



# EBF Supplemental Report on Capital Add-ons<sup>1</sup>

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## Background

In early 2025, the European Banking Federation (EBF) and the Global Association of Risk Professionals (GARP) led a data collection effort to assess the incremental impact of additional supervisory capital requirements on European banks, beyond what is the minimum required by the Basel framework. 15 European banks representing 66% of EU industry assets participated in the study, which covered the years 2021 to 2024. Results of the study showed that the aggregate required CET1 capital from supervisory discretion increased by EUR 102 billion between 2021 and 2024, while the Basel baseline remained steady.

The study estimated that the increase in capital requirements as a result of supervisory discretions may impact banks' financing capacity by between EUR 2.7 and EUR 4.1 trillion.<sup>3</sup>

Against this background, the EBF has led a supplemental data collection effort to quantify and assess how much of banks' retained earnings have been absorbed by the increasing capital requirements from the same period. The results show that 90% of the capital generated by banks for further lending and innovation has been absorbed by the EUR 102 billion increase in discretionary capital requirements.

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<sup>1</sup> Supplemental to the GBI-EBF cumulative capital demand benchmark study

<sup>2</sup> Retained earnings here refers to the aggregate net income after corporate taxes and distribution

<sup>3</sup> Further details regarding the initial study can be found [here](#).

The remainder of the report is structured as follows:

- Methodology
- Study findings
- Conclusions

## Methodology

This study builds upon the EBF-GARP project to analyse the retained earnings of the 15 participating banks relative to the increasing capital requirements. For each bank, figures on profit before tax, corporate taxes, and profit after tax (attributable to the parent) have been used from the EBA's EU-wide transparency exercise<sup>4</sup> for consistency with the previous study. To calculate the retained earnings of each bank, the banks' distribution for each year (including distribution in the form of payments to shareholders, AT1 Coupons, share buybacks and other instruments such as certificates and impact funding initiatives) has been subtracted from profit after tax. Relevant figures have been derived from annual reports and validated by participating banks, before being presented in their aggregate format.<sup>5</sup>

## Study Findings

### The distribution of banks' gross profits

It is important to highlight several trends regarding the proportion of banks' profits that remain as retained earnings. First and foremost, banks must pay significant corporate taxes on their gross profit. For the study sample, results show that corporate taxes have accounted for 23% to 26% of banks' profits over the years studied.

Following the payment of significant levels of tax, banks must distribute part of the remaining profit to shareholders, through dividend payouts, AT1 coupons, share buybacks, and/or other instruments. Having a competitive distribution ratio is important for banks as a signal of financial robustness and strength to investors. While each bank has its own distribution ratio, the aggregate data shows that approximately 40% of gross profit is distributed to shareholders outside of the bank structure. Preliminary research suggests that among dividend-paying companies in a wide range

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<sup>4</sup> Please note that the figures on gross profit, corporate tax, and net profit for 2024 have been taken from annual reports. These figures are interim and will be updated upon publication of the 2025 EBA Transparency Exercise results.

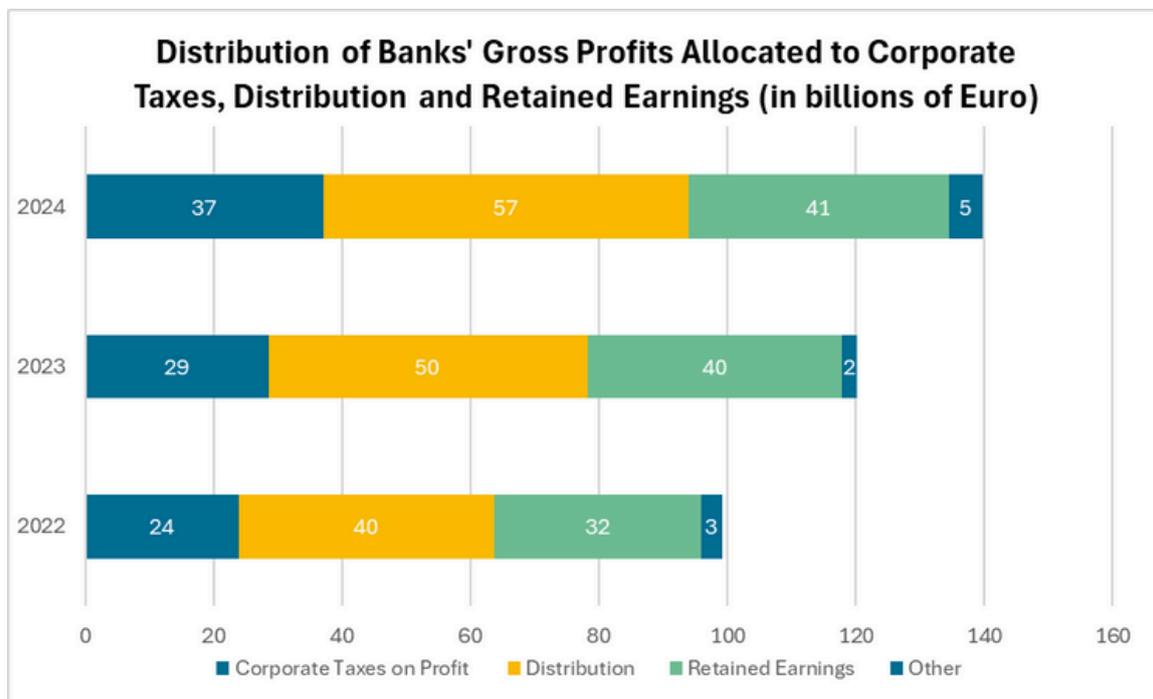
<sup>5</sup> Distribution figures for one bank have been excluded from the calculations. The entirety of the profit after tax has been taken as retained earnings.

of industries in the EU, the average distribution ratio ranges between 40% – 70% of gross profits.<sup>6</sup> Therefore, banks' distribution ratio is at the lower band of broader market trends.

After these payouts, the remainder of the earnings – namely, the earnings that banks can use to grow their balance sheets and further finance the European economy – stand at a mere 29% – 33% of gross profits.

Figures 1 and 2 show the proportion of banks' gross earnings taken up by corporate taxes, distribution, and retained earnings for each year, in billions of euro and by percentages, respectively.<sup>7</sup>

**Figure 1:** Distribution of Banks' Gross Profits Allocated to Corporate Taxes, Distribution and Retained Earnings (in billions of Euro)

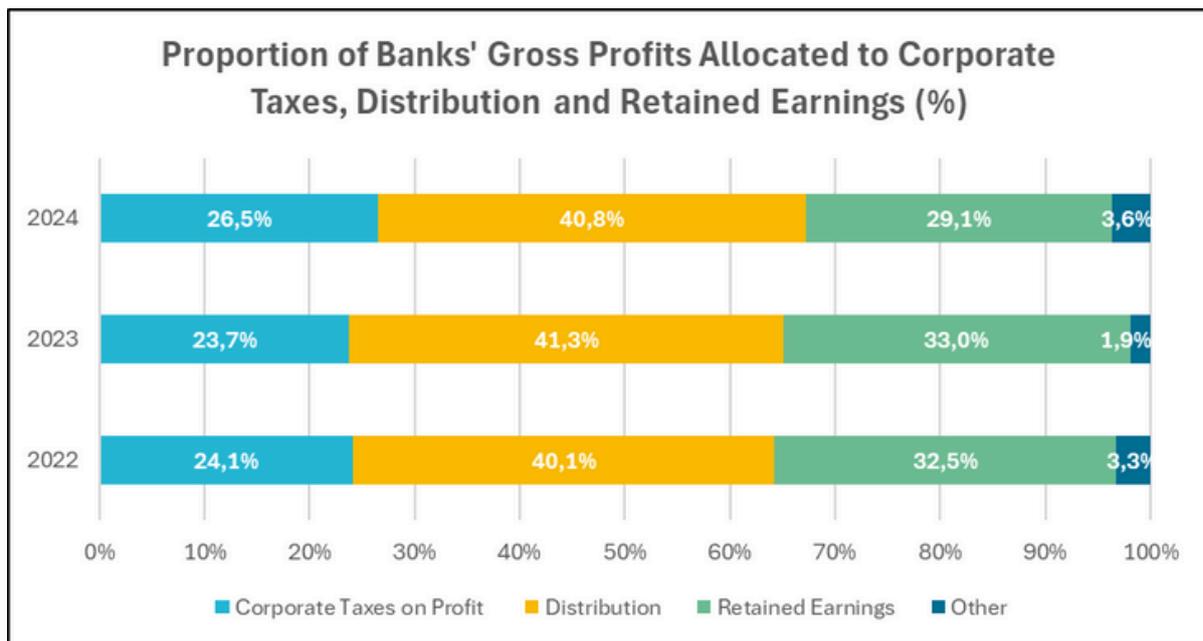


Source: EBF data

<sup>6</sup> The dividend payout ratios of the top few EU companies in the pharmaceuticals/life sciences, digital/ICT, energy/utilities and high-value manufacturing industries were consulted, to find an estimated average.

<sup>7</sup> "Other" refers to the small parts of the gross profits that did not fall within the figures of corporate taxes, distribution or retained earnings. Most notably, this includes that part of the net profit that is not attributable to parent entities.

**Figure 2:** Proportion of Bank's Gross Profits Allocated to Corporate Taxes, Distribution and Retained Earnings (%)



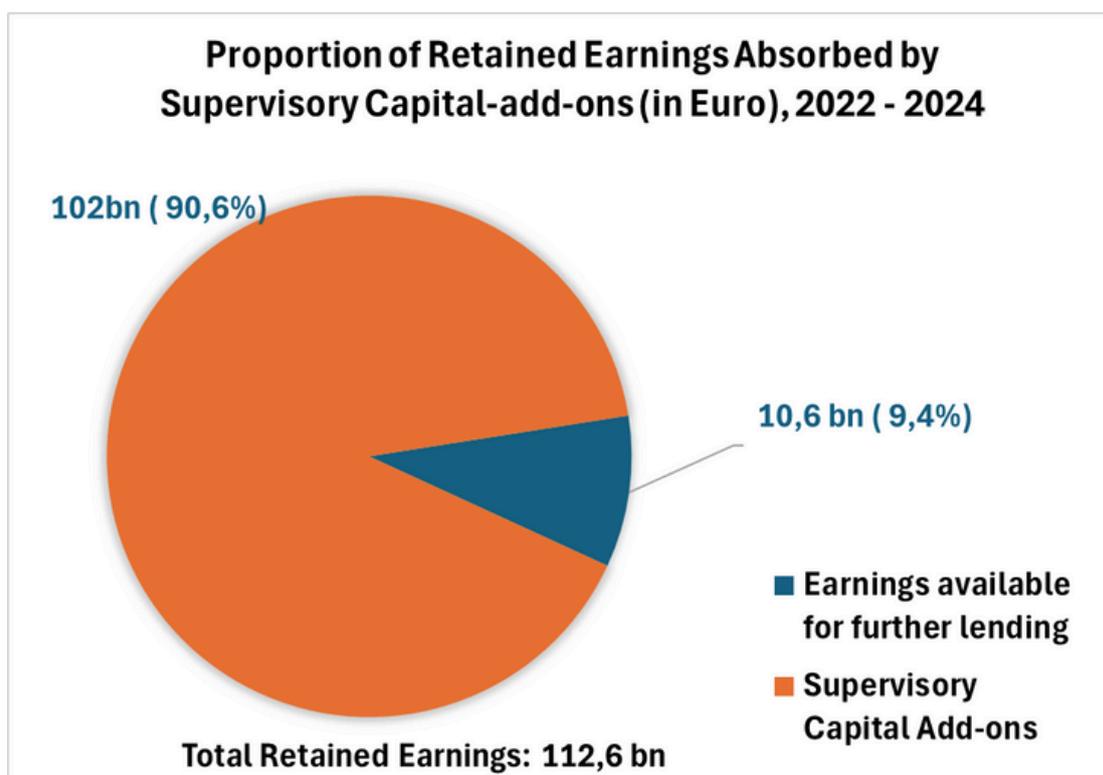
Source: EBF data

## Retained earnings

Retained earnings represent the amount of available capital that banks can use to innovate, grow their balance sheet, and increase lending to the real economy. For the sample of banks in the scope of this study, the aggregate total of retained earnings for the three years analysed is EUR 112 billion. When compared to the results highlighted by the previous study, it can be seen that 90% of this retained capital has been tied up in meeting the EUR 102 billion increase in capital requirements over the course of three years (see figure 3).

*90% of the capital generated by banks for further lending and innovation has been absorbed by the EUR 102 billion increase in discretionary capital requirements.*

**Figure 3:** Proportion of Retained Earnings Absorbed by Supervisory Capital-Add-ons (in Euro), 2022 - 2024



Source: EBF data

## Conclusion

Over the last three years, the 15 banks sampled have generated EUR 112 billion in retained earnings, of which EUR 102 billion have been used to meet increasing capital requirements, leaving only EUR 10 billion for further development of financing capacity. **In other words, approximately EUR 1.5 trillion<sup>8</sup> of lending capacity has been blocked by rising supervisory capital requirements.**

At a time when financing needs are projected to increase significantly as Europe aims to close the competitiveness gap with its main competitors, banks' ability to develop further financing and therefore enhance credit supply is crucial.

Against this backdrop, the EBF calls for policymakers to reverse the trend of increasing capital requirements beyond the levels outlined by Basel, to ultimately make more efficient use of capital resources in the banking system.

<sup>8</sup> The ECB, in a March 20, 2020 press release, estimated that capital relief translates into additional financing by a multiplier of about 15x. [ECB Press Release](#).