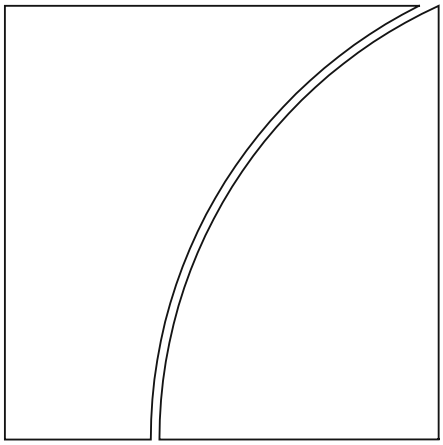
Basel Committee
on Banking Supervision



Basel III
Monitoring Report

September 2014

BANK FOR INTERNATIONAL SETTLEMENTS

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Basel III Monitoring Report

September 2014

Special feature

Annexes

Conventions used in this report

billion thousand million
trillion thousand billion

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.

Components may not sum to totals because of rounding.

The term "country" as used in this publication also covers territorial entities that are not states as understood by international law and practice but for which data are separately and independently maintained.

All data, including for previous reporting dates, reflect revisions received up to 5 June 2014.

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Highlights of the Basel III monitoring exercise as of 31 December 2013

Most internationally active banks meet Basel III risk-based minimum capital requirements

To assess the impact of the Basel III framework on banks,[1] the Basel Committee on Banking Supervision monitors the effects and dynamics of the reforms. For this purpose, a semiannual 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 country. This report is the sixth publication of results from the Basel III monitoring exercise[2] and summarises the aggregate results using data as of 31 December 2013. The Committee believes that the information contained in the report will provide relevant stakeholders with a useful benchmark for analysis.

Information considered for this report was obtained by voluntary and confidential data submissions from individual banks to their national supervisors. A total of 227 banks participated in the study, including 102 Group 1 banks and 125 Group 2 banks.[3] Members' coverage of their banking sector is very high for Group 1 banks, reaching 100% coverage for some countries, while coverage is lower for Group 2 banks and varies by country.

In general, this report does not take into account any transitional arrangements such as phase-in of deductions and grandfathering arrangements. Rather, the estimates presented generally assume full implementation of the final Basel III requirements based on data as of 31 December 2013. No assumptions have been made about banks' profitability or behavioural responses, such as changes in bank capital or balance sheet composition, either since this date or in the future. For this reason, the results are not comparable with current industry estimates, which tend to be based on forecasts and consider management actions to mitigate the impact, and they also incorporate estimates where information is not publicly available.

[1] 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: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013; Basel Committee on Banking Supervision, *Basel III: the Net Stable Funding Ratio – consultative document*, January 2014, www.bis.org/publ/bcbs271.htm. These documents are available on the Committee's website at www.bis.org/bcbs/basel3.htm.

[2] A list of previous publications is included in the Annex.

[3] 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.

Risk-based capital requirements

In the analysis of the risk-based capital requirements, this report focuses on the following items, assuming that the positions as of 31 December 2013 were subject to the fully phased-in 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 (including capital surcharges 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; and
- Increases in risk-weighted assets resulting from changes to the definition of capital, securitisation exposures, trading book and counterparty credit risk requirements.

Capital ratios

Compared with the current regulatory framework, the average CET1 ratio under the full implementation of the Basel III framework would decline from 11.4% to 10.2% for Group 1 banks. The Tier 1 capital ratios of Group 1 banks would decline, on average from 12.4% to 10.5% and total capital ratios would decline from 15.0% to 11.9%. For Group 2 banks, the decline in capital ratios is slightly less pronounced than for Group 1. Assuming full implementation of Basel III, the aggregate CET1 ratio would decline from 11.7% to 10.5%; Tier 1 capital ratios would decline on average from 12.2% to 11.0%; and total capital ratios would decline on average from 15.5% to 12.8%.

Capital shortfalls

Assuming full implementation of the Basel III requirements as of 31 December 2013, including changes to the definition of capital and risk-weighted assets, and ignoring phase-in arrangements, Group 1 banks would have a shortfall of €0.1 billion for the CET1 minimum capital requirement of 4.5%, which rises to €15.1 billion for a CET1 target level of 7.0% (ie including the capital conservation buffer); the latter target also includes the G-SIB surcharge according to the list of banks published by the Financial Stability Board in November 2013 where applicable.[4] As a point of reference, the sum of profits after tax prior to distributions across the same sample of Group 1 banks during the year ending 31 December 2013 was €419 billion.

The aggregate CET1 shortfall with respect to the 4.5% minimum, for Group 1 banks, dropped by €3.3 billion or 98% since June 2013. Similarly, at the CET1 target level, the aggregate CET1 shortfall for Group 1 banks has decreased by €42.3 billion or 74% since the prior period.[5]

Under the same assumptions, the capital shortfall for Group 2 banks included in the Basel III monitoring sample is estimated at €2.0 billion for the CET1 minimum of 4.5% and €9.4 billion for a CET1 target level of 7.0%. The CET1 shortfall at the 7.0% target level for Group 2 banks is down 66% since end-June 2013.

[4] See Financial Stability Board, *2013 update of group of global systemically important banks (G-SIBs)*, 11 November 2013, www.financialstabilityboard.org/publications/r_131111.htm.

[5] The June 2013 shortfall figures have been adjusted to reflect changes in currency values through 31 December 2013.

Leverage ratio

The average current Tier 1 leverage ratios would be 5.0% for Group 1 banks and for G-SIBs 4.7%, while it would amount to 5.4% for Group 2 banks. The average Basel III Tier 1 leverage ratios are 4.4% for Group 1 banks and 4.2% for G-SIBs, while for Group 2 banks the average is 5.2%.

Twenty-five banks, including nine out of 101 Group 1 banks and 16 out of 114 Group 2 banks, do not meet the minimum Basel III leverage ratio of 3%. Moreover, the fraction of banks that do not meet the Basel III Tier 1 leverage ratio is relatively lower in Group 1 (8.9%) than in Group 2 (14%).

Note that this report is the first time where data have been collected according to the January 2014 definition of the Basel III leverage ratio exposure measure. Compared with the definition in the consultative document published in June 2013 the modifications include the use of the credit conversion factors in the standardised approach to credit risk subject to a floor of 10% for off-balance sheet items, the recognition of limited netting of cash receivables and cash payables for securities financing transactions with the same counterparty subject to strict criteria and for derivatives the recognition of cash variation margin meeting a set of strict criteria.

Combined shortfall amounts

For the first time, this Basel III monitoring report also analyses the combined shortfall amounts needed to meet both risk-based capital and any applicable Tier 1 leverage ratio requirements (see Section 2.7).

For Group 1 banks, the inclusion of the leverage ratio shortfall raises the additional Tier 1 capital shortfall at the minimum level by €38.0 billion (from €1.4 billion to €39.5 billion). At the target level, the additional Tier 1 capital shortfall rises by €23.9 billion (from €48.8 billion to €72.8 billion) when the leverage ratio requirement is included. In turn, this inclusion of applicable Basel III leverage ratio shortfalls increases the total capital shortfall by €37.4 billion (from €5.1 billion to €42.5 billion) considering all capital ratio minimums and by €19.4 billion (from €159.4 billion to €178.8 billion) at the target level. Nearly all of this €19.4 billion increase is attributable to G-SIBs within the Group 1 sample (up €18.3 billion from €118.1 billion to €136.4 billion).

With regard to Group 2 banks, the inclusion of applicable Basel III leverage ratio shortfalls raises total capital shortfalls at the target level by €5.6 billion (from €24.7 billion to €30.3 billion).

Liquidity standards

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) was revised by the Committee in January 2013[6] and will come into effect on 1 January 2015. The minimum requirement will be set at 60% and then rise in equal annual steps to reach 100% in 2019. The end-December 2013 reporting period was the third data collection exercise for which a comprehensive calculation of the revised LCR standard could be conducted. Key observations from a comparison of current period to previous period results include:

[6] Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013, www.bis.org/publ/bcbs238.htm.

- A total of 101 Group 1 and 115 Group 2 banks participated in the LCR monitoring exercise for the end-December 2013 reference period.
- The average LCR for the Group 1 bank sample was 119%. For Group 2 banks, the average LCR was 132%. These figures compare to average LCRs of 114% and 132% for Group 1 banks and Group 2 banks, respectively, as of June 2013.
- 76% of the 216 banks in the LCR sample reported a ratio that met or exceeded a 100% minimum requirement, compared with 72% as of June 2013, while 92% of the banks reported an LCR at or above a 60% minimum requirement, compared with 91% as of June 2013.
- The aggregate LCR shortfall at a minimum requirement of 100% was €353 billion, which represents approximately 0.6% of the €57.3 trillion in total assets of the aggregate sample. The aggregate LCR shortfall at a minimum requirement of 60% was €158 billion (less than 0.3% of bank assets). These results compare to shortfalls of €536 billion and €168 billion, respectively, as of 30 June 2013.

Net Stable Funding Ratio

A revised version of the Net Stable Funding Ratio (NSFR) was published for consultation in January 2014.[7] Given this revision of the original NSFR (issued in December 2010[8]), the end-December 2013 reporting period is the first data collection exercise for which a comprehensive calculation of the revised NSFR could be conducted. As such data were not collected for the end-June 2013 period, period-over-period comparisons for the revised NSFR are not provided. Key observations for the end-December 2013 period include:

- A total of 101 Group 1 and 107 Group 2 banks participated in the NSFR monitoring exercise for the end-December 2013 reference period.
- The average NSFR for the Group 1 bank sample was 111% while for Group 2 banks the average NSFR was 112%.
- 78% of the 208 banks in the NSFR sample reported a ratio that met or exceeded 100% as of December 2013, while 88% of the banks reported an NSFR at or above 90%.
- The aggregate NSFR shortfall – which reflects 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 – was €817 billion at the end of December 2013.

The NSFR, including any potential revisions, will become a minimum standard by 1 January 2018.

[7] Basel Committee on Banking Supervision, *Basel III: the Net Stable Funding Ratio – consultative document*, January 2014, www.bis.org/publ/bcbs271.htm.

[8] Basel Committee on Banking Supervision, *Basel III: International framework for liquidity risk measurement, standards and monitoring*, December 2010, www.bis.org/publ/bcbs188.htm.

Detailed results of the Basel III monitoring exercise as of 31 December 2013

1. General remarks

At its 12 September 2010 meeting, the Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements and fully endorsed the agreements it had reached on 26 July 2010.[1] These capital reforms, together with the introduction of two international liquidity standards, responded to 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 semiannual basis.[2] This report summarises the results of the latest Basel III monitoring exercise using 31 December 2013 data.[3]

1.1 Scope of the monitoring exercise

All 27 Committee member countries participated in the Basel III monitoring exercise as of 31 December 2013. 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 January 2014.[4] 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 by 5 June 2014.

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 standards set out in the following documents:

[1] 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, 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.

[2] A list of previous publications is included in the Annex.

[3] The data for Japan are as of the end of September 2013, 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 30 October 2013, which corresponds to Canadian banks' fiscal fourth quarter-end.

[4] See Basel Committee on Banking Supervision, *Instructions for Basel III implementation monitoring*, January 2014, www.bis.org/bcbs/qis/.

- *Revisions to the Basel II market risk framework*[5] and *Guidelines for computing capital for incremental risk in the trading book*;[6]
- *Enhancements to the Basel II framework*[7] 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;[8]
- *Capital requirements for bank exposures to central counterparties*;[9]
- *Global systemically important banks: updated 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;[10]
- *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools;*[11] and
- *Basel III: the Net Stable Funding Ratio – consultative document;*[12] *and*
- *Basel III leverage ratio framework and disclosure requirements*.[13]

1.2 Sample of participating banks

A total of 227 banks participated in the study, including 102 Group 1 banks and 125 Group 2 banks.[14] 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 at the consolidated level as of 31 December 2013. Subsidiaries are not included in the analyses to avoid double-counting. For Group 1 banks, members' coverage of their banking sector was very high, reaching 100% coverage for some countries. Coverage for Group 2 banks was lower, and varied across countries.

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"),

5 Basel Committee on Banking Supervision, *Revisions to the Basel II market risk framework*, July 2009, www.bis.org/publ/bcbs158.htm.

6 Basel Committee on Banking Supervision, *Guidelines for computing capital for incremental risk in the trading book*, July 2009, www.bis.org/publ/bcbs159.htm.

7 Basel Committee on Banking Supervision, *Enhancements to the Basel II framework*, July 2009, www.bis.org/publ/bcbs157.htm.

8 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.

9 Basel Committee on Banking Supervision, *Capital requirements for bank exposures to central counterparties*, July 2012, www.bis.org/publ/bcbs227.htm.

10 Basel Committee on Banking Supervision, *Global systemically important banks: updated assessment methodology and the additional loss absorbency requirement*, July 2013, www.bis.org/publ/bcbs255.htm; Financial Stability Board, *2013 update of group of global systemically important banks (G-SIBs)*, 11 November 2013, www.financialstabilityboard.org/publications/r_131111.htm.

11 Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013, www.bis.org/publ/bcbs238.htm.

12 Basel Committee on Banking Supervision, *Basel III: the Net Stable Funding Ratio, consultative document*, January 2014, www.bis.org/publ/bcbs271.htm.

13 Basel Committee on Banking Supervision, *Basel III leverage ratio framework and disclosure requirements*, January 2014, www.bis.org/publ/bcbs270.htm.

14 See Table A.1 in the Statistical Annex for details on the sample.

December 2011 ("H2 2011"), June 2012 ("H1 2012"), December 2012 ("H2 2012"), June 2013 ("H1 2013") and December 2013 ("H2 2013") reporting dates, in order to make more meaningful period-to-period comparisons. Unless noted otherwise, the consistent sample includes 97 Group 1 banks, of which 29 are G-SIBs, and 98 Group 2 banks. The 29 banks in the G-SIB time series analyses are those banks which have been classified as G-SIBs at the June 2013 reporting date, irrespective of whether they have also been classified as G-SIBs previously.

The Committee appreciates the significant efforts contributed by both banks and national supervisors to this ongoing data collection exercise.

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. Depending on the country, the current regulatory frameworks in place are either national implementations of Basel II or Basel III with phase-in arrangements.[15] With the exception of transitional arrangements for non-correlation trading securitisation positions in the trading book,[16] the fully phased-in Basel III results are calculated without considering transitional arrangements pertaining to the phase-in of deductions and grandfathering arrangements set out in the Basel III framework.

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 (CET1) capital for the total sample divided by the sum of all banks' risk-weighted assets for the total sample. Similarly, the average Basel III Tier 1 leverage ratio is the sum of all banks' Tier 1 capital for the total sample divided by the sum of all banks' Basel III leverage ratio exposures for the total sample.

To preserve confidentiality, many of the results shown in this report are presented using box plot charts. The median value is represented by a 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 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 below only to the extent that they were able to provide data of sufficient quality to complete the analyses.

[15] 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.

[16] 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.

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 data from previous periods need to be taken into account. Sample differences also explain why results presented for the June 2013 reporting date may differ from the H1 2013 data point in graphs and tables showing the time series for the consistent sample of banks as described above.
- The actual impact of the new requirements will almost certainly be less than shown in this report given the phased-in implementation of the standards and interim adjustments made by the 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 31 December 2013 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, ie it is assumed that none of these capital instruments will be replaced by eligible instruments. 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 will actually be phased out over nine years.
- The treatment of deductions and non-qualifying capital instruments also affects figures reported in the section on the Basel III leverage ratio. The assumption that none of these capital instruments will be replaced by eligible instruments will become less of an issue as the implementation date of the Basel III leverage ratio nears.

2. Regulatory capital, capital requirements and capital shortfalls

Table 1 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 December 2013. Details of capital ratios and capital shortfalls are provided in Sections 2.1 and 2.2.

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 fully phased in 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.

Aggregate capital ratios and (incremental) capital shortfalls — Table 1

	Fully implemented requirement, in per cent		Capital ratios, in per cent		Risk-based capital shortfalls, in billions of euros[1]		Combined risk-based capital and leverage ratio shortfalls, in billions of euros[1]	
	Minimum	Target[2]	Current	Basel III	Min	Target[2]	Min	Target[2]
Group 1 banks								
CET1 capital	4.5	7.0	11.4	10.2	0.1	15.1	0.1	15.1
Tier 1 capital	6.0	8.5	12.4	10.5	1.4	48.8	39.5	72.8
Total capital	8.0	10.5	15.0	11.9	3.6	95.4	3.0	90.9
Sum					5.1	159.4	42.5	178.8
Of which: G-SIBs								
CET1 capital	4.5	8.0–9.5	11.6	10.0	0.0	11.8	0.0	11.8
Tier 1 capital	6.0	9.5–11.0	12.8	10.4	0.0	41.7	31.8	61.8
Total capital	8.0	11.5–13.0	15.3	11.8	0.2	64.6	0.0	62.7
Sum					0.2	118.1	31.8	136.4
Group 2 banks								
CET1 capital	4.5	7.0	11.7	10.5	2.0	9.4	2.0	9.4
Tier 1 capital	6.0	8.5	12.2	11.0	0.7	6.9	7.5	12.9
Total capital	8.0	10.5	15.5	12.8	4.0	8.3	3.9	8.0
Sum					6.7	24.7	13.4	30.3

[1] 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 that the higher-tier capital requirements are fully met. [2] The shortfalls at the target level include the capital conservation buffer and the capital surcharges for 29 G-SIBs as applicable.

Source: Basel Committee on Banking Supervision.

2.1 Capital ratios

As compared with current CET1, the average CET1 capital ratio of Group 1 banks would have fallen from 11.4% to 10.2% (a reduction of 1.2 percentage points) when Basel III deductions and risk-weighted assets are fully taken into account. For Group 2 banks, the CET1 capital ratio of Group 2 banks declines from 11.7% under current rules to 10.5% as a result of the full implementation of Basel III (a reduction of 1.2 percentage points). Results continue to show significant variation across banks as shown in Graph 1 for the current regime and Graph 2 for Basel III. The reduction in CET1 ratios is driven by the *full* application of the new definition of eligible capital instruments, deductions that were not previously applied at the common equity level of Tier 1 capital in most countries (numerator),[17] and by increases in risk-weighted assets in particular in countries which had not implemented Basel III at the reporting date

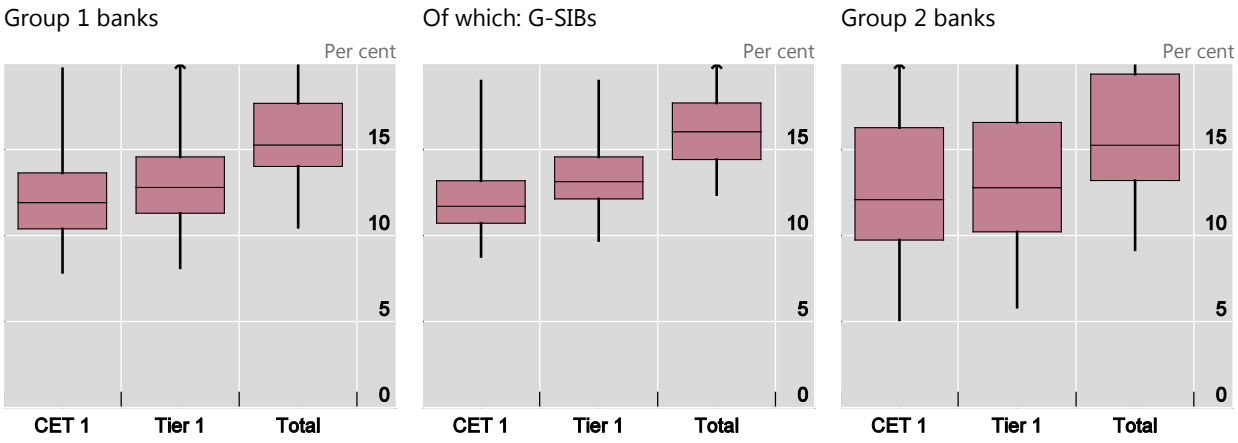
[17] See also Table A.12 and Table A.13.

(denominator).[18] Banks engaged heavily in trading or counterparty credit risky activities in such countries tend to show the largest denominator effects as these activities attract substantially higher capital charges under the Basel III framework.

Tier 1 capital ratios of Group 1 banks would on average decline 1.9 percentage points from 12.4% to 10.5%, and total capital ratios of this same group would decline on average by 3.1 percentage points from 15.0% to 11.9%. Group 2 banks show somewhat more moderate declines in Tier 1 capital ratios (from 12.2% to 11.0%) and total capital ratios (from 15.5% to 12.8%).

Current CET1, Tier 1 and total capital ratios

Graph 1

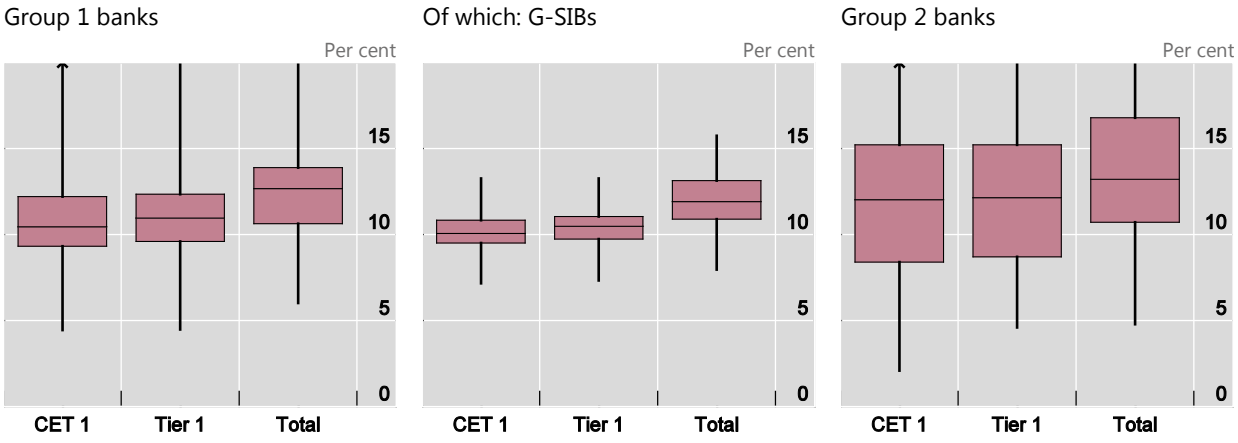


[1] The median value is represented by a horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the vertical lines generally show the range of the entire sample. In some cases, arrows at the top of the vertical line indicate banks with capital ratios outside the range shown in the graph.

Source: Basel Committee on Banking Supervision. See also Table A.2.

Basel III CET1, Tier 1 and total capital ratios

Graph 2



[1] The median value is represented by a 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. In some cases, arrows at the top of the vertical line indicate banks with capital ratios outside the range shown in the graph.

Source: Basel Committee on Banking Supervision. See also Table A.3.

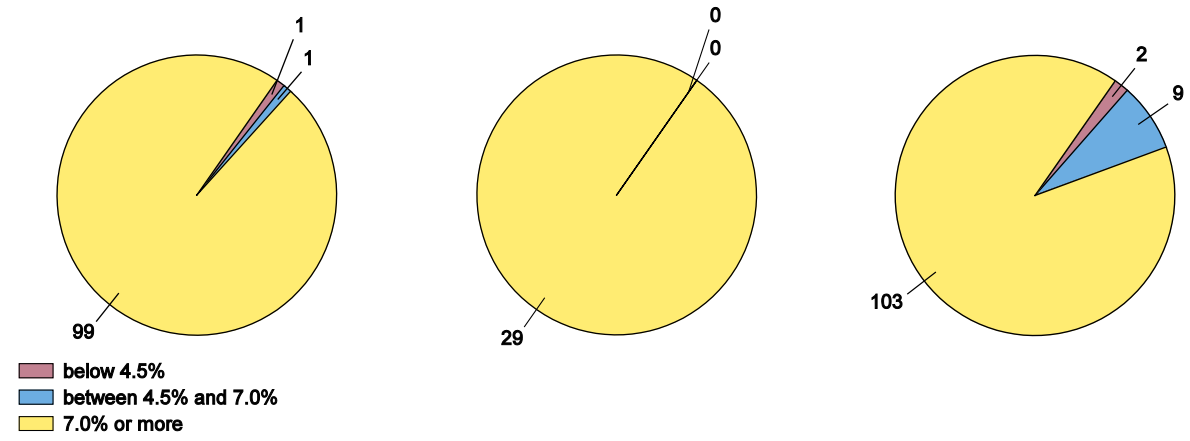
[18] See also Table A.13 and Table A.14.

Graph 3 shows that, out of the 101 banks in the Group 1 sample, 99% show a CET1 ratio under Basel III that is at least equal to the 4.5% minimum capital requirement and 98% show a CET1 ratio above the 7.0% target ratio (ie the minimum capital requirement plus the capital conservation buffer). Of the 114 banks in the Group 2 sample, 98% report a CET1 ratio equal to or higher than 4.5%; while 90% also achieve the target of 7.0%.

Distribution of Basel III CET1 ratios

Graph 3

Group 1 banks | Of which: G-SIBs | Group 2 banks



Source: Basel Committee on Banking Supervision.

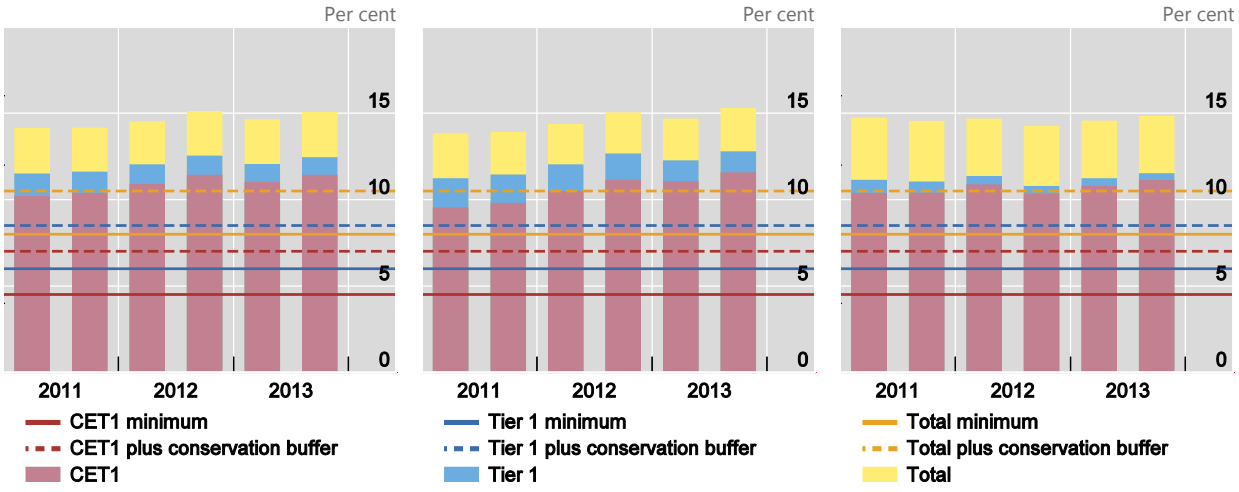
Graph 4 below shows the average capital ratios under the current regime for a consistent sample of Group 1 and Group 2 banks for the periods end-June 2011, end-December 2011, end-June 2012, end-December 2012, end-June 2013, and end-December 2013. Current capital ratios increased moderately for a consistent sample of Group 1 banks.

Average current CET1, Tier 1 and total capital ratios

Consistent sample of banks

Graph 4

Group 1 banks | Of which: G-SIBs | Group 2 banks



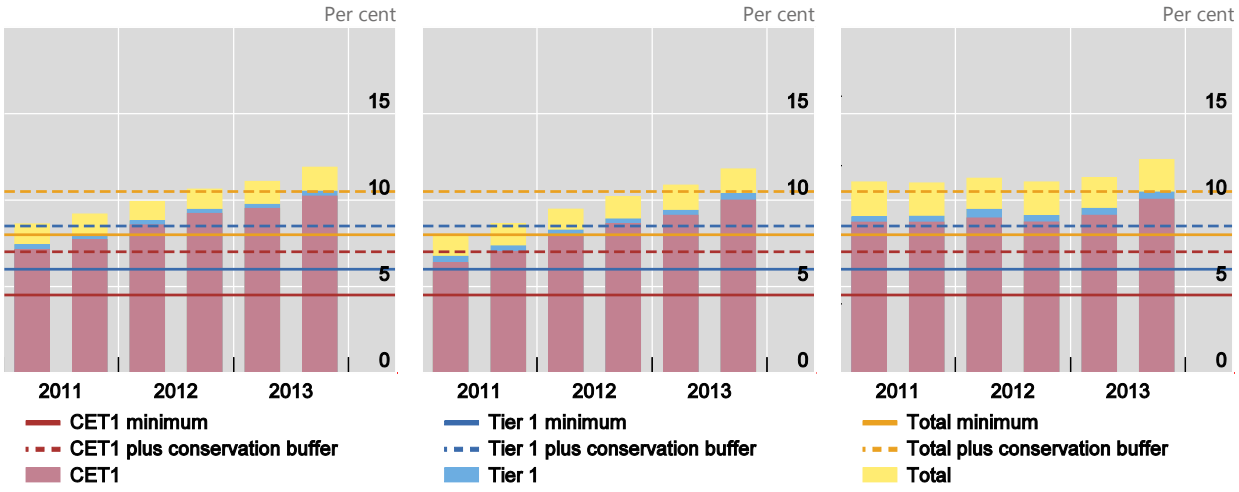
Source: Basel Committee on Banking Supervision. See also Table A.4.

Similarly, after full implementation of Basel III (Graph 5), the CET1, Tier 1 and total capital ratios for this consistent sample of Group 1 banks improved by 0.7, 0.7, and 0.8 percentage points, respectively,

over the previous six months. For Group 2 banks, the improvement in risk-based capital ratios over the reporting period was similar to Group 1 banks. The general improvement in Basel III capital ratios for both groups is due to Basel III-eligible capital added, slightly lower overall risk-weighted assets and, to a lesser extent, lower levels of deductions that reduce CET1.

Average Basel III CET1, Tier 1 and total capital ratios

Consistent sample of banks — Graph 5



Source: Basel Committee on Banking Supervision. See also Table A.5.

2.2 Capital shortfalls

This section shows the capital shortfalls for the Group 1 and Group 2 bank samples assuming full implementation of the Basel III requirements based on data as of 31 December 2013 and disregarding transitional arrangements.[19] The shortfalls presented are measured against different minimum capital ratio requirements (ie 4.5% CET1, 6.0% Tier 1 and 8.0% total capital) as well as against the target level, which includes the 2.5% capital conservation buffer and capital surcharges for 29 G-SIBs as applicable.

Graph 6, Graph 7 and Table 1 provide estimates of the amount of capital that Group 1 and Group 2 banks would need based on data as of 31 December 2013 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 requirements and deductions. Under these assumptions, the CET1 capital shortfall for Group 1 banks with respect to the 4.5% CET1 minimum requirement is €0.1 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 €2.0 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 updated list of banks published by the Financial Stability Board in November 2013, the Group 1 banks' shortfall is €15.1 billion and that of the Group 2 banks is €9.4 billion. Of the 29 G-SIBs included in this Basel III monitoring exercise, 25 G-SIBs have already reached the CET1 target level plus the surcharge. Four G-SIBs have a shortfall at the CET1 target level due only to the application of the capital surcharge for G-SIBs. As a point of reference, the aggregate sum of after-tax profits prior to

[19] With the exception of transitional arrangements for non-correlation trading securitisation positions in the trading book (see Section 1).

distributions for the year ending 31 December 2013 for Group 1 and Group 2 banks was €419 billion and €30 billion, respectively.

Assuming the 4.5% CET1 minimum capital requirements were fully met (ie there were no CET1 shortfalls), Group 1 banks would need an additional €1.4 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 €48.8 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 €0.7 billion and an additional €6.9 billion to meet these respective Tier 1 capital minimum and target ratio requirements.

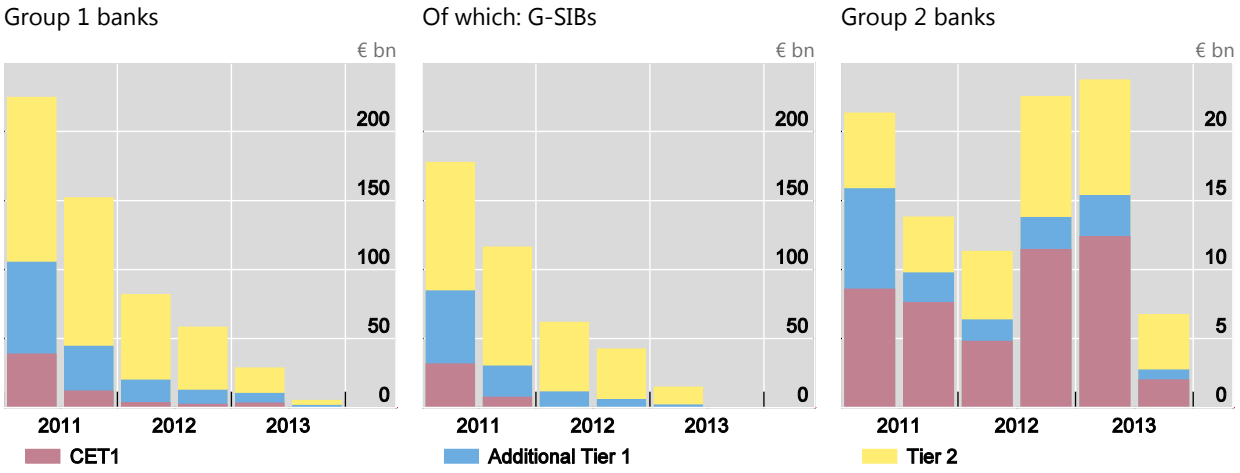
Assuming CET1 and Tier 1 capital requirements were fully met (ie there were no shortfalls in either CET1 or Tier 1 capital), Group 1 banks would need an additional €3.6 billion of Tier 2 or higher-quality capital to meet the minimum total capital ratio requirement of 8.0% and an additional €95.4 billion 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 €4.0 billion of Tier 2 or higher-quality capital and an additional €8.3 billion of Tier 2 or higher-quality capital 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 that would serve to reduce the impact of capital shortfalls over time.

Compared with the June 2013 exercise, the aggregate CET1 shortfall with respect to the 4.5% minimum for Group 1 banks has fallen by €3.3 billion or 98% due to improvements at a small number of banks in the sample.

Estimated capital shortfalls at the minimum level

Sample and exchange rates as at the reporting dates — Graph 6



[1] The height of each bar shows the aggregated capital shortfall considering requirements for each tier (ie CET1, Tier 1 and total) of capital. The sample of banks is not consistent over the two-year period (Group 1 includes 101 banks in H1 2011 and H2 2011, 100 banks in H1 2012 and H2 2012, and 101 banks in H1 2013 and in H2 2013; Group 2 includes 110 banks in H1 2011, 108 in H2 2011, 105 in H1 2012, 116 in H2 2012, 119 in H1 2013 and 114 in H2 2013).

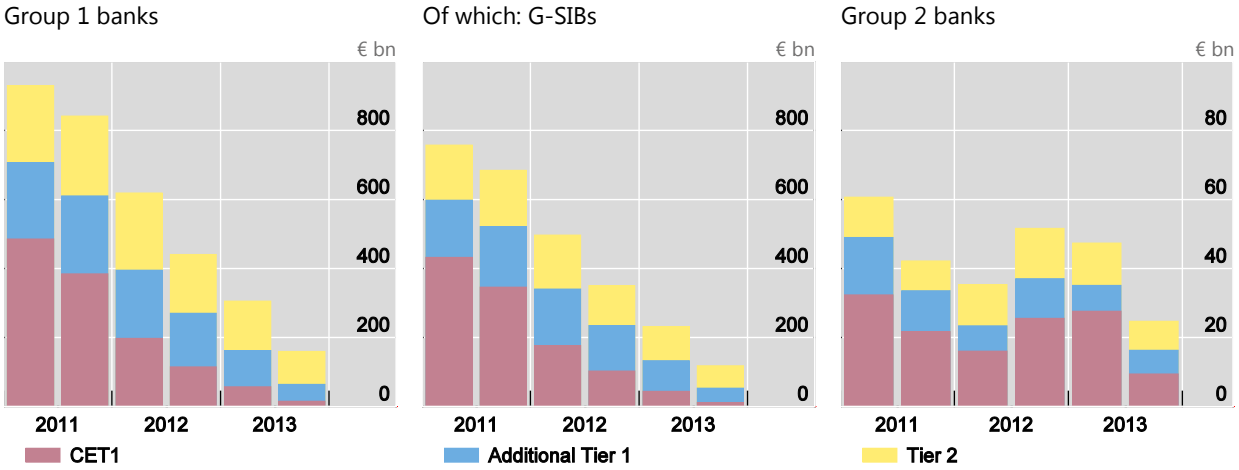
Source: Basel Committee on Banking Supervision. See also Table A.6.

At the CET1 target level of 7.0% plus the surcharges on G-SIBs as applicable, the aggregate CET1 shortfall for Group 1 banks also improved sharply, with the aggregate shortfall falling €42.3 billion

or 73% over the six-month period ending 31 December 2013 (see Graph 7). Strong improvements in shortfalls were also observed among Group 2 banks, with the CET1 shortfall at the 7.0% target level down 66% since of end-June 2013.

Estimated capital shortfalls at the target level

Sample and exchange rates as at the reporting dates — Graph 7



[1] The height of each bar shows the aggregated capital shortfall considering requirements for each tier (ie CET1, Tier 1 and total) of capital. The sample of banks is not consistent over the two-year period (Group 1 includes 101 banks in H1 2011 and H2 2011, 100 banks in H1 2012 and H2 2012, and 101 banks in H1 2013 and H2 2013; Group 2 includes 110 banks in H1 2011, 108 in H2 2011, 105 in H1 2012, 116 in H2 2012, 119 in H1 2013 and 114 in H2 2013).

Source: Basel Committee on Banking Supervision. See also Table A.7.

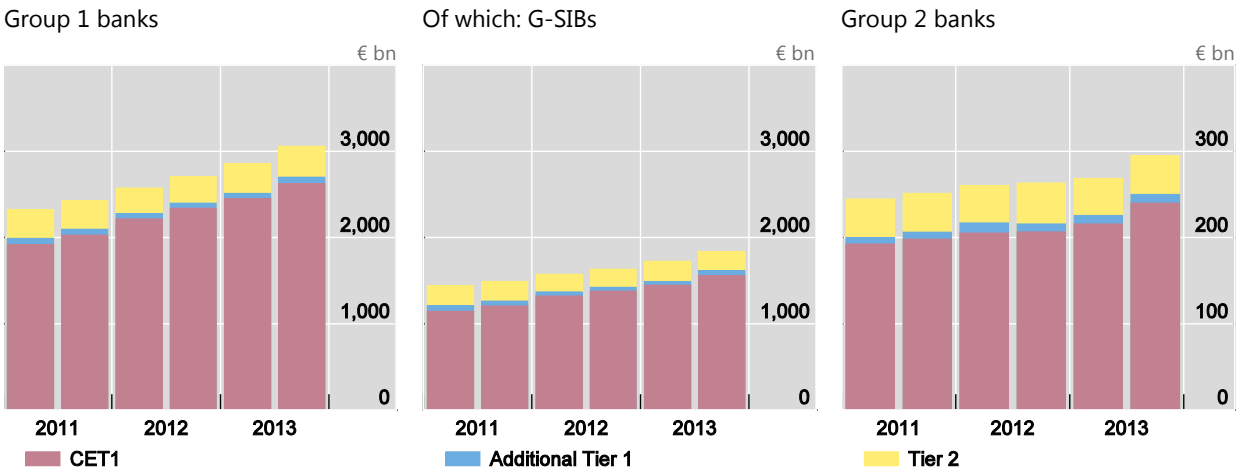
2.3 Level of capital

Graph 8 shows the development of the level of CET1 capital of all banks in the sample assuming full implementation of Basel III separately for Group 1 banks, Group 2 banks and G-SIBs. From end-June 2013 to end-December 2013, the level of Group 1 banks' CET1 has increased by €172 billion or 7.0% to €2,627 billion. Nearly two thirds of this increase, or €111 billion, can be attributed to the G-SIBs in the sample, which collectively held €1,559 billion of capital at the end of December 2013. Group 2 banks' CET1 has increased by €24 billion or 11.1% to €240 billion.

Since end-December 2010, Group 1 banks have increased their CET1 capital by 37.0%. The overall increase for the G-SIBs included in this sample is somewhat lower at 36.3%, while the CET1 of the consistent sample of Group 2 banks has only increased by 24.4%.

Level of capital after full implementation of Basel III

Consistent sample of banks, exchange rates as of 31 December 2013 — Graph 8

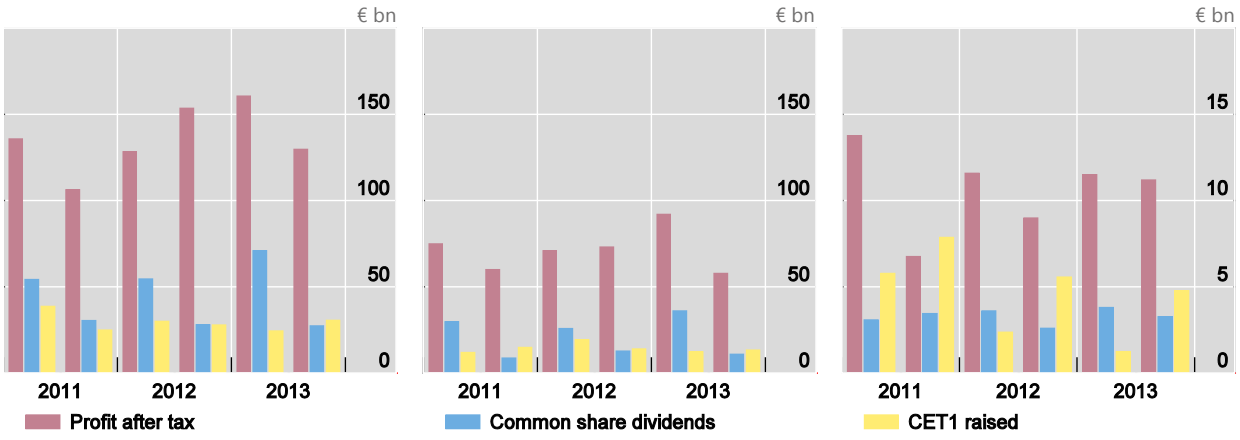


Source: Basel Committee on Banking Supervision. See also Table A.8.

The capital raised by the consistent sample of Group 1 banks (see Graph 9) varied between €39 billion in the first half of 2011 and €25 billion in the first half of 2013. Of these amounts, between 31% and 64% were raised by the G-SIBs in the sample. For the consistent sample of Group 2 banks, capital raised was also lowest in the first half of 2013 at €1 billion, while the largest amount raised per semester was €8 billion in the second half of 2011.

Profits, dividends and CET1 capital raised

Consistent sample of banks,[1] exchange rates as of 31 December 2013 — Graph 9



[1] Group 1 includes 97 banks, G-SIB includes 29 banks and Group 2 includes 97 banks.

Source: Basel Committee on Banking Supervision. See also Table A.9.

In the second half of 2013 the full sample of Group 1 banks raised €31 billion of CET1 capital (see Table 2). Slightly less than half of this amount was raised by 21 of the 29 G-SIBs within the sample. Group 2 banks collectively raised €5.4 billion of CET1 capital during the reporting period.

Capital raised during H2 2013

Full sample of banks, in billions of euros — Table 2

	Number of banks	Number of banks that raised capital	CET1	Additional Tier 1	Tier 2
Group 1	101	54	31.3	20.4	30.5
of which: G-SIBs	29	21	13.5	15.9	20.6
Group 2	114	37	5.4	1.4	1.1

Source: Basel Committee on Banking Supervision.

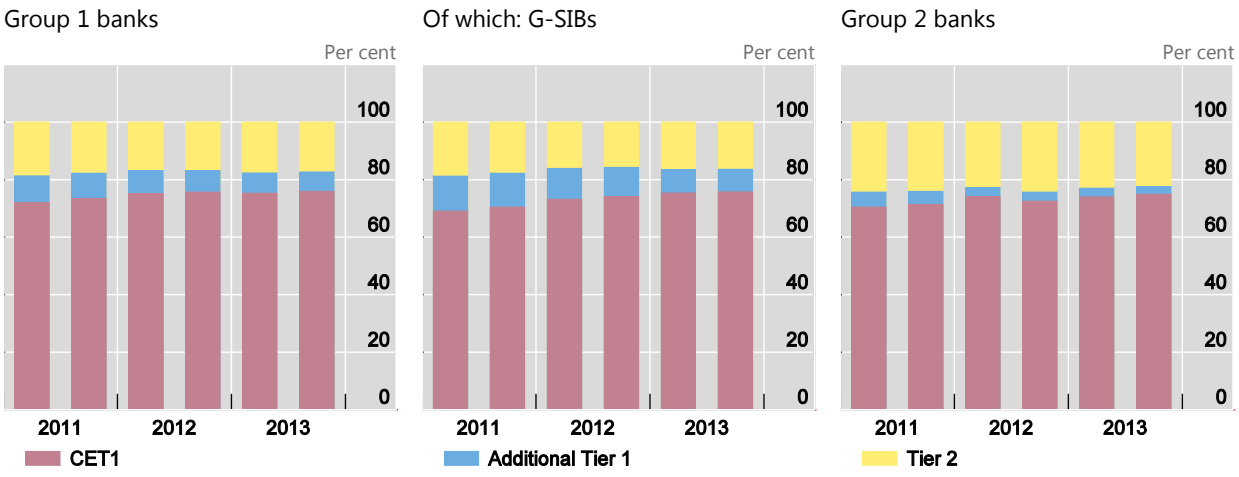
2.4 Composition of capital

The graphs below show the composition of total capital for Group 1 and Group 2 banks under the current national regime (Graph 10) and after full implementation of Basel III (Graph 11).

For Group 1 banks, the share of Basel III CET1 to total capital is 85.9%. Additional Tier 1 and Tier 2 capital amount to 2.4% and 11.7% of the total capital of Group 1 banks, respectively. Of the Group 1 bank sample, 55% 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 81.4% with correspondingly higher shares of additional Tier 1 capital (3.4%) and Tier 2 capital (15.2%). Under the current national regime, the share of CET1 to total capital is lower at 75.9% for Group 1 banks and at 74.9% for Group 2 banks, with correspondingly higher shares of additional Tier 1 and Tier 2 capital.

Structure of regulatory capital under the current national regime[1]

Consistent sample of banks — Graph 10

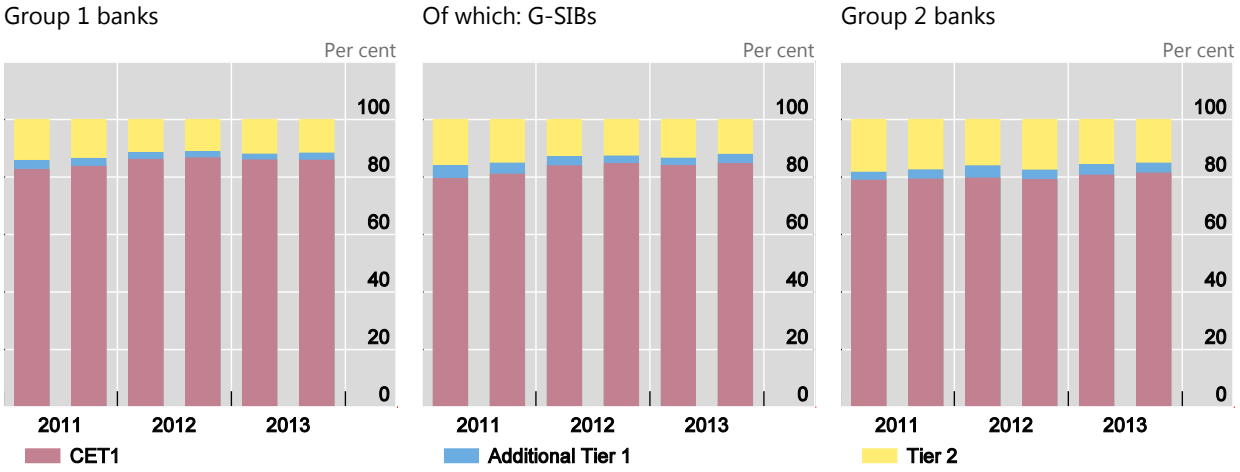


[1] Any remainder represents Tier 3 capital.

Source: Basel Committee on Banking Supervision. See also Table A.10.

Structure of regulatory capital under Basel III

Consistent sample of banks — Graph 11



Source: Basel Committee on Banking Supervision. See also Table A.11.

Regarding the composition of Basel III CET1 capital itself, paid-in capital (43.3% for Group 1 banks and 45.5% for Group 2 banks) and retained earnings (53.9% for Group 1 banks and 45.4% 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 contributes only 1.9% of gross CET1 on average for Group 1 banks and 6.5% for Group 2 banks. Meanwhile, total minority interest given recognition in CET1 contributes only a respective 0.9% and 2.6% to the outstanding CET1 balances of Group 1 and Group 2 banks.

2.5 Leverage ratio

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

- *current Tier 1*, which is Tier 1 capital eligible under the regulatory frameworks in place in member countries at the reporting date; and
- *Basel III Tier 1*, which is the fully phased-in Basel III definition of Tier 1 capital.

For the end-December 2013 reporting date, the leverage ratio exposure measure in the denominator of the leverage ratio has been calculated according to the January 2014 *Basel III leverage ratio framework*.[20] This exposure measure includes:

- on-balance sheet assets, excluding securities financing transactions and derivatives;
- securities financing transaction exposures with limited recognition of netting of cash receivables and cash payables with the same counterparty under strict criteria;
- derivatives exposures at replacement cost (net of cash variation margin meeting a set of strict criteria) plus an add-on for potential future exposure based on the current exposure method;
- written credit derivative exposures at their effective notional amount (net of negative changes in fair value that have been incorporated into the caluclation of Tier 1 capital) reduced by the

[20] Basel Committee on Banking Supervision, *Basel III leverage ratio framework and disclosure requirements*, January 2014, www.bis.org/publ/bcbs270.pdf.

effective notional amount of purchased credit derivatives that meet offsetting criteria related to reference name, level of seniority and maturity;

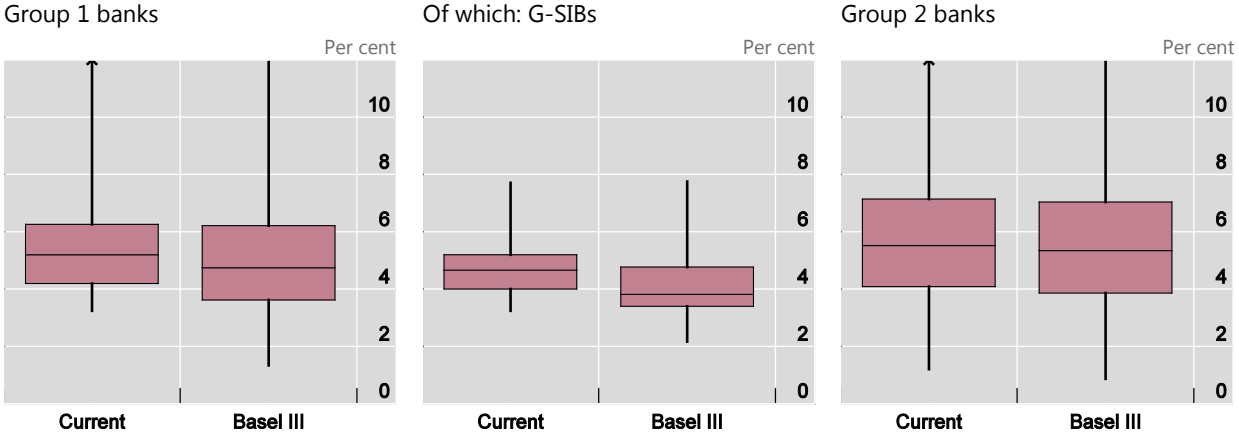
- off-balance sheet exposures, obtained by multiplying nominal amounts by the credit conversion factors in the standardised approach to credit risk, subject to a floor of 10%; and
- other exposures as specified in the Basel III leverage ratio framework.

Total exposures of the 101 Group 1 banks in the sample according to the new definition of the denominator in the Basel III leverage ratio were €61.4 trillion while total exposures for the 116 Group 2 banks were €5.5 trillion. Graph 12 presents summary statistics related to the distribution of leverage ratios based on current Tier 1 and Basel III Tier 1 capital. The graph provides this information for Group 1 banks, G-SIBs and Group 2 banks. The average current Tier 1 leverage ratios would be 5.0% for Group 1 banks and for G-SIBs 4.7%, while it would amount to 5.4% for Group 2 banks. The average Basel III Tier 1 leverage ratios are 4.4% for Group 1 banks and 4.2% for G-SIBs, while for Group 2 banks the average is 5.2%.

The analysis shows that Group 2 banks, while showing a greater dispersion as can be seen in Graph 12, are generally less leveraged than Group 1 banks, and this difference increases when the Basel III requirements are fully phased in.

Under the current Tier 1 leverage ratio, 14 banks in the sample would not meet the 3% Tier 1 leverage ratio level, all of them being Group 2 banks. Under the Basel III Tier 1 leverage ratio, 25 banks in the sample would not meet the 3% Tier 1 leverage ratio level, including nine Group 1 banks and 16 Group 2 banks.

Current Tier 1 and Basel III Tier 1 leverage ratios[1] Graph 12



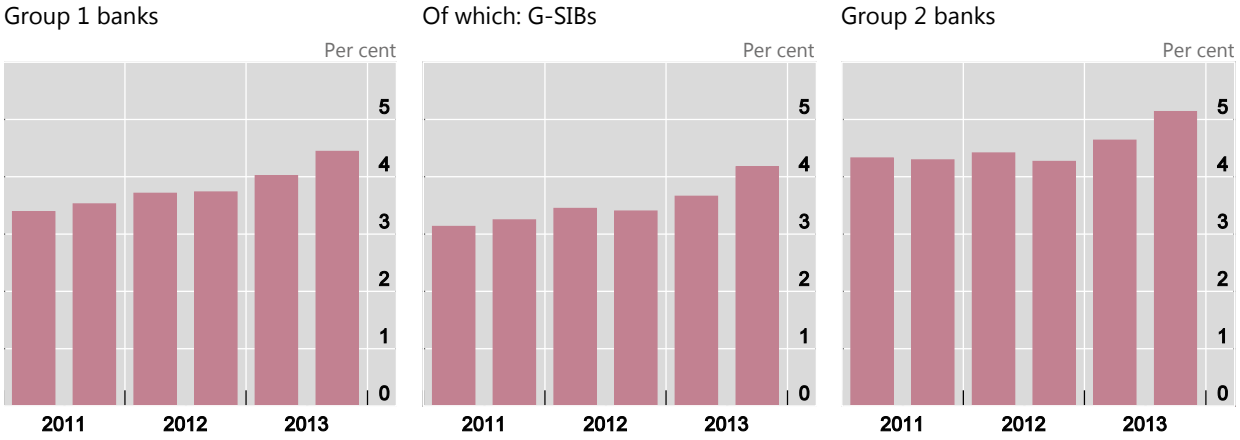
[1] The median value is represented by a horizontal line, with 50% of the values falling in the range shown by the box. The upper and lower end points of the vertical lines generally show the range of the entire sample. Group 2 banks with leverage ratios above 12% are included in the calculation but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

Source: Basel Committee on Banking Supervision. See also Table A.17.

Graph 13 shows how the leverage ratios under the current and Basel III definitions of capital have evolved over time for a consistent sample of 97 Group 1 and 97 Group 2 banks, as well as for G-SIBs, which provided leverage ratio data for all six reporting dates from June 2011 to December 2013.

Basel III Tier 1 leverage ratios[1]

Consistent sample of banks — Graph 13



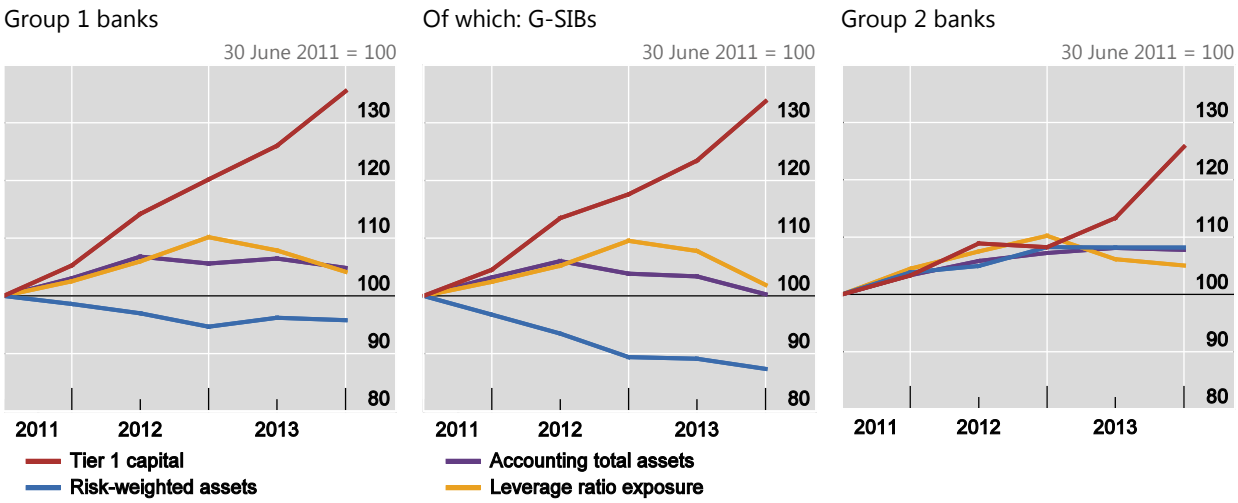
[1] Note that the data points for H1 2013 use an approximation for the final definition of the Basel III leverage ratio exposure where gross instead of adjusted gross securities financing transaction values are used.

Source: Basel Committee on Banking Supervision. See also Table A.18.

Graph 14 shows the evolution of the components of the capital ratios over time for a consistent sample of banks, ie banks that have consistently been providing the four data series for the period June 2011 to December 2013. The four components are Tier 1 capital, risk-weighted assets and the leverage ratio exposure measure, all assuming full implementation of Basel III, as well as accounting total assets. For Group 1 banks, capital steadily increased over the period, whereas leverage ratio exposures, which had followed a similar pattern until end-2012, decreased during 2013. When comparing the drop in the Basel III leverage ratio exposure measure with the evolution of accounting total assets (which fell only slightly in the second half of 2013), it appears that some part of the decrease in the leverage ratio exposure measure is caused by the change in the basis of calculation towards the final definition published in January 2014. Note further that risk-weighted assets have slightly decreased for Group 1 banks as well as for G-SIBs. For Group 2 banks the four time series followed a more correlated pattern until June 2013. However, over the second half of 2013 a significant increase in Tier 1 capital and a slight drop in leverage ratio exposures were observed.

Tier 1 capital, risk-weighted assets, leverage ratio exposure and accounting total assets[1]

Consistent sample of banks, exchange rates as of 31 December 2013 Graph 14



[1] Tier 1 capital, risk-weighted assets and leverage ratio exposure assume full implementation of Basel III. Note that the data points for H1 2013 use an approximation for the final definition of the Basel III leverage ratio exposure where gross instead of adjusted gross securities financing transaction values are used.

Source: Basel Committee on Banking Supervision. See also Table A.19.

2.6 Relationship between the leverage ratio and risk-based capital requirements

Table 3 below shows the migration of banks from *bound* to *non-bound* after Tier 1 capital raising to meet the target Tier 1 risk-based capital ratio.[21] It shows in particular that 8.8% of the banks in the sample do not meet the minimum Basel III leverage ratio of 3%, even after Tier 1 capital raising to meet the target risk-based Tier 1 capital requirements.

Share of banks meeting the Basel III leverage ratio before and after capital raising to meet the risk-based target Tier 1 ratio

Full sample of banks, in per cent Table 3

		Target Tier 1 ratio binding (<8.5% + GSIB surcharge)?			Total after capital raising to meet **target** Tier 1 ratio
		Yes	No	Total	
Leverage ratio binding (<3%)?	Yes	5.1	6.5	11.6	8.8
	No	12.6	75.8	88.4	91.2
	Total	17.7	82.3	100.0	100.0

Source: Basel Committee on Banking Supervision.

Graph 15 below shows the interaction between the Basel III Tier 1 leverage ratios (horizontal axis) and the Basel III Tier 1 risk-weighted capital ratios (vertical axis). Ratios of Group 1 banks are

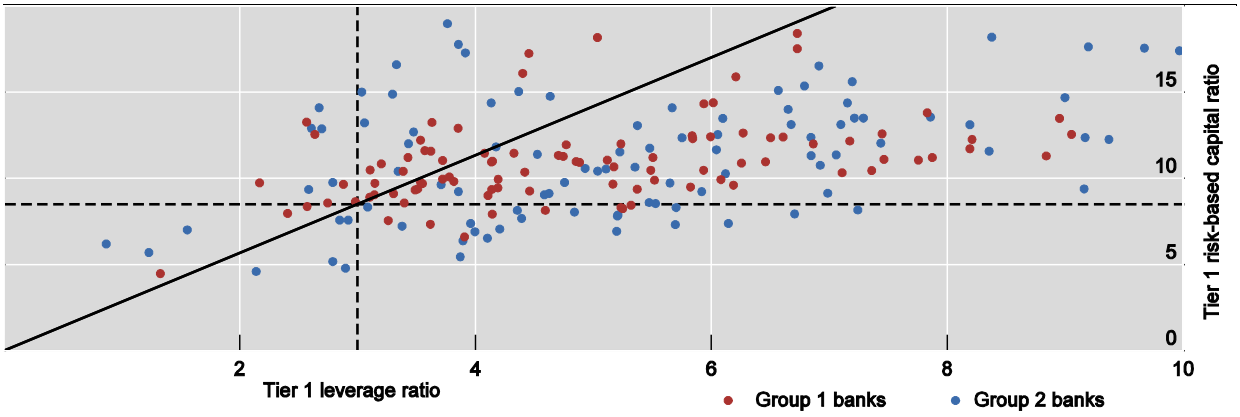
[21] That is, a Tier 1 minimum capital ratio of 6% plus a capital conservation buffer of 2.5% plus, where applicable, any G-SIB capital surcharges.

marked with red dots and those of Group 2 banks with blue dots. The dashed horizontal line represents a Tier 1 target capital ratio of 8.5%,[22] whereas the dashed vertical line represents a Tier 1 leverage ratio of 3%.

The diagonal line represents points where an 8.5% Tier 1 target capital ratio results in the same amount of required Basel III Tier 1 capital as a leverage ratio of 3%. By construction, it also represents a proportion of 8.5%/3%≈2.83 between the leverage ratio exposure and risk-weighted assets. Therefore, for banks plotted above the diagonal line, the leverage ratio requires more Tier 1 capital than the Tier 1 capital ratio (ie the Tier 1 leverage ratio becomes the constraining requirement).[23] For banks plotted below the diagonal line, the target Tier 1 capital ratio requires more capital than the leverage ratio (ie the Tier 1 capital ratio remains the constraining requirement).

Basel III Tier 1 risk-based capital and leverage ratios

Consistent sample of banks, in per cent — Graph 15



Source: Basel Committee on Banking Supervision.

As shown in Graph 15, 25 banks, including nine Group 1 banks and 16 Group 2 banks, do not meet the minimum Basel III leverage ratio of 3% (ie they are plotted left of the vertical dashed line). Note also that the fraction of banks that do not meet the Tier 1 leverage ratio is relatively lower (8.9%) in Group 1 than in Group 2 (14%).

Among the 25 banks that do not meet the Basel III leverage ratio minimum requirement of 3%, 11 banks including three Group 1 banks and eight Group 2 banks also do not meet the Basel III Tier 1 target capital ratio of 8.5% (hence they are plotted in the southwest quadrant of Graph 15).

This graph also shows that the Basel III leverage ratio is constraining for 58 banks, including 27 Group 1 and 31 Group 2 banks – ie they are plotted above the diagonal line. Of these 58 banks, nine Group 1 banks and 11 Group 2 banks also do not meet the minimum leverage ratio of 3% (hence they are plotted left of the vertical dashed line and above the diagonal line).

[22] Consisting of a 6.0% Tier 1 minimum capital ratio plus 2.5% capital conservation buffer.

[23] Note that the effect of the G-SIB surcharge is not taken into account. As the G-SIB surcharges only apply to the risk-based requirement, the relevant proportion between risk-weighted assets and total leverage ratio exposure that determines whether the Basel III leverage ratio is constraining or not may vary on a bank by bank basis.

2.7 Combined shortfall amounts

Graph 16 below shows a breakdown of risk-based capital shortfalls and combined risk-based and Basel III leverage ratio capital shortfalls for Group 1 banks, Group 2 banks and G-SIBs. Each box contains four bars. The first left-hand bar in each of the boxes (labelled with "Minimum") shows the capital shortfall arising from a Tier 1 risk-based minimum capital requirement of 6% and a total risk-based minimum capital requirement of 8%, whereas the second left-hand bar (also labelled with "Minimum") shows the *combined* capital shortfall with respect to the Tier 1 minimum capital ratio of 6%, a total risk-based minimum capital ratio of 8% and the leverage ratio requirement of 3%. Similarly, the first right-hand bar (labelled with "Overall") shows the capital shortfall compared with the target total capital ratio (8.5% of Tier 1 and 10.5% of total capital plus, where applicable, the G-SIB surcharges), whereas the second right-hand bar shows the combined shortfall arising from the target capital ratios and the Tier 1 leverage ratio of 3%.

As the Basel III leverage ratio is based on the Tier 1 capital measure, the CET1 capital shortfall at the target level of €15.1 billion for Group 1 banks, €11.8 billion for G-SIBs and €9.4 billion for Group 2 banks is driven purely by the risk-based capital requirements (the red bars do not change when introducing the leverage ratio requirement).

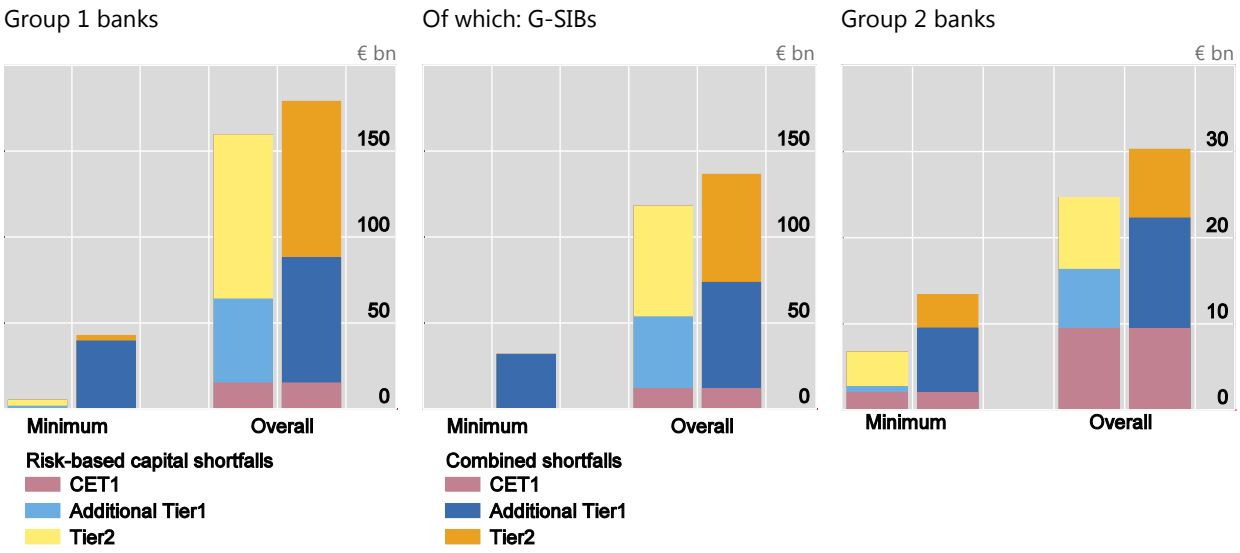
However, the Basel III leverage ratio causes an increase in the additional Tier 1 capital shortfall, both at the minimum and target levels. At the target level, the shortfall triggered by the leverage ratio is smaller (ie the gap between the light blue bar and the dark blue bar narrows down moving from the "Minimum" to the "Overall" calculations). This is a natural outcome since banks can use the additional capital raised to meet the capital conservation buffer and G-SIB surcharges to also meet the leverage ratio requirement. Hence, any additional capital buffer requirement (eg a countercyclical capital buffer) would further reduce the additional capital shortfall caused by the leverage ratio. At the Tier 1 target level, the leverage ratio raises the additional Tier 1 capital shortfall by €23.9 billion (from €48.8 billion to €72.8 billion) for Group 1 banks, by €20.1 billion (from €41.7 billion to €61.8 billion) for G-SIBs, and by €6.0 billion (from €6.9 billion to €12.9 billion) for Group 2 banks.

If the Basel III leverage ratio is included in the calculation, Tier 2 capital shortfalls are lower (ie the orange bars are smaller than the yellow bars) by an amount of €4.5 billion for Group 1 banks, €1.9 billion for G-SIBs and €0.3 billion for Group 2 banks. This is explained by the fact that banks can also use the additional Tier 1 capital raised to meet the leverage ratio requirement in case there is a shortfall to meet the total risk-based capital ratio.

Overall, the inclusion of applicable Basel III leverage ratio shortfalls increases the total capital shortfall for Group 1 banks by €37.4 billion (from €5.1 billion to €42.5 billion) considering all capital ratio minimums and by €19.4 billion (from €159.4 billion to €178.8 billion) at the target level. Nearly all of this €19.4 billion increase is attributable to G-SIBs within the Group 1 sample (up €18.3 billion from €118.1 billion to €136.4 billion). With regard to Group 2 banks, the inclusion of applicable leverage ratio shortfalls raises total capital shortfalls at the target level by €5.6 billion (from €24.7 billion to €30.3 billion).

Risk-based capital shortfalls and combined risk-based and leverage ratio capital shortfalls

Graph 16



Source: Basel Committee on Banking Supervision. See also Table 1.

3. Liquidity

3.1 Liquidity Coverage Ratio

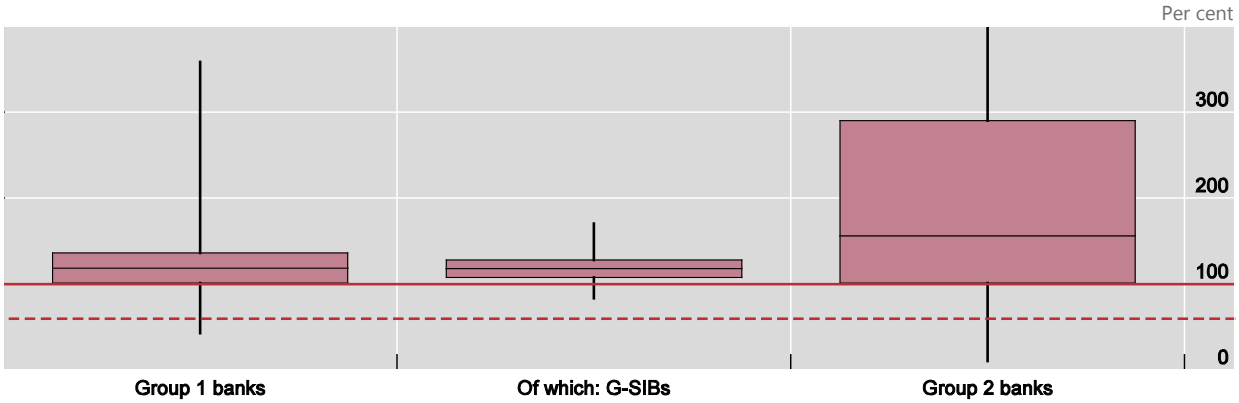
One of the two liquidity standards introduced by the Committee is the 30-day Liquidity Coverage Ratio (LCR) which is intended to promote short-term resilience against potential liquidity disruptions. The LCR has been designed to require global banks to have sufficient high-quality liquid assets to withstand 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 comprises 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 was revised by the Committee in January 2013 and will come into effect on 1 January 2015. The minimum requirement will be set at 60% and will then rise in equal annual steps to reach 100% in 2019.

101 Group 1 and 115 Group 2 banks provided sufficient data in the 31 December 2013 Basel III monitoring exercise to calculate the LCR according to the revised standard. The average LCR was 119% for Group 1 banks and 132% for Group 2 banks, which compare to average LCRs of 114% and 132% for Group 1 banks and Group 2 banks, respectively, as of June 2013.

The aggregate numbers under the revised LCR standard do not speak to the range of results across participating banks. Graph 17 below gives an indication of the distribution of bank results. Some 76% of the banks in the Basel III monitoring sample already meet or exceed the final LCR minimum requirement of 100%, while 92% have LCRs that are at or above the initial 60% minimum requirement. These results compare to 72% and 91% of banks meeting the 100% and 60% minimum requirements, respectively, as of 30 June 2013.

Liquidity Coverage Ratio[1] Graph 17



[1] The median value is represented by a 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. The sample is capped at 400%, meaning that all banks with an LCR above 400% were set to 400%. The red horizontal lines represent the 60% minimum (2015, dashed line) and the 100% minimum (2019, solid line).

Source: Basel Committee on Banking Supervision. See also Table A.20.

For the banks in the sample, Basel III monitoring results show a shortfall (ie the difference between high-quality liquid assets and net cash outflows) of €353 billion (which represents approximately 0.6% of the €57.3 trillion total assets of the aggregate sample) as of 31 December 2013. This compares to a shortfall of €536 billion as of 30 June 2013. This number is reflective only of the aggregate shortfall for banks that are below an LCR minimum requirement of 100% and does not reflect surplus liquid assets at banks above a 100% requirement. At an LCR minimum requirement of 60%, the aggregate shortfall for the banks in the sample was €158 billion (less than 0.3% of banks' assets) as of 31 December 2013, compared with €168 billion as of 30 June 2013.

The key components of outflows and inflows are shown in Table 4. Group 1 banks show a notably larger percentage of total outflows, when compared with balance sheet liabilities, than Group 2 banks. This can be explained by the relatively greater contribution of wholesale funding activities and commitments within the Group 1 sample, whereas Group 2 banks, as a whole, are less reliant on these types of activities.

LCR outflows and inflows (post-factor) as a percentage of balance sheet liabilities[1]

Table 4

Category	Group 1	Group 2
Outflows to…		
Unsecured retail and small business customers	2.4	2.4
Unsecured non-financial corporates	4.0	1.9
Unsecured sovereign, central bank, public sector entities (PSEs) and multilateral development banks (MDBs)	0.8	0.8
Unsecured financial institutions and other legal entities	5.2	3.2
Other unsecured wholesale funding incl. unsecured debt issuance	1.2	0.7
Secured funding and collateral swaps	1.8	0.5
Collateral, securitisations and own debt	0.8	0.6
Credit and liquidity facilities	1.7	0.7
Other contractual and contingent cash outflows including derivative payables	2.5	2.1
Total outflows[2]	20.5	12.8
Inflows from…		
Financial institutions	1.7	1.9
Retail and small business customers, non-financial corporates, central banks and other entities	1.5	1.2
Secured lending and collateral swaps	2.0	0.5
Other cash inflows including derivative receivables	1.4	1.2
Total inflows[2,3]	6.5	4.6

[1] Uses balance sheet component information reported on the net stable funding ratio worksheet. [2] May contain rounding differences. [3] The 75% cap is only applied to the "total inflow" category, which leads the sum of the individual inflow categories for Group 2 banks to exceed the total inflow contribution on account of banks that report inflows that exceeded the cap.

Source: Basel Committee on Banking Supervision.

75% cap on total inflows

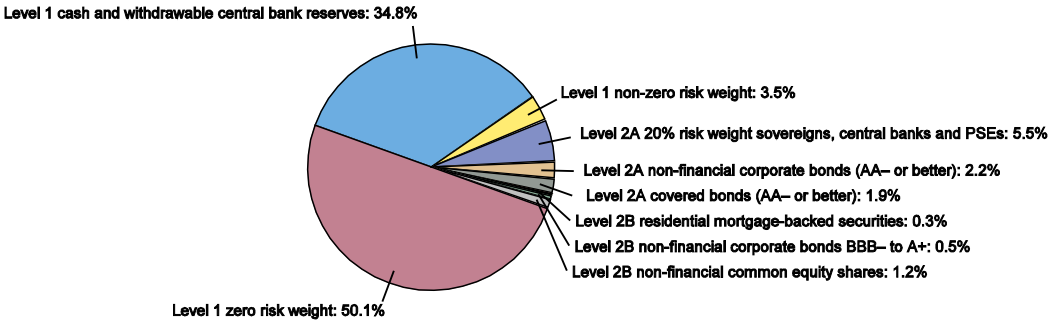
As at 31 December 2013, no Group 1 and 24 Group 2 banks reported inflows that exceeded the 75% cap. Of the 24 Group 2 banks, four fail to meet an LCR minimum requirement of 100%, so the cap is binding on them at that required minimum level.

Composition of high-quality liquid assets

The composition of high-quality liquid assets (measured after application of the LCR haircuts) currently held at banks is depicted in Graph 18. The majority of Group 1 and Group 2 banks' holdings, in aggregate, are comprised of Level 1 assets; however, the sample as a whole shows diversity in their holdings of eligible liquid assets. Within Level 1 assets, 0% risk-weighted securities issued or guaranteed by sovereigns, central banks and public sector entities, and cash and central bank reserves comprise the most significant portions of the qualifying pool. By comparison, within the Level 2A asset class, the majority of holdings comprise 20% risk-weighted securities issued or guaranteed by sovereigns, central banks or public sector entities. Eligible non-financial common equity shares comprise the majority of holdings of Level 2B assets.

Composition of holdings of eligible liquid assets

All banks Graph 18



Source: Basel Committee on Banking Supervision.

Caps on Level 2B and Level 2 assets

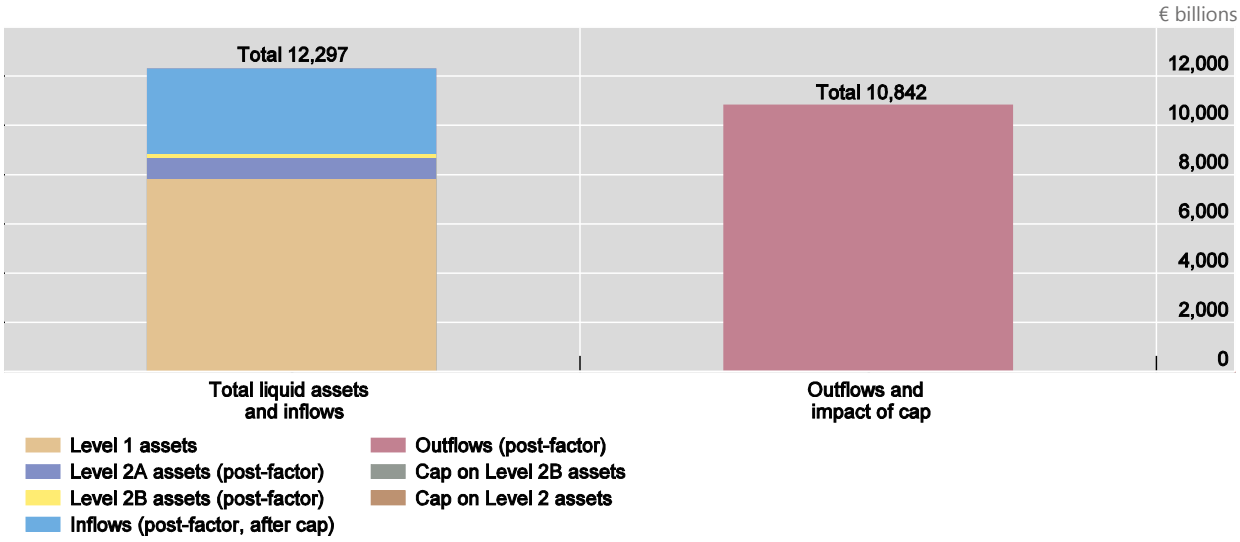
€26.8 billion of Level 2 assets are excluded from high-quality liquid assets due to the 15% Level 2B cap and the 40% overall Level 2 cap. In total, 17 banks are constrained, of which three banks are constrained only by the Level 2B cap and 14 banks are constrained only by the Level 2 cap. No banks are constrained by both caps. Of the 17 total banks that are constrained, five fail to meet an LCR minimum requirement of 100%.

Comparison of liquid assets and inflows to outflows and caps

Graph 19 combines the above LCR components by comparing liquidity resources (pool of high-quality liquid assets and inflows) to outflows. Note that the €1,455 billion gross surplus shown in the graph differs from the €353 billion gross shortfall at an LCR minimum requirement of 100% that is noted above, as it is assumed here that excess assets at one bank can offset those at another. In practice the aggregate position in the industry is likely to lie somewhere between these two numbers depending on how efficiently banks redistribute liquidity around the system.

Comparison of pool of high-quality liquid assets plus inflows to outflows and cap

All banks Graph 19



Source: Basel Committee on Banking Supervision. See also Table A.22.

3.2 Net Stable Funding Ratio

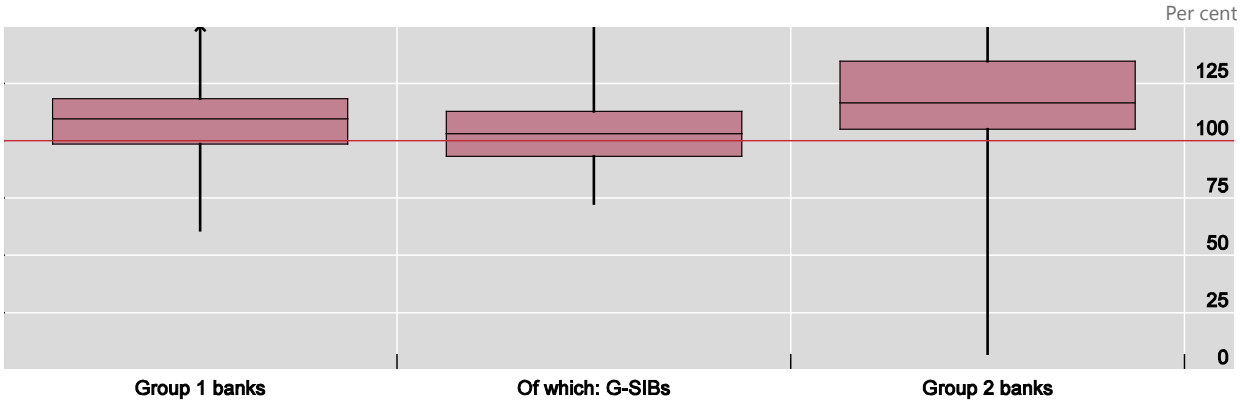
The second liquidity standard introduced by the Basel III reforms is the Net Stable Funding Ratio (NSFR), a longer-term structural ratio to address liquidity mismatches and provide incentives for banks to use stable sources to fund their activities.

101 Group 1 and 107 Group 2 banks provided sufficient data in the December 2013 Basel III monitoring exercise to calculate the revised NSFR according to the consultative document issued by the Committee in January 2014. Some 72% of Group 1 banks and 83% of Group 2 banks already meet or exceed the 100% minimum NSFR requirement, with 86% of Group 1 banks and 89% of Group 2 banks at an NSFR of 90% or higher as at 31 December 2013. Given the revisions to the standard in January 2014, period-over-period comparisons for the revised NSFR are not provided as such data were not collected for the end-June 2013 period.

The average NSFR for the sample of Group 1 banks was 111%. For Group 2 banks, the average NSFR was 112%. Graph 20 shows the distribution of results for Group 1 and Group 2 banks; the red line indicates the 100% minimum requirement, the black horizontal lines inside the boxes indicate the median for the respective bank group.

Net stable funding ratio[1]

Graph 20



[1] The median value is represented by a 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 of above 150% are included in the calculation but are not shown in the graph.

Source: Basel Committee on Banking Supervision. See also Table A.20.

Banks in the sample had a shortfall of stable funding[24] of €789 billion at the end of December 2013. This number is reflective only 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.

[24] 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.

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Main findings of the trading book hypothetical portfolio exercise[1]

The financial crisis exposed material weaknesses in the capital framework for trading activities. Banks entered the crisis period with insufficient capital to absorb losses. As a rapid response to the undercapitalisation of market risk, the Basel Committee on Banking Supervision introduced a range of revisions to the market risk framework in July 2009 which focused capital requirements on stressed calibrations and introduced capital against credit risks which had not been considered in the pre-crisis framework. The July 2009 package, often referred to as "Basel 2.5"[2], was recognised as a necessary, but not sufficient, update to the capital framework and in parallel a fundamental review of the entire market risk framework was initiated.

In May 2012 the Committee published its first consultative paper on its *Fundamental review of the trading book*[3], which presented high level proposals for the structure of the new market risk framework. Following consideration of the comments received the Committee published a second consultative paper in October 2013[4] with revised proposals for the new framework including draft standards.

An essential element of the Committee's work to revise the trading book standards is its quantitative impact assessments, in which banks play a key role. These Quantitative Impact Studies help the Committee to better to understand the effects of the proposed new framework on capital requirements and further refine the standards. The Committee has planned two such exercises in 2014. This report presents the results of the first exercise, *which focused on the revised internal models-based approach* and is based on hypothetical portfolios (rather than banks' actual portfolios, which is the focus of the second phase of the 2014 QIS exercise).[5]

The main objective of this exercise was to provide an understanding of the implementation challenges associated with the proposed internal models-based approach, including areas where the draft standards require more clarity. The findings of this exercise led to clarifications that were provided in advance of the second phase of the 2014 QIS exercise. The exercise also provided some preliminary findings on some of the potential effects of the proposed standards on regulatory capital.

Banks participated in the hypothetical portfolio exercise on a voluntary basis. The Committee expected in particular large internationally active banks currently using the internal models approach to

1 More detailed results are available in: Basel Committee on Banking Supervision, *Analysis of the trading book hypothetical portfolios exercise*, September 2014, www.bis.org/publ/bcbs288.htm.

2 Basel Committee on Banking Supervision, *Revisions to the Basel II market risk framework – final version*, July 2009, www.bis.org/publ/bcbs158.htm.

3 Basel Committee on Banking Supervision, *Fundamental review of the trading book – consultative document*, May 2012, www.bis.org/publ/bcbs219.htm.

4 Basel Committee on Banking Supervision, *Fundamental review of the trading book – second consultative document*, October 2013, www.bis.org/publ/bcbs265.htm.

5 In the analysis both regulatory (ie approved) and management models (ie not used for regulatory capital calculation) have been used without distinction (see Section 4.1).

participate in the study. Small and medium-sized banking institutions' participation was also encouraged on a best-efforts basis, as all banking institutions will likely be affected by some or all of the proposed reforms being considered by the Basel Committee.

Banks that did not trade all the products listed in the portfolio specifications could still participate in the exercise in a partial manner. The portfolio set with 35 portfolios was derived from the portfolios used in the separate hypothetical portfolio exercise conducted in 2013 to assess the variability of risk measures for market risk as defined by the Basel 2.5 regime.[6] Portfolios 1 to 28 covered trading strategies for the following asset classes: equity, interest rate, commodities, FX and credit spread. The seven additional portfolios aimed to identify diversification effects within and across the asset classes.

The current hypothetical portfolio exercise was integrated in the Basel III monitoring process in two phases. First, the so-called pre-exercise validation was intended to provide a common understanding of the portfolios across banks. Banks were asked to provided, as of 21 February 2014, the market values and the 10-day 99% value-at-risk measures for all 35 portfolios. In the second phase banks were asked to calculate risk measures and their asset class specific components as defined in the new framework for 10 trading days (17–28 March 2014) with 21 February 2014 as the day where positions should be entered. Banks were asked to assume that no action would be taken to manage the portfolio in any way during the entire exercise period.

Sample of banks

Overall 41 banks from 13 countries participated in the hypothetical portfolio exercise (see Table 1), comprising 35 Group 1 and 6 Group 2 banks. On average the participating banks provided results for 27 of the 35 portfolios and, with the exception of two banks, all provided data for the full 10-day period of the exercise.

Number of banks reporting data for the trading book hypothetical portfolio exercise

Table 1

	Group 1 banks	Group 2 banks
Australia	3	1
Canada	4	0
France	5	0
Germany	4	0
Hong Kong SAR	0	2
Italy	2	0
Japan	2	0
Netherlands	1	0
South Africa	3	1
Sweden	3	0
Switzerland	1	2
United Kingdom	4	0
United States	3	0
All	35	6

[6] Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) – Second report on risk-weighted assets for market risk in the trading book*, December 2013, www.bis.org/publ/bcbs267.htm.

With respect to the risk measures reported, all participating banks calculated stressed expected shortfall measures and all but two provided current expected shortfall results. Twenty-six banks provided data on non-modellable risk factors for the portfolios and 25 provided incremental default risk results.[7]

Key findings

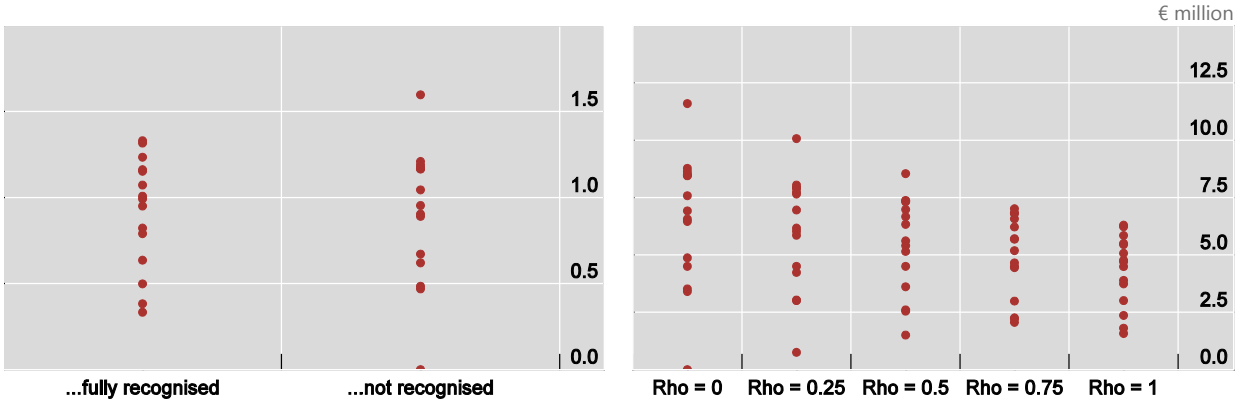
The exercise has provided a large amount of data to allow the Committee to better understand the impact of the proposed new framework at an overall level, and provided information granular enough to better understand the impact of some of the individual elements of the proposals.

Impact of constraining diversification and hedging

The data show that variability in the liquidity-adjusted expected shortfall measure is generally lower when diversification across asset classes is taken into account. As a result, as the rho parameter increases, variability decreases. In terms of impact on the overall risk measure, for the largest portfolio (portfolio 30) increasing rho from 0 to 1 reduces the median expected shortfall measure by 35%.

Impact of constraining diversification and hedging

Portfolio 30 Graph 1



[1] The above data has been normalised so that the median value is 1. The vertical axis has been truncated for presentation purposes; two outliers close to 3 are not shown. [2] The vertical axis has been truncated for presentation purposes; one outlier above 15 is not shown.

Source: Basel Committee for Banking Supervision

Portfolio by portfolio analysis by asset class

The level of variability in the liquidity-adjusted expected shortfall measure varies by asset class and by portfolio. As may have been expected, higher variability tends to be evident where portfolios are more

[7] The portfolios some banks provided results for, did not include those portfolios where an incremental default risk measure was necessary, hence these results were not provided; other banks however were only able to provide expected shortfall results even for portfolios where incremental default risk would be relevant.

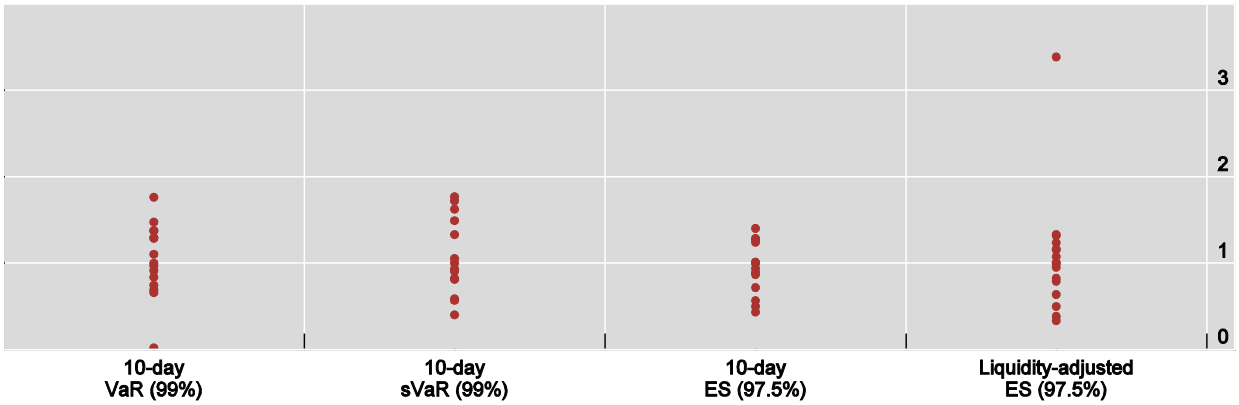
complex and so it is difficult to draw broad comparisons across asset classes; however, the data show that the highest variability was within the equity and credit spread portfolios.

Comparison of variability of risk measures

The revised risk measures do not exhibit a significantly higher level of variability compared to the current value-at-risk and stressed value-at-risk measures. For the largest diversified portfolio (for which we therefore expect the highest variability), three quarters of the banks were between 50% and 150% of the median, irrespective of the risk measure, liquidity horizon, and period of calibration (see Graph 2).

Analysis of the various risk measures

Largest diversified portfolio — Graph 2



Note: The above data have been normalised so that the median value is 1. The vertical axis has been truncated for presentation purposes; one outlier above 4 is not shown for two of the risk measures.

Source: Basel Committee on Banking Supervision

Implementation of liquidity horizons

While banks have raised numerous concerns about the implementation burden of the approach to liquidity horizons set out in the October 2013 consultative paper, for the purpose of the hypothetical portfolio exercise, the majority of banks were able to implement it. The data provided by banks have also shown that the choice of scaling the expected shortfall based on a 10-day measure would result in the same level of capital for the median bank as when it is scaled from a one-day measure.

Comparison of size of new and old risk measures

The move from the sum of value-at-risk and stressed value-at-risk to expected shortfall typically increases the overall risk measure. Assuming the same multiplier is applied to the new and old risk measures, the mean increase between the current and proposed framework for the largest diversified portfolio, assuming the rho parameter is set at 0.5, would be 62% (this excludes the impact of the removal of migration risk from the incremental risk capital model). As this exercise was based only on a sample of portfolios specifically designed to test variability, more concrete analysis of capital impact is conducted via the QIS on actual portfolios.

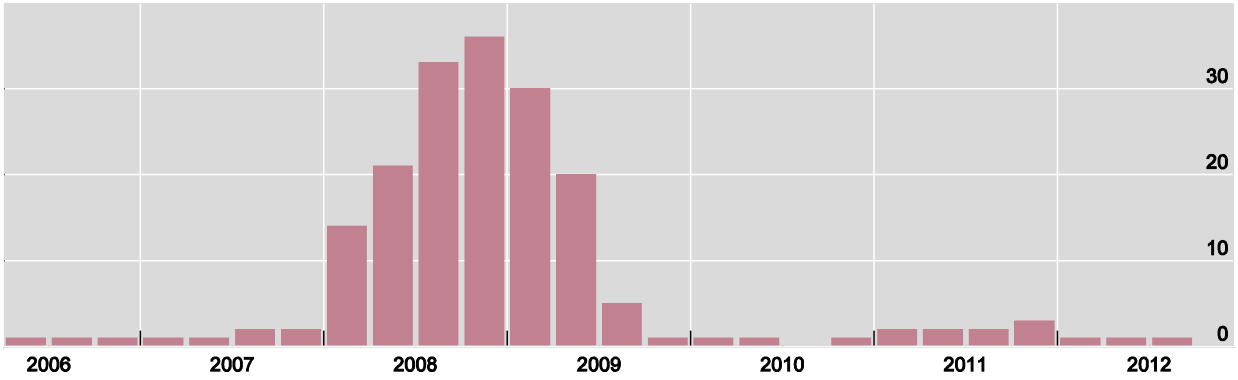
Computation of non-modellable risk factors and the incremental default risk model for equities

Only a small proportion of the banks were able to properly compute the capital charges for non-modellable risk factors across the asset classes and the incremental default risk capital charge on equity instruments. Non-modellable risk factors and the incremental default risk capital charge represent two key features of the revised internal models approach, and the definition and calculation method for non-modellable risk factors and incremental default risk were specified in the October 2013 consultation paper. Detailed specification on the definitions and calculation method for non-modellable risk factors and incremental default risk will be provided in the subsequent phase of the QIS.

Qualitative results

The vast majority of banks indicated that they expect to have less than 100 regulatory trading desks, although a lot of risk appears to be concentrated in the largest 10% of desks. Regarding participating banks' incremental risk capital model structure and calibration, the study showed that most banks currently use an incremental risk capital model with two or fewer factors, and only 3% have more than three factors; and the favoured data to calibrate default correlations is equity data. Most banks have applied the approach to the implementation of liquidity horizons defined in the October 2013 consultation paper, and they chose broadly consistent stressed periods, with only six (out of 43) choosing periods that did not include at least Q4 2008 (see Graph 3).

Stressed period — Graph 3



Graph shows the number of banks whose stressed period includes the quarter.

Source: Basel Committee on Banking Supervision

Statistical Annex

Number of banks included in the sample of the Basel III monitoring exercise

Table A.1

	Group 1 banks				Group 2 banks			
	All	providing RWA and capital data	providing leverage data	providing liquidity data	All	providing RWA and capital data	providing leverage data	providing liquidity data
Argentina	0	0	0	0	3	0	0	3
Australia	4	4	4	4	1	1	1	1
Belgium	1	1	1	1	2	2	2	2
Brazil	2	2	2	2	0	0	0	0
Canada	6	6	6	6	2	2	2	2
China	6	6	6	6	0	0	0	0
France	5	5	5	5	5	5	5	5
Germany	8	8	8	8	36	36	36	34
Hong Kong SAR	0	0	0	0	7	7	7	4
India	5	5	5	5	5	5	5	5
Indonesia	0	0	0	0	2	2	2	2
Italy	2	2	2	2	11	11	11	11
Japan	14	14	14	14	4	4	4	4
Korea	5	5	5	5	3	3	3	3
Luxembourg	0	0	0	0	1	1	1	1
Mexico	0	0	0	0	7	7	7	7
Netherlands	3	3	3	3	16	16	16	16
Russia	0	0	0	0	1	1	1	1
Saudi Arabia	3	3	3	3	0	0	0	0
Singapore	3	3	3	3	0	0	0	0
South Africa	3	3	3	3	3	3	3	3
Spain	2	2	2	2	4	4	4	4
Sweden	4	4	4	4	3	0	0	0
Switzerland	2	2	2	2	6	2	4	4
Turkey	6	6	6	6	0	0	0	0
United Kingdom	5	5	5	4	3	2	2	3
United States	13	12	12	13	0	0	0	0
All	102	101	101	101	125	114	116	115
of which: G-SIBs	29							

Source: Basel Committee on Banking Supervision.

Current CET1, Tier 1 and total capital ratios

In per cent

Table A.2

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Tier 1	Total	CET1	Tier 1	Total	CET1	Tier 1	Total
Max	19.7	21.5	24.4	19.0	19.0	22.9	75.7	75.7	75.7
75th percentile	13.6	14.6	17.7	13.2	14.6	17.7	16.3	16.6	19.4
Median	11.9	12.8	15.3	11.7	13.1	16.0	12.1	12.8	15.2
25th percentile	10.4	11.3	14.0	10.7	12.1	14.4	9.7	10.2	13.2
Min	7.9	8.1	10.5	8.8	9.7	12.4	5.1	5.8	9.2

Source: Basel Committee on Banking Supervision.

Basel III CET1, Tier 1 and total capital ratios

In per cent

Table A.3

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Tier 1	Total	CET1	Tier 1	Total	CET1	Tier 1	Total
Max	21.2	21.2	21.7	13.3	13.3	15.7	75.5	75.5	75.5
75th percentile	12.2	12.3	13.9	10.8	11.1	13.1	15.2	15.2	16.8
Median	10.5	11.0	12.7	10.1	10.5	11.9	12.0	12.1	13.2
25th percentile	9.3	9.6	10.6	9.5	9.7	10.9	8.4	8.7	10.7
Min	4.4	4.5	6.0	7.2	7.3	8.0	2.1	4.6	4.8

Source: Basel Committee on Banking Supervision.

Current CET1, Tier 1 and total capital ratios

In per cent, consistent sample of banks

Table A.4

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Tier 1	Total	CET1	Tier 1	Total	CET1	Tier 1	Total
H1 2011	10.2	11.5	14.1	9.5	11.2	13.8	10.4	11.1	14.7
H2 2011	10.4	11.6	14.1	9.8	11.4	13.9	10.4	11.0	14.5
H1 2012	10.9	12.0	14.5	10.5	12.0	14.3	10.9	11.3	14.7
H2 2012	11.4	12.5	15.1	11.1	12.6	15.0	10.3	10.8	14.2
H1 2013	11.0	12.0	14.6	11.0	12.2	14.7	10.8	11.2	14.5
H2 2013	11.4	12.4	15.0	11.6	12.8	15.3	11.1	11.5	14.8

Source: Basel Committee on Banking Supervision.

Basel III CET1, Tier 1 and total capital ratios

In per cent, consistent sample of banks

Table A.5

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Tier 1	Total	CET1	Tier 1	Total	CET1	Tier 1	Total
H1 2011	7.1	7.4	8.6	6.4	6.7	8.0	8.7	9.0	11.1
H2 2011	7.7	8.0	9.2	7.0	7.3	8.6	8.7	9.1	11.0
H1 2012	8.6	8.8	9.9	7.9	8.3	9.5	9.0	9.5	11.3
H2 2012	9.2	9.5	10.6	8.6	8.9	10.2	8.7	9.1	11.1
H1 2013	9.5	9.8	11.1	9.1	9.4	10.9	9.1	9.5	11.3
H2 2013	10.2	10.5	11.9	10.0	10.4	11.8	10.0	10.5	12.3

Source: Basel Committee on Banking Supervision.

Estimated capital shortfalls at the minimum level

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

Table A.6

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2
H1 2011	38.8	66.6	119.3	31.7	52.9	93.1	8.6	7.3	5.5
H2 2011	11.9	32.5	107.7	7.6	22.6	86.3	7.6	2.1	4.1
H1 2012	3.7	16.2	61.8	0.1	11.2	50.4	4.8	1.6	5.0
H2 2012	2.2	10.2	45.7	0.0	5.9	36.5	11.4	2.3	8.7
H1 2013	3.3	6.9	18.6	0.0	1.8	13.0	12.4	3.0	8.4
H2 2013	0.1	1.4	3.6	0.0	0.0	0.2	2.0	0.7	4.0

Source: Basel Committee on Banking Supervision.

Estimated capital shortfalls at the target level

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

Table A.7

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2
H1 2011	485.6	221.4	223.2	431.8	166.4	159.9	32.4	16.6	11.6
H2 2011	384.1	226.3	232.0	346.1	175.5	163.0	21.7	11.9	8.6
H1 2012	197.9	197.0	224.0	176.8	163.3	156.9	16.0	7.3	12.0
H2 2012	115.0	154.8	171.3	102.3	132.1	116.1	25.6	11.5	14.6
H1 2013	57.5	104.5	143.8	44.3	88.6	98.4	27.7	7.5	12.3
H2 2013	15.1	48.8	95.4	11.8	41.7	64.6	9.4	6.9	8.3

Source: Basel Committee on Banking Supervision.

Level of capital after full implementation of Basel III

In billions of euros, consistent sample of banks, exchange rates as of 31 December 2013 Table A.8

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET 1	Add. Tier 1	Tier 2	CET 1	Add. Tier 1	Tier 2	CET 1	Add. Tier 1	Tier 2
H1 2011	1,917	74	334	1,144	65	234	193	7	45
H2 2011	2,030	67	331	1,208	56	227	198	8	45
H1 2012	2,215	61	297	1,321	50	203	205	12	43
H2 2012	2,341	57	308	1,379	43	210	207	9	48
H1 2013	2,455	59	345	1,448	44	234	216	10	43
H2 2013	2,627	75	357	1,559	58	223	240	10	45

Source: Basel Committee on Banking Supervision.

Profits, dividends and CET1 capital raised

In billions of euros, consistent sample of banks, exchange rates as of 31 December 2013 Table A.9

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	Profit after tax	Common share dividend	CET1 raised	Profit after tax	Common share dividend	CET1 raised	Profit after tax	Common share dividend	CET1 raised
H1 2011	135.8	54.3	38.8	75.1	29.8	12.1	13.8	3.1	5.8
H2 2011	106.4	30.6	24.9	60.1	8.8	14.9	6.8	3.5	7.9
H1 2012	128.4	54.7	30.2	71.0	25.9	19.4	11.6	3.6	2.4
H2 2012	153.6	28.1	28.0	73.1	12.8	14.0	9.0	2.6	5.6
H1 2013	160.6	71.0	24.5	92.1	36.1	12.4	11.5	3.8	1.3
H2 2013	129.9	27.4	30.8	58.0	10.9	13.5	11.2	3.3	4.8

Source: Basel Committee on Banking Supervision.

Structure of regulatory capital under the current national regime[1]

In per cent, consistent sample of banks — Table A.10

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2
H1 2011	72.0	9.3	18.7	69.1	12.2	18.7	70.4	5.2	24.4
H2 2011	73.3	8.9	17.8	70.4	11.8	17.7	71.4	4.5	24.1
H1 2012	75.2	7.9	16.8	73.1	10.8	16.1	74.0	3.3	22.7
H2 2012	75.7	7.4	16.9	74.1	10.2	15.7	72.5	3.2	24.3
H1 2013	75.3	7.0	17.7	75.3	8.2	16.5	74.0	3.0	23.0
H2 2013	75.9	6.8	17.3	75.7	7.9	16.3	74.9	2.7	22.4

[1] Any remainder represents Tier 3 capital.

Source: Basel Committee on Banking Supervision.

Structure of regulatory capital under Basel III

In per cent, consistent sample of banks — Table A.11

	Group 1 banks			Of which: G-SIBs			Group 2 banks		
	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2	CET1	Add. Tier 1	Tier 2
H1 2011	82.6	3.1	14.2	79.5	4.5	16.0	78.9	2.8	18.3
H2 2011	83.7	2.8	13.5	81.0	3.8	15.1	79.3	3.2	17.5
H1 2012	86.1	2.4	11.5	83.9	3.2	12.9	79.6	4.3	16.1
H2 2012	86.7	2.1	11.2	84.7	2.7	12.7	79.1	3.4	17.5
H1 2013	85.9	2.1	12.0	84.0	2.6	13.4	80.7	3.6	15.7
H2 2013	85.9	2.4	11.7	84.8	3.1	12.1	81.4	3.4	15.2

Source: Basel Committee on Banking Supervision.

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

In per cent

Table A.12

	Number of banks	Goodwill	Intangibles	DTA[1]	Financials	DTA above threshold	Excess above 15%[2]	Other[3]	Total
Group 1 banks	101	–11.2	–2.7	–2.4	–1.3	–0.5	–0.4	–1.5	–20.0
Change H2 2013 vs H1 2013[4]	*97*	*+0.8*	*+0.2*	*+0.3*	*+1.0*	*+0.5*	*+0.5*	*+0.5*	*+3.9*
Group 2 banks	114	–5.4	–2.1	–1.6	–4.7	–0.3	–0.6	–3.0	–17.6

[1] DTAs are the deferred tax assets that are deducted in full under Basel III (ie they exclude DTAs that are related to temporary differences, which are only deducted when they exceed a threshold). [2] 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. [3] Other includes adjustments 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, mortgage servicing rights and deductions from Additional Tier 1 capital to the extent they exceed a bank's Additional Tier 1 capital. [4] In percentage points based on a consistent sample of banks that submitted data for both the December 2012 and June 2013 exercises. A plus symbol indicates an improvement (smaller deduction relative to December 2012) while a negative symbol indicates a deterioration (increased deduction relative to December 2012).

Source: Basel Committee on Banking Supervision.

Changes in risk-weighted assets versus Basel II

In per cent

Table A.13

	Number of banks	Total[1]	Definition of capital[2]			CVA[3]	CCR[4]	Trading book[1]
			50/50	threshold	other			
Group 1 banks	101	8.3	1.1	3.0	–1.8	2.0	0.9	3.1
Group 2 banks	114	6.5	2.5	2.2	0.2	0.8	0.4	0.4

[1] 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 this table 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 stressed 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. [2] Measures 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 1,250% 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. [3] Measures the new capital charge for credit valuation adjustment (CVA) risk. The change is reported as zero for banks which are already fully subject to this capital charge at the reporting date. [4] 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; the impact of incorporating stressed parameters for effective expected positive exposure (EEPE), and the impact of the risk-weighted asset effects of capital charges for exposures to central counterparties (CCPs).

Source: Basel Committee on Banking Supervision.

Approximate changes in risk-weighted assets versus Basel II[1]

In per cent

Table A.14

	Group 1 banks	Group 2 banks
Max	49.5	47.3
75th percentile	11.3	4.9
Median	4.4	2.1
25th percentile	0.6	0.1
Min	–5.1	–5.6

[1] 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 this table 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 stressed 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. Furthermore, it should be noted that some countries adopted Basel III by June 2013; therefore, as compared with the prior Basel III monitoring exercises, changes in overall RWA have declined modestly.

Source: Basel Committee on Banking Supervision.

Share in market risk capital charges

Group 1 banks,[1] in per cent

Table A.15

	Number of banks	Total	SMM[2]	Value-at-risk		IRC[3]	Correlation trading (CTP)				SMM non-CTP[5]	Other
				Current	Stress		Total	Of which				
								CRM	Floor	SMM[4]		
Relative to total capital requirements	94	5.4	1.6	0.6	1.4	0.6	0.4	0.2	0.1	0.1	0.6	0.3
Relative to market risk capital requirements	94	100.0	28.9	10.8	25.5	11.5	7.3	3.7	1.5	2.1	11.1	5.0

[1] 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. [2] Capital charge according to the standardised measurement method for market risk. [3] Incremental risk capital charge. [4] Capital charge for exposures that are part of the correlation trading portfolio and subject to a capital charge according to the standardised measurement method. [5] Capital charge according to the standardised measurement method for securitisation exposures and nth-to-default credit derivatives that do not qualify for the correlation trading portfolio.

Source: Basel Committee on Banking Supervision.

Changes in risk-weighted assets for credit valuation adjustment (CVA) risk

In per cent

Table A.16

	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	93	2.5	1.4	1.1	2.1	1.2	0.9
Group 2 banks	78	1.2	1.2	0.0	1.1	1.1	0.0

Source: Basel Committee on Banking Supervision.

Current Tier 1 and Basel III Tier 1 leverage ratio

In per cent

Table A.17

	Group 1 banks		Of which: G-SIBs		Group 2 banks	
	Current	Basel III	Current	Basel III	Current	Basel III
Max	13.7	13.7	7.7	7.8	20.4	20.3
75th percentile	6.3	6.2	5.2	4.8	7.1	7.0
Median	5.2	4.7	4.7	3.8	5.5	5.3
25th percentile	4.2	3.6	4.0	3.4	4.1	3.9
Min	3.2	1.3	3.2	2.2	1.2	0.9
Wgted Avg.	5.0	4.4	4.7	4.2	5.4	5.2

Source: Basel Committee on Banking Supervision.

Basel III Tier 1 leverage ratios

Consistent sample of banks, in per cent

Table A.18

	Group 1 banks	Of which: G-SIBs	Group 2 banks
H1 2011	3.4	3.1	4.3
H2 2011	3.5	3.2	4.3
H1 2012	3.7	3.4	4.4
H2 2012	3.7	3.4	4.3
H1 2013	4.0	3.7	4.6
H2 2013	4.4	4.2	5.1

Source: Basel Committee on Banking Supervision.

Tier 1 capital, risk-weighted assets, leverage ratio exposure and accounting total assets

Consistent sample of banks, exchange rates as of 31 December 2013 Table A.19

	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013	H2 2013
Group 1 banks						
Tier 1 capital	100.0	105.3	114.2	120.2	126.0	135.5
Risk-weighted assets	100.0	98.6	97.0	94.7	96.2	95.8
Leverage total exposure	100.0	102.6	106.0	110.2	107.9	104.2
Accounting total assets	100.0	103.1	106.8	105.6	106.5	104.9
Of which: G-SIBs						
Tier 1 capital	100.0	104.5	113.5	117.6	123.4	133.7
Risk-weighted assets	100.0	96.8	93.5	89.4	89.1	87.4
Leverage total exposure	100.0	102.4	105.3	109.5	107.8	101.9
Accounting total assets	100.0	103.2	106.0	103.9	103.4	100.3
Group 2 banks						
Tier 1 capital	100.0	103.3	108.9	108.2	113.3	125.8
Risk-weighted assets	100.0	103.8	104.9	108.3	108.2	108.2
Leverage total exposure	100.0	104.5	107.5	110.2	106.2	105.0
Accounting total assets	100.0	103.4	105.8	107.2	108.1	107.8

H1 2011 = 100.

Source: Basel Committee on Banking Supervision.

Liquidity Coverage Ratio and Net Stable Funding Ratio

In per cent Table A.20

	Liquidity Coverage Ratio			Net Stable Funding Ratio		
	Group 1 banks	Of which: G-SIBs	Group 2 banks	Group 1 banks	Of which: G-SIBs	Group 2 banks
Max	358.4	170.1	400.0	174.1	149.6	529.4
75th percentile	136.1	128.2	290.3	118.3	112.7	134.7
Median	118.3	118.0	156.1	109.6	103.1	116.5
25th percentile	101.2	107.6	101.0	98.5	93.2	105.0
Min	43.0	83.2	10.5	60.9	72.6	7.2
Average	119.2	121.9	131.8	111.1	107.6	111.7

Source: Basel Committee on Banking Supervision.

Comparison of pool of high-quality liquid assets to outflows and cap

All banks, in billions of euros — Table A.21

Total liquid assets and inflows	
Level 1 assets	7,790.8
Level 2A assets (post-factor)	853.0
Level 2B assets (post-factor)	174.7
Inflows (post-factor, after cap)	3,478.1
Total	**12,296.6**
Outflows and impact of cap	
Outflows (post-factor)	10,814.7
Cap on Level 2 assets	26.6
Cap on Level 2B assets	0.2
Total	**10,841.5**

Source: Basel Committee on Banking Supervision.

Previous monitoring reports published by the Basel Committee

Results of the comprehensive quantitative impact study, December 2010, www.bis.org/publ/bcbs186.htm.

Results of the Basel III monitoring exercise as of 30 June 2011, April 2012, www.bis.org/publ/bcbs217.htm.

Results of the Basel III monitoring exercise as of 31 December 2011, September 2012, www.bis.org/publ/bcbs231.htm.

Results of the Basel III monitoring exercise as of 30 June 2012, March 2013, www.bis.org/publ/bcbs243.htm.

Basel III monitoring report, September 2013, www.bis.org/publ/bcbs262.htm.

Basel III monitoring report, March 2014, www.bis.org/publ/bcbs278.htm.

Basel III phase-in arrangements

Basel III phase-in arrangements

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

	2013	2014	2015	2016	2017	2018	As of 2019
Leverage ratio	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			60%	70%	80%	90%	100%
Net stable funding ratio						Introduce minimum standard	