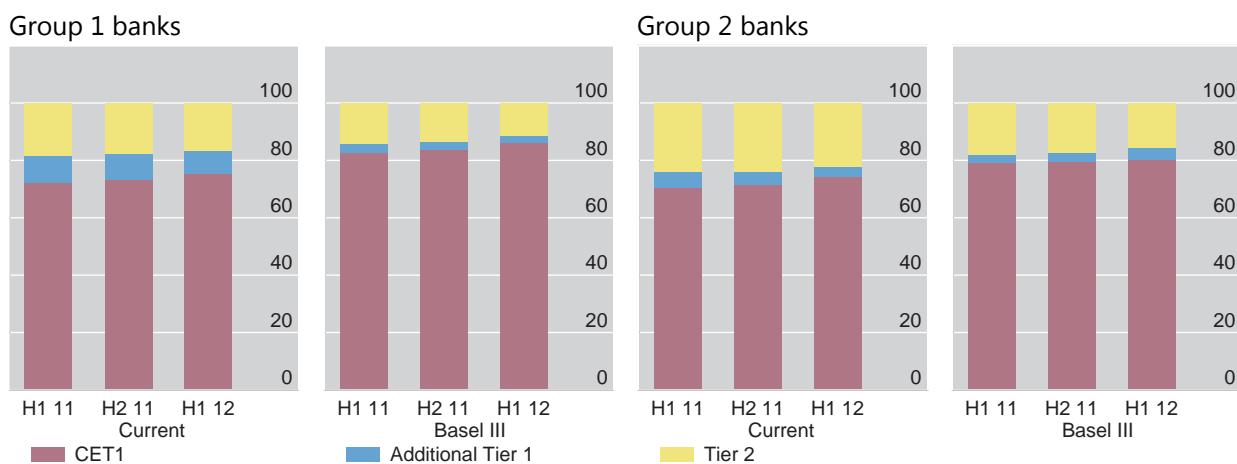
For Group 1 banks, the share of Basel III CET1 to total capital is 86.0%. Additional Tier 1 and Tier 2 capital amount to 2.4% and 11.6% of the total capital of Group 1 banks, respectively. Of the Group 1 bank sample, 67% hold Basel III CET1 representing 90% or more of Basel III total capital. In the Group 2 sample, banks hold a somewhat lower share of CET1 at 80.0% with correspondingly higher shares of additional Tier 1 capital (4.2%) and Tier 2 capital (15.9%). Under the current national regime, the share of CET1 to total capital is lower at 74.9% for Group 1 banks and at 73.9% for Group 2 banks, with correspondingly higher shares of additional Tier 1 and Tier 2 capital.

Regarding the composition of Basel III CET1 capital itself, paid-in capital (46.7% for Group 1 banks and 42.2% for Group 2 banks) and retained earnings (50.3% for Group 1 banks and 51.0% for Group 2 banks) comprises the predominant form of gross CET1 outstanding. Accumulated other comprehensive income (AOCI) makes up a substantial portion of CET1 outstanding in a few countries but only contributes 2.2% to gross CET1 on average for Group 1 banks and 5.2% for Group 2 banks. Meanwhile, total minority interest given recognition in CET1 contributes only 0.8% and 1.7% to outstanding CET1 balances of Group 1 and Group 2 banks, respectively.

## Structure of regulatory capital under the current national regime and Basel III<sup>1</sup>

Consistent sample of banks, in per cent

Graph 4



<sup>1</sup> Any remainder in current columns represents Tier 3 capital.

### 2.3 Capital shortfalls

Graph 5 and Table 2 provide estimates of the amount of capital that Group 1 and Group 2 banks would need based on data as of 30 June 2012 in addition to capital already held at the reporting date, in order to meet the target CET1, Tier 1 and total capital ratios under Basel III assuming fully phased-in target requirements and deductions. Under these assumptions, the CET1 capital shortfall for Group 1 banks with respect to the 4.5% CET1 minimum requirement is €3.7 billion. The CET1 shortfall with respect to the 4.5% requirement for Group 2 banks, where coverage of the sector is considerably smaller, is estimated at €4.8 billion. For a CET1 target of 7.0% (ie the 4.5% CET1 minimum plus the 2.5% capital conservation buffer) plus any capital surcharge for Group 1 G-SIBs as applicable according to the update published by the Financial Stability Board in November 2012,<sup>21</sup> Group 1 banks' shortfall is €208.2 billion and Group 2 banks' shortfall is €16.0 billion. Of the 28 G-SIBs included in this Basel III monitoring exercise, 14 have a shortfall at the CET1 target of 7.0% only if the capital surcharge for G-SIBs is also included. As a point of reference, the aggregate sum of after-tax profits prior to distributions for Group 1 and Group 2 banks in the same sample was €379.6 billion and €22.9 billion, respectively for the period from 1 July 2011 to 30 June 2012.

Assuming the 4.5% CET1 minimum capital requirements were fully met (ie, there were no CET1 shortfalls), Group 1 banks would need an additional €16.2 billion of additional Tier 1 or CET1 capital to meet the minimum Tier 1 capital ratio requirement of 6.0%. Assuming banks already hold 7.0% CET1 capital plus the surcharges on G-SIBs as applicable, Group 1 banks would need an additional €198.5 billion of additional Tier 1 or CET1 capital to meet the Tier 1 capital target ratio of 8.5% (ie the 6.0% Tier 1 minimum plus the 2.5% CET1 capital conservation buffer) plus the surcharges on G-SIBs as applicable, respectively. Group 2 banks would need an additional €1.6 billion and an additional €7.3 billion to meet these respective Tier 1 capital minimum and target ratio requirements.

Assuming CET1 and Tier 1 capital requirements were fully met (ie, there were no shortfalls in either CET1 or Tier 1 capital), Group 1 banks would need an additional €61.8 billion of Tier 2 or higher

<sup>21</sup> The capital surcharges for some G-SIBs differ compared to those used in the previous report because of the application of the updated list. See Financial Stability Board, *Update of group of global systemically important banks (G-SIBs)*, 1 November 2012 ([www.financialstabilityboard.org/publications/r\\_121031ac.pdf](http://www.financialstabilityboard.org/publications/r_121031ac.pdf)).

quality capital to meet the minimum total capital ratio requirement of 8.0% and an additional €222.2 billion of Tier 2 or higher quality capital to meet the total capital target ratio of 10.5% (ie the 8.0% Tier 1 minimum plus the 2.5% CET1 capital conservation buffer) plus the surcharges on G-SIBs as applicable. Group 2 banks would need an additional €5.0 billion and an additional €12.0 billion to meet these respective total capital minimum and target ratio requirements.

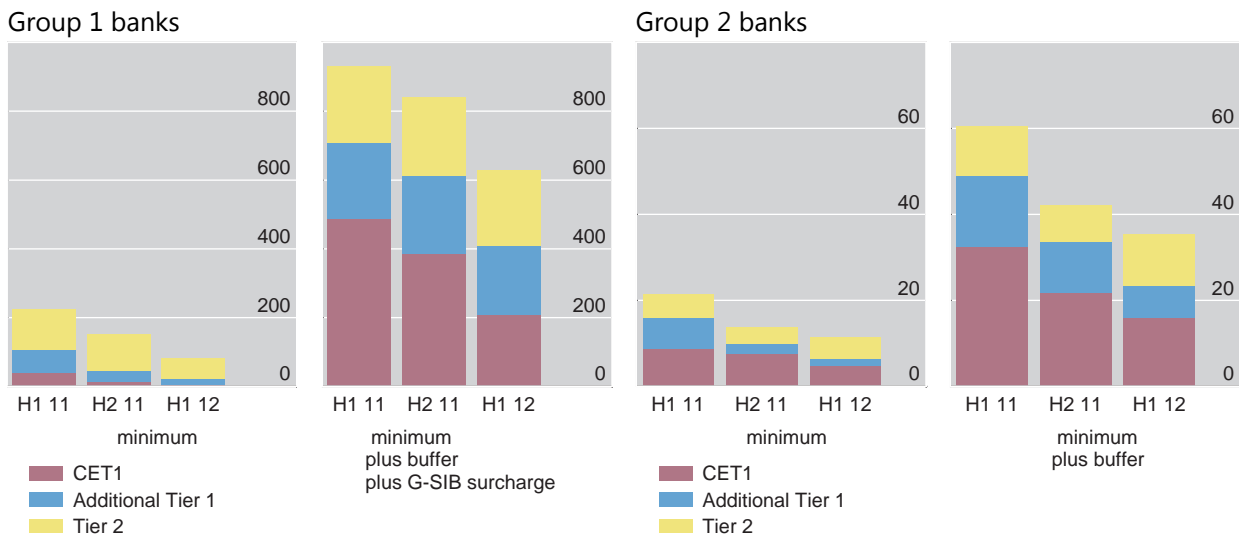
As indicated above, no assumptions have been made about bank profits or behavioural responses, such as changes in balance sheet composition, which will serve to ameliorate the impact of capital shortfalls over time.

Compared to the December 2011 exercise, the aggregate CET1 shortfall with respect to the 4.5% minimum for Group 1 banks has improved – it is €8.2 billion or 68.7% lower than previously. At the CET1 target level of 7.0% plus the surcharges on G-SIBs as applicable, the aggregate CET1 shortfall for Group 1 banks has also improved – it is €175.9 billion or 45.8% lower than previously (see Graph 5). The revised G-SIB surcharges did not change significantly the amount of the shortfalls. Over these six months, the Group 1 banks in the sample raised €31.8 billion of CET1 capital (see Table 3).

### Estimated overall capital shortfalls<sup>1</sup>

In billions of euros, sample and exchange rates as at the reporting dates

Graph 5



<sup>1</sup> The figures for the minimum plus the capital conservation buffer also include the capital surcharge for G-SIBs as applicable. The height of each bar shows the aggregated capital shortfall considering requirements for each tier (ie, CET1, Tier 1, and Total) of capital.

### Capital raised during H1 2012

In billions of euros

Table 3

	Number of banks	Number of banks which raised capital during H1 2012	CET1	Additional Tier 1	Tier 2
Group 1	100	45	31.8	4.2	13.8
Group 2	105	36	3.2	1.5	0.8

## 2.4 Regulatory adjustments to Common Equity Tier 1 capital

As noted above, reductions in capital ratios under the Basel III framework are attributed in part to capital deductions not previously applied at the common equity level of Tier 1 capital in most jurisdictions. Table 4 shows the impact of various regulatory adjustment categories on the gross CET1 capital (ie, CET1 before adjustments) of Group 1 and Group 2 banks.

In the aggregate, regulatory adjustments reduce the gross CET1 of Group 1 banks under the Basel III framework by 26.8%. The largest driver of Group 1 bank deductions is goodwill, followed by combined deferred tax assets (DTAs) deductions,<sup>22</sup> and intangibles other than mortgage servicing rights. These deductions reduce Group 1 bank gross CET1 by 13.5%, 3.6%, and 3.3%, respectively. The category described as other adjustments reduces Group 1 bank gross CET1 by 3.3% and pertain mainly to deductions for provision shortfalls relative to expected credit losses and deductions related to defined benefit pension fund schemes. Holdings of capital of other financial companies reduce the CET1 of Group 1 banks by 1.7%.<sup>23</sup> The category "Excess above 15%" refers to the deduction of the amount by which the aggregate of the three items subject to the 10% limit for inclusion in CET1 capital<sup>24</sup> exceeds 15% of a bank's CET1, calculated after all deductions from CET1. These 15% threshold bucket deductions reduce Group 1 bank gross CET1 by 1.3%. Deductions for MSRs exceeding the 10% limit have no impact on Group 1 CET1 in the aggregate.

Table 4 also compares regulatory adjustments for Group 1 banks with the results of the previous period for those banks which participated in both exercises. Overall, deductions have been reduced by 2.3 percentage points, mainly driven by lower deductions for goodwill and DTAs.

Regulatory adjustments reduce the CET1 of Group 2 banks by 20.1%. Goodwill is the largest driver of deductions for Group 2 banks, followed by holdings of the capital of other financial companies, deductions for intangibles other than mortgage servicing rights, and combined DTAs deductions. These deductions reduce Group 2 bank CET1 by 7.0%, 4.7%, 2.2% and 1.9%, respectively. Other adjustments, which are driven significantly by deductions for provision shortfalls relative to expected credit losses, result in a 3.0% reduction in Group 2 bank gross CET1. Deductions for items in excess of the aggregate 15% threshold basket reduce Group 2 bank gross CET1 by 1.3%. Deductions for mortgage servicing rights above the 10% limit have no impact on Group 2 banks.

<sup>22</sup> That is, both DTAs that are deducted in full under Basel III and DTAs that relate to temporary differences which are only deducted when they exceed the 10% limit.

<sup>23</sup> These holdings include reciprocal cross-holdings in common equity as well as small investments and significant investments in the common equity of other financial institutions where these investments exceed the 10% individual limit.

<sup>24</sup> Significant investments in the common shares of unconsolidated financial institutions, mortgage servicing rights (MSRs), and DTAs.

## CET1 regulatory adjustments as a percentage of CET1 capital prior to adjustments

In per cent

Table 4

	Number of banks	Goodwill	Intangibles	DTAs <sup>1</sup>	Financials	MSRs	DTAs above threshold	Excess above 15% <sup>2</sup>	Other <sup>3</sup>	Total
Group 1 banks	100	-13.5	-3.3	-2.5	-1.7	0.0	-1.1	-1.3	-3.3	-26.8
<i>Change 2012H1 vs 2011H2<sup>4</sup></i>	98	+0.7	+0.1	+0.3	+0.2	0.0	+0.4	+0.3	+0.4	+2.3
Group 2 banks	105	-7.0	-2.2	-0.6	-4.7	0.0	-1.3	-1.3	-3.0	-20.1

<sup>1</sup> DTA is the deferred tax assets that are deducted in full under Basel III (ie it excludes DTAs that are related to temporary differences, which are only deducted when they exceed a threshold). <sup>2</sup> Excess above 15% pertains to significant investments in the common shares of unconsolidated financial institutions, mortgage servicing rights, and DTAs due to timing differences that do not separately exceed the 10% category thresholds but in the aggregate exceed the 15% basket threshold. <sup>3</sup> Other includes deductions related to investment in own shares, shortfall of provisions to expected losses, cash flow hedge reserves, cumulative changes in fair value due to changes in own credit risk, net pension fund assets, securitisation gains on sale and deductions from Additional Tier 1 capital to the extent they exceed a bank's Additional Tier 1 capital. <sup>4</sup> In percentage points based on consistent sample of banks that submitted data for both the December 2011 and June 2012 exercises. A plus symbol indicates an improvement (smaller deduction relative to December 2011) while a negative symbol indicates a deterioration (increased deduction relative to December 2011).

### 3. Changes in risk-weighted assets

#### 3.1 Overall results

Reductions in capital ratios under the Basel III framework are also attributed to increases in risk-weighted assets. Table 5 provides additional detail on the contributors to these increases, to include the following categories:

- **Definition of capital:** These columns measure the change in risk-weighted assets as a result of proposed changes to the definition of capital. The column heading "other" includes the effects of lower risk-weighted assets for exposures that are currently included in risk-weighted assets but receive a deduction treatment under Basel III. The column heading "50/50" measures the increase in risk-weighted assets applied to exposures currently deducted under the Basel II framework that are risk-weighted at 1250% under Basel III, primarily certain securitisation exposures. The column heading "threshold" measures the increase in risk-weighted assets for exposures that fall below the 10% and 15% limits for CET1 deduction;
- **Credit valuation adjustment (CVA) risk:** This column measures the new capital charge for credit valuation adjustment (CVA) risk;
- **Counterparty credit risk (CCR):** This column measures the impact of the higher capital charge that results from applying a higher asset value correlation parameter against exposures to financial institutions under the IRB approaches to credit risk; and the impact of incorporating stressed parameters for effective expected positive exposure (EEPE).<sup>25</sup> Banks have not been

<sup>25</sup> In contrast to the previous reports, this category no longer includes the impact of the CVA capital charge given this is now reported separately. Therefore, the results are not directly comparable to previous reports.

asked to provide data on the risk-weighted asset effects of capital charges for exposures to central counterparties (CCPs).

- **Trading book:** As data from most countries already include the RWA impact of the Basel 2.5 market risk standards, the incremental impact for changes in market RWA shown in these tables has been estimated using the sum of the following elements relative to elements in place under Basel II: the proportion of internally modelled general and specific risk that is attributable to stress value-at-risk, the incremental risk capital charge (IRC), capital charges for the correlation trading portfolio, and capital charges under the standardised measurement method (SMM) for other securitisation exposures and nth-to-default credit derivatives.

The effect of higher capital charges for re-securitisation exposures in the banking book and increased conversion factors for short-term liquidity facilities to off-balance sheet conduits are not considered in these tables given the data are no longer available for all countries. However, prior reports have shown the impact of these charges to be generally small for both Group 1 and Group 2 banks.

Risk-weighted assets for Group 1 banks increase overall by 16.1% for Group 1 banks. This increase is to a large extent attributed to the CVA risk capital charge, which result in an overall increase in total Group 1 bank risk-weighted assets of 5.5%. Higher risk-weighted assets for counterparty credit risk exposures (column "CCR"), predominantly the higher asset value correlation parameter, result in an increase of 1.2%. Trading book exposures and securitisation exposures currently subject to deduction under Basel II, also contribute significantly to higher risk-weighted assets at Group 1 banks at 4.7% and 3.5%, respectively.

Risk-weighted assets of Group 2 banks increase overall by 8.4%. Banks in this group tend to have smaller CVA, counterparty credit risk and trading book exposures, which explains the lower overall increase in risk-weighted assets for Group 2 banks as compared to Group 1 banks. Securitisation exposures currently subject to deduction, CCR exposures, and exposures that fall below the 10% and 15% CET1 eligibility limits are significant contributors to changes in risk-weighted assets for Group 2 banks.

### Changes in RWA by banking group

In per cent

Table 5

	Number of banks	Total <sup>1</sup>	Definition of capital			CVA	CCR	Trading book <sup>1</sup>
			50/50	threshold	other			
Group 1 banks	100	16.1	3.5	2.8	-1.6	5.5	1.2	4.7
Group 2 banks	105	8.4	2.7	2.0	-0.1	2.4	0.6	0.7

<sup>1</sup> Approximate full impact of Basel 2.5 included as outlined in the text.

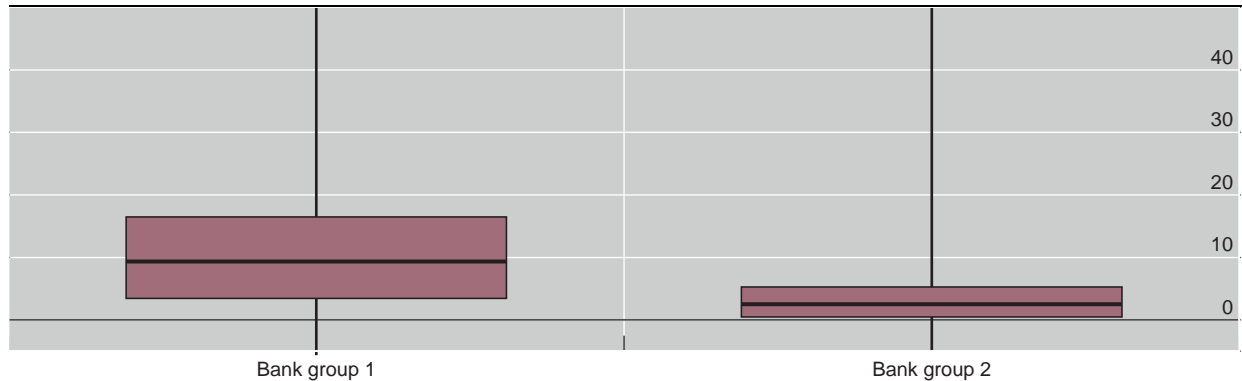
Changes in risk-weighted assets show significant variation across banks as shown in Graph 6. Again, these differences are explained in large part by the extent of banks' counterparty credit risk and trading book exposures, which attract significantly higher capital charges under Basel III as compared to current rules.



## Approximate change in total risk-weighted assets<sup>1</sup>

In per cent

Graph 6



<sup>1</sup> The median value is represented by a thick horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the vertical lines show the range of the entire sample. Six Group 1 banks and one Group 2 bank with an increase in RWA of more than 50% as well as one Group 1 and one Group 2 bank each with a reduction in RWA of more than 5% are included in the calculation but are not shown in the graph.

### 3.2 Revisions to the Basel II market risk framework

Table 6 shows further detail on the revised trading book capital charges for Group 1 banks as of June 2012. In line with the report on December 2011 data, the figures have been computed using a different methodology than in the June 2011 report. Whereas the latter report captured the impact of the revised Basel 2.5 market risk framework on overall capital charges as compared to Basel II, the methodology used in this section focuses on the share of market risk capital charges to total capital requirements in order to analyse Basel II banks and Basel 2.5 banks on a comparable basis. The sample analysed here is smaller than the one in Table 5 as not all Group 1 banks provided data on market risk exposures.<sup>26</sup>

For this reduced sample of banks, trading book exposures amount to 8.4% of total capital requirements. The main components of this share are stressed value-at-risk (2.1%), the capital charge according to the standardised measurement method for market risk (column heading "SMM") (2.0%), and non-correlation trading securitisation exposures subject the standardised measurement method (column heading "SMM non-CTP") at 1.1%. Current value-at-risk and capital charges for correlation trading exposures<sup>27</sup> contribute 1.0% each. The share of the incremental risk capital charge (IRC) is 0.9%.

<sup>26</sup> Group 2 banks are not presented separately because the market risk requirements have a very minor influence on overall Group 2 bank risk-weighted assets. Some of these banks do not have any trading books at all and are therefore not subject to any related capital charges.

<sup>27</sup> These capital charges consist of the comprehensive risk model for correlation trading exposures (including the floor, column heading "Correlation trading CRM"), and the standardised measurement method for correlation trading exposures not included in the model (column heading "Correlation trading SMM").

## Share in market risk capital charges

Group 1 banks, in per cent

Table 6

	Number of banks	Total	Value-at-risk			Correlation trading			SMM non-CTP <sup>2</sup>	Other		
			SMM	Current	Stress	IRC	Total	Of which				
								CRM			Floor	SMM <sup>1</sup>
Relative to total capital requirements	82	8.4	2.0	1.0	2.1	0.9	1.0	0.6	0.3	0.1	1.1	0.3
Relative to market risk capital requirements	82	100.0	23.8	12.4	24.9	10.9	11.9	6.9	4.1	0.9	13.3	2.8

<sup>1</sup> Capital charge for exposures which are part of the correlation trading portfolio and subject to a capital charge according to the standardised measurement method. <sup>2</sup> Capital charge according to the standardised measurement method for securitisation exposures and nth-to-default credit derivatives which do not qualify for the correlation trading portfolio.

Of the 17 banks reporting risk-weighted assets from a comprehensive risk model, four are bound by the 8% floor based on the standardised measurement method.

### 3.3 Impact of the standards on credit valuation adjustment risk

CVA risk capital charges lead to an 8.4% increase in total RWA for the subsample of 85 Group 1 banks which provided the relevant data. A larger fraction of the total effect is attributable to the application of the standardised method than to the advanced method. The impacts on Group 2 banks are smaller but still significant, adding up to an overall 3.7% increase in RWA over a subsample of 74 banks, totally attributable to the standardised method. Further details are provided in Table 7.

#### Changes in RWA for credit valuation adjustment (CVA) risk

In per cent

Table 7

	Number of banks	CVA vs credit RWA	Of which		CVA vs total RWA	Of which	
			Stand. method	Adv. Method		Stand. method	Adv. method
Group 1 banks	85	8.4	4.9	3.5	6.9	4.0	2.9
Group 2 banks	74	3.7	3.7	0.0	3.2	3.2	0.0

### 3.4 Impact of the higher asset value correlation for exposures to financial institutions and changes to the counterparty credit risk framework

Under the Basel III framework, a higher asset value correlation parameter is applied to exposures to certain financial institutions subject to the internal ratings-based approach to credit risk.<sup>28</sup> This change and the modifications to the counterparty credit risk framework result overall in a modest increase in Group 1 banks' total credit RWA of 1.9% and an increase relative to total RWA of 1.6%. For exposures to banks – which are those most affected by the higher correlation parameter – RWA rise on average by 22.5%. In contrast, the increases in RWA for other exposure categories are relatively modest. For Group 2 banks, the increase in total credit RWA is 1.3% and the increase in total RWA is 1.1%. As with the

<sup>28</sup> See paragraph 102 of the revised Basel III standards.

Group 1 sample, the increase mainly relates to bank exposures, where bank exposure RWA increase by 29.4% for Group 2 banks.

#### 4. Findings regarding the leverage ratio

The results regarding the leverage ratio are provided using two alternative measures of Tier 1 capital in the numerator:

- Basel III Tier 1, which is the fully phased-in Basel III definition of Tier 1 capital, and
- Current Tier 1, which is Tier 1 capital eligible under the current rules (the phase-in period of Basel III begins in 2013).

In both cases the leverage ratio exposure measure according to the Basel III standards is used. Total exposures of Group 1 banks according to the definition of the denominator in the Basel III Tier 1 leverage ratio were €67.1 trillion while total exposures for Group 2 banks were €5.4 trillion.

One important element in understanding the results of the leverage ratio section is the terminology used to describe a bank's leverage. Generally, when a bank is referred to as having more leverage, or being more leveraged, this refers to a multiple (eg 33 times) as opposed to a ratio (eg 3%). Therefore, a bank with a *high* level of leverage will have a *low* leverage ratio.

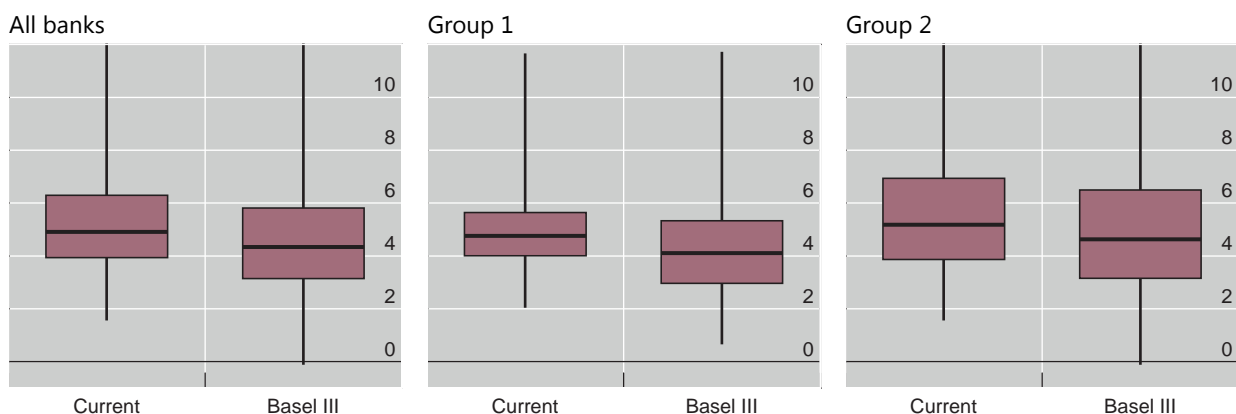
Graph 7 presents leverage ratios based on Basel III Tier 1 and current Tier 1 capital. The chart provides this information for all banks, Group 1 banks, and Group 2 banks. The weighted average current Tier 1 leverage ratio for all banks and for Group 1 banks is 4.5%. For Group 2 banks, it is 4.9%. The average Basel III Tier 1 leverage ratio for all banks is 3.8%, for Group 1 banks it is 3.7%, and for Group 2 banks the average is 4.4%.

The analysis shows that Group 2 banks are generally less leveraged than Group 1 banks, and this difference increases under Basel III when the requirements are fully phased in. It is likely that a portion of this effect is due to the changes in the definition of capital, which, as seen in Section 2, are likely to affect Group 1 banks to a greater extent than Group 2 banks.

#### Basel III Tier 1 and current Tier 1 leverage ratios<sup>1</sup>

In per cent

Graph 7



<sup>1</sup> The median value is represented by thick and horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the vertical lines generally show the range of the entire sample. Group 2 banks with leverage ratios above 12% or with negative leverage ratios are included in the calculation but are not shown in the graph.

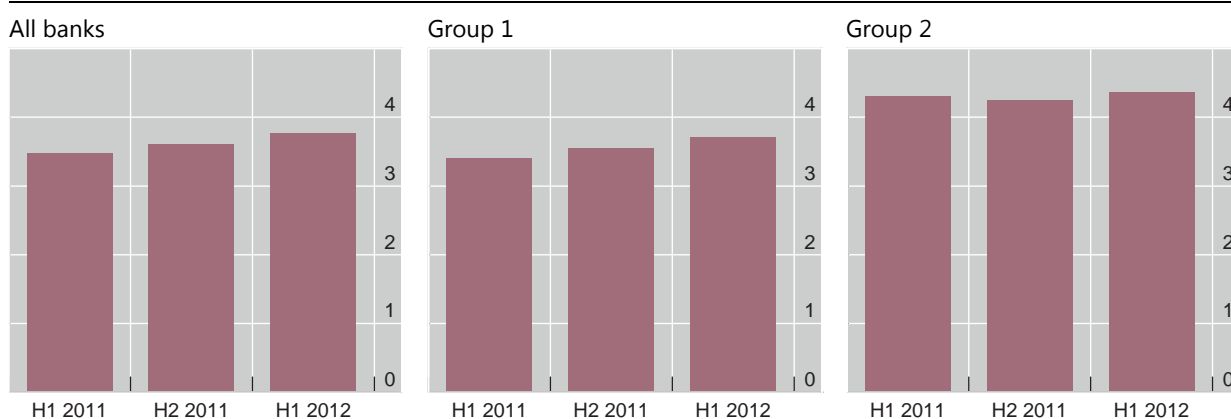
Under the current Tier 1 leverage ratio, 18 banks would not meet the 3% Tier 1 leverage ratio level, including five Group 1 banks and 13 Group 2 banks. Under the Basel III Tier 1 leverage ratio, 49 banks would not meet the 3% Tier 1 leverage ratio level, including 26 Group 1 banks and 23 Group 2 banks.

Graph 8 shows how the leverage ratios under the current and Basel III definitions of capital evolve over time for a consistent sample of 98 Group 1 and 102 Group 2 banks which provided leverage ratio data for all three reporting dates from June 2011 to June 2012. The overall result is mainly driven by an increase in the Basel III leverage ratio of Group 1 banks from 3.4% in June 2011 to 3.7% in June 2012. The leverage ratios for Group 1 banks using the current definition of capital as well as Group 2 banks' ratios are largely unchanged.

## Basel III Tier 1 leverage ratios

Consistent sample of banks, in per cent

Graph 8



## 5. Liquidity

### 5.1 Liquidity coverage ratio

One of the two standards introduced by the Committee is a 30-day liquidity coverage ratio (LCR) which is intended to promote short-term resilience to potential liquidity disruptions. The LCR has been designed to require global banks to have sufficient high-quality liquid assets to withstand a stressed 30-day funding scenario specified by supervisors. The LCR numerator consists of a stock of unencumbered, high-quality liquid assets that must be available to cover any net outflow, while the denominator is comprised of cash outflows less cash inflows (subject to a cap at 75% of outflows) that are expected to occur in a severe stress scenario.

The LCR has recently been revised by the Committee<sup>29</sup> and will be introduced as planned on 1 January 2015. The minimum requirement will be set at 60% and rise in equal annual steps to reach 100% in 2019. Given these revisions, precise LCR results could not be calculated based on the data collected as of June 2012. However, LCR results will be presented in the report on December 2012 data.

<sup>29</sup> Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013 ([www.bis.org/publ/bcbs238.pdf](http://www.bis.org/publ/bcbs238.pdf)).

## 5.2 Net stable funding ratio

The second standard is the net stable funding ratio (NSFR), a longer-term structural ratio to address liquidity mismatches and provide incentives for banks to use stable sources to fund their activities.

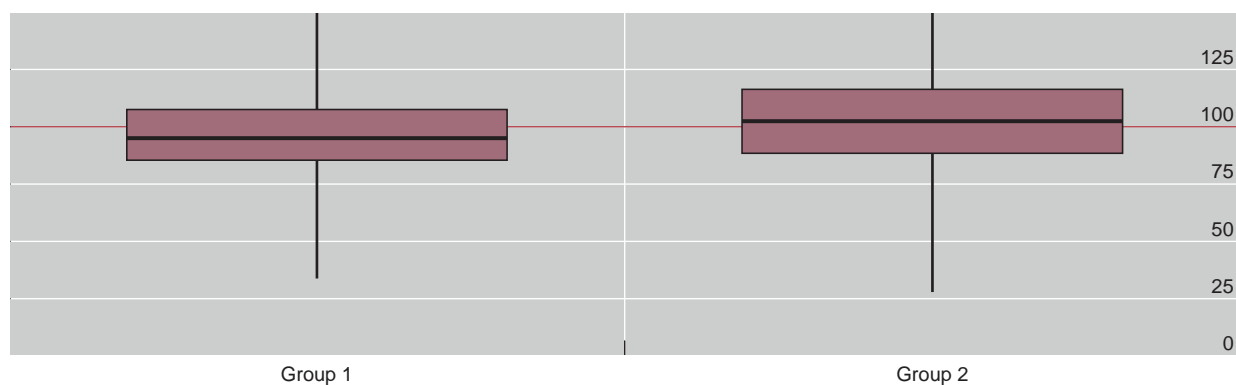
101 Group 1 and 108 Group 2 banks provided sufficient data in the 30 June 2012 Basel III monitoring exercise to calculate the NSFR according to the Basel III liquidity framework. 51% of these banks already meet or exceed the minimum NSFR requirement, compared to 46% at the end of June 2011 and 51% at the end of December 2011, with 90% at a NSFR of 75% or higher as at 30 June 2012.

The weighted average NSFR for the Group 1 bank sample is 99% for Group 1 banks, compared to 98% at both the June and December 2011 reporting dates. For Group 2 banks, the average NSFR was 100%, compared to 95% as of June 2011 and 99% as of December 2011. Graph 9 shows the distribution of results for Group 1 and Group 2 banks; the thin red line indicates the 100% minimum requirement, the thick black horizontal lines inside the boxes indicate the median for the respective bank group.

### Net Stable Funding Ratio<sup>1</sup>

In per cent

Graph 9



<sup>1</sup> The median value is represented by a thick horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the thin vertical lines show the range of the entire sample. Banks with an NSFR above 150% are included in the calculation but are not shown in the graph.

Banks in the sample had a shortfall of stable funding<sup>30</sup> of €2.4 trillion at the end of June 2012, a decrease from €2.8 trillion at the end of June 2011 and €2.5 trillion at the end of December 2011, if banks were to make no changes whatsoever to their funding structure. This number is only reflective of the aggregate shortfall for banks that are below the 100% NSFR requirement and does not reflect any surplus stable funding at banks above the 100% requirement. Banks that are below the 100% required minimum have until 2018 to meet the standard and can take a number of measures to do so, including by lengthening the term of their funding or reducing maturity mismatch.

<sup>30</sup> The shortfall in stable funding measures the difference between balance sheet positions after the application of available stable funding factors and the application of required stable funding factors for banks where the former is less than the latter.

## Annex

### Phase-in arrangements

Shading indicates transition periods – all dates are as of 1 January.

	2011	2012	2013	2014	2015	2016	2017	2018	As of 2019
Leverage ratio		Supervisory monitoring		Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015				Migration to Pillar 1	
Minimum CET1 ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer						0.625%	1.25%	1.875%	2.50%
G-SIB surcharge							Phase-in		1.0%-2.5%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20%	40%	60%	80%	100%	100%
Minimum Tier 1 capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum total capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital plus capital conservation buffer			8.0%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as Tier 1 capital or Tier 2 capital									
Phased out over 10 year horizon beginning 2013									
Liquidity coverage ratio	Observation period begins				60%	70%	80%	90%	100%
Net stable funding ratio	Observation period begins							Introduce minimum standard	